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The 1972 Budget: Where It Stands and Where It Might Go

THE BUDGET FOR FISCAL YEAR 1972, sent to Congress last January, proposed an increase in unified budget outlays of $16.4 billion over 1971. Included in the requests were the following:

$1.5 billion *net* increase for defense, composed of increases in military and civilian pay, the initial costs of the all-volunteer army, and a $2.5 billion increase in other non-Vietnam defense expenditures, offset by an estimated $4.0 billion reduction in the costs of the Vietnam war

$6.8 billion increase for income maintenance programs, primarily retirement and welfare

$4.1 billion new spending for revenue sharing

$4.0 billion net increase for all other programs, the result on balance of many small increases and decreases scattered among a variety of programs.

The increase in total expenditures was carefully tailored so that, on the basis of the unified budget, they would be in balance with revenues that would be available if the economy were at full employment. The major increases in expenditures, the increase in full employment revenues, and the effect on the full employment surplus of the budget proposals are given in Table 1.

On a national income accounts basis, the full employment surplus was scheduled to remain essentially unchanged between calendar years 1970 and 1971, as is shown in Table 2. Some changes Congress has made since the budget submissions have reduced somewhat the surplus for 1971.

Table 1. Major Changes in Unified Budget Outlays and Full Employment Receipts from Fiscal Year 1971 to Fiscal Year 1972
Billions of dollars

Source of change	*Fiscal year 1971*	*Fiscal year 1972*	*Net change*
Defense	74.5	76.0	1.5
Vietnam war costs	12.6	8.6	−4.0
Non-Vietnam defense costs	57.6	61.3	3.7
All-volunteer army	...	1.2	1.2
Other defense programs	57.6	60.1	2.5
Military and civilian pay increases	0.9	2.4	1.5
Military retirement	3.4	3.7	0.3
Income maintenance	73.1	79.9	6.8
Retirement	47.0	51.4	4.4
Public assistance	10.4	12.6	2.2
Unemployment insurance	5.9	5.1	−0.8
Other	9.8	10.8	1.0
Revenue sharing	...	4.1	4.1
Other civilian outlays	65.2	69.1	3.9
Nondefense civilian pay increase	0.5	1.0	0.5
GI bill and medical services	3.8	4.2	0.4
Pollution control	0.5	1.1	0.6
Housing subsidies and rural housing	2.6	3.5	0.9
All other	57.8	59.3	1.5
Total outlays	212.8	229.2	16.4
Full employment receipts	214.2	229.3	15.1
Full employment surplus	1.4	0.1	−1.3

Sources: *The Budget of the United States Government, Fiscal Year 1972* and *The Budget of the United States Government—Appendix, Fiscal Year 1972.*

Thus far, the main change in the budget totals has come from the social security amendments passed in March. The administration requested a 6 percent increase in benefits (about \$2 billion per year) plus certain other liberalizations (about \$1½ billion when fully effective). A 10 percent increase was passed and, at this writing, the other liberalizations are still under consideration by Congress. If action is confined to the across-the-board increase in benefits, expenditures for calendar 1971 will be only about \$500 million above the amount shown in the budget. On the revenue side the requested retroactive increase in the ceiling on wages subject to tax was

Table 2. Budget Receipts and Expenditures, and Full Employment Surplus, National Income Accounts Basis, by Calendar Year
Billions of dollars

	Calendar year			
	Actual		Projected	
Item	1969	1970	1971	1972 First half
Administration proposals				
Receipts	203.3	212.0	229.0	240.5
Expenditures	191.7	205.3	222.0	234.0
Full employment surplus	11.7	6.7	7.0	6.5
Change due to congressional action				
March 1971 social security amendments	...	...	−3.0	−0.5
Revised full employment surplus	...	...	4.0	6.0

Sources: Actual, *Economic Report of the President, February 1971*, p. 24; projected, author's estimates. Figures are rounded and may not add to totals.

postponed to January 1972, resulting in a $2.7 billion loss in expected revenues for fiscal 1972. The effect on the estimated full employment surplus is shown in Table 2.

Most of the increase in fiscal stimulus from the budget should be occurring in mid-1971, primarily as a reflection of the tax reductions at the beginning of the year and of the retroactive increase in social security benefits. If additional stimulus is deemed desirable, where might it come from?

Tax Changes

An acceleration of the tax reductions scheduled by the Tax Reform Act of 1969 has been suggested as a way of increasing the current fiscal stimulus without causing greater reductions in future revenues than are already planned. Table 3 shows, by year of liability, the changes, estimated at full employment levels of economic activity, that have resulted from recent tax revisions, and those currently scheduled for 1972 and 1973 by the 1969 legislation and other actions.[1] The repeal of the investment tax credit and most

1. The estimates of changes in tax liabilities for the individual income tax by calendar years differ somewhat from those recorded in the national income accounts because, in the latter, nonwithheld taxes are recorded when paid, rather than on a liability basis.

of the reform provisions of the 1969 act were made effective in calendar 1970. The various measures of relief, however, were scheduled to take effect in stages starting in mid-1970. The first step of the increase in personal exemptions and the minimum standard deduction was taken on July 1, 1970, thus having only a half-year effect on liabilities for the calendar year. For calendar 1971, in addition to the full-year effect of the above provisions, the individual income taxes for single persons were reduced and the first step in the increase in the standard deduction became effective, resulting in a $6.6 billion reduction in individual income tax liabilities. The liberalized

Table 3. Effect of Changes in Major Taxes, Assuming Full Employment Economy, Calendar Years 1968–73

Billions of dollars

Type of change	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*
Cumulative change in liabilities						
Individual income tax						
Surcharge	5.3	7.8	2.3	...	...	...
Tax Reform Act of 1969						
Reform	...	...	0.6	0.7	0.8	1.0
Relief	...	...	−2.0	−6.4	−9.9	−13.3
Repeal of investment tax credit	...	...	0.7	0.7	0.8	0.8
Accelerated depreciation	...	...	...	−0.6	−0.7	−0.8
Total	5.3	7.8	1.6	−5.6	−9.0	−12.3
Corporate income tax						
Surcharge	3.6	3.7	1.2	...	...	...
Tax Reform Act of 1969						
Reform	...	...	1.1	1.5	1.7	2.0
Repeal of investment tax credit	...	...	2.2	3.0	3.2	3.5
Accelerated depreciation	...	...	...	−2.0	−2.3	−2.7
Total	3.6	3.7	4.5	2.5	2.6	2.8
Social security tax	...	3.1	3.1	6.5	9.7	14.3
Cumulative total of taxes	8.9	14.6	9.2	3.4	3.3	4.8
Annual net change in liabilities						
Individual income tax	5.3	2.5	−6.2	−7.2	−3.4	−3.3
Corporate income tax	3.6	0.1	0.8	−2.0	0.1	0.2
Social security tax	...	3.1	...	3.4	3.2	4.6
Total, net	8.9	5.7	−5.4	−5.8	0.1	1.5

Sources: *Revenue Estimates Relating to the House, Senate, and Conference Versions of H.R. 13270: Tax Reform Act of 1969*, Prepared for the use of the Senate Committee on Finance and the House Committee on Ways and Means by the Staff of the Joint Committee on Internal Revenue Taxation (1969). Figures have been adjusted to full employment income levels by the author.

accelerated depreciation proposed in January would reduce estimated 1971 individual liabilities by another $600 million.

The personal exemptions and the standard deduction are scheduled to increase further in 1972 and 1973. The changes, starting in 1969, are shown below on a calendar year basis:

Type of exemption	*1969*	*1970*	*1971*	*1972*	*1973*
Personal exemption	$ 600	$ 625	$ 650	$ 700	$ 750
Standard deduction					
Percentage of adjusted gross income	10%	10%	13%	14%	15%
Ceiling	$1,000	$1,000	$1,500	$2,000	$2,000

When adjusted for the expected growth in the economy, the interaction of these two provisions with the minimum standard deduction provides additional tax relief of $3.5 billion in 1972 and $3.4 billion more in 1973. The proposal for increasing current fiscal stimulus would move forward the effective date of these changes. Their value at current levels of income would be somewhat smaller than the amounts estimated for 1972 and 1973.

For corporations, the tax reforms did not reduce liabilities substantially, and revenue loss from the proposed accelerated depreciation guidelines would be roughly offset by the gains from the repeal of the investment tax credit. Thus corporate liabilities would still be somewhat larger than they would have been if the laws in effect before the imposition of the surcharge remained on the books today. Reinstatement of the investment tax credit is one of several tax reduction actions that have been suggested to stimulate the economy.

As mentioned earlier, the wage ceiling for social security taxes is scheduled to rise in 1972. The combined employee and employer tax rate, scheduled by previous legislation to rise in 1973 from 10.4 to 11.3 percent, was not changed in the legislation passed earlier this year. In the additional amendments being prepared, the House Ways and Means Committee has recommended increases in 1972 to $10,200 in the wage ceiling and to 10.8 percent in the combined employer-employee tax, to finance additional liberalization of benefits. The increase in the wage ceiling already enacted will increase social security tax liabilities in calendar year 1972 by approximately $3 billion. The further increases recommended in both the ceiling and the tax rate would add $4 billion to $4½ billion more to liabilities.

Possible Increases in Expenditures

The additional social security benefits recommended by the House Ways and Means Committee would have an estimated cost in the first full year of $5.4 billion. However, only part of the liberalization ($1.5 billion, first-full-year costs) is scheduled to take effect January 1, 1972. Extension of medicare to the disabled and an additional across-the-board increase of 5 percent in social security benefits are scheduled in the committee bill to take effect in mid-1972.

The administration's welfare reform proposal ($1,600 for a family of four, continuation of the food stamp program, and certain other changes) is estimated to have a first-full-year cost of $4.3 billion, of which $500 million is included in the 1972 budget, with the program scheduled to become fully effective July 1, 1972. The welfare reform proposals reported by the House Ways and Means Committee retain the same effective date as the administration's proposal and would not affect fiscal 1972 expenditures. The committee's proposal contains a higher maximum benefit ($2,400) for a family of four, but the higher cost is partially offset by conversion of the federal food stamp program to cash payments and their inclusion in the minimum payment. Although official estimates of the cost of the welfare reform are not available at this writing, it is fairly clear that the first-full-year costs will exceed the administration's proposal by $1½ billion to $2½ billion.

The Employment Security Amendments of 1970, passed in August, extended unemployment insurance to 4.8 million people, including farm and hospital workers and employees of nonprofit and higher education institutions. The bill provides for thirteen additional weeks of unemployment insurance if the national unemployment rate for covered employment is above 4.5 percent or if the state unemployment rate for covered employment is above 4 percent for three consecutive months.[2] The seasonally adjusted rate is to be used to calculate the triggers, and the federal government is to pay half the cost of the extended benefits. The covered unemployment rate has averaged about 1 percent below the official aggregate rate over the past twenty years, although the gap has widened in recent years. The extension of the coverage provided by the act will probably narrow the differential.

2. The automatic extension of benefits can also be triggered if state covered unemployment for thirteen weeks exceeds 120 percent of the rate for the corresponding thirteen weeks in each of the two preceding years.

Because the act requires modification of state laws, the extended benefit period need not begin before January 1972; a state can, however, provide an earlier starting point if it wishes. As of late April, twenty-six of the states had passed the necessary legislation and nineteen were paying extended benefits.

Another major piece of legislation, which passed the Senate 62 to 10 on April 1, authorizes financial assistance to public and private nonprofit agencies to provide employment to the unemployed and the underemployed. Five hundred million dollars would become available whenever the national unemployment rate exceeded 4½ percent for three consecutive months, and an additional $100 million for each 0.5 percentage point in excess of 4.5 that prevailed for three months. The cost of the program could not exceed $750 million in the twelve months after enactment nor more than $1 billion in a subsequent twelve-month period.

Provision for public service employment is also included in the welfare reform proposals. It is unlikely to affect fiscal 1972 expenditures, however, unless it is enacted separately with an earlier effective date.

In late April, the House passed a bill authorizing $4.0 billion in accelerated public works and $1.5 billion for the continuing development of the Appalachian region. The Senate had previously passed a bill authorizing moneys for Appalachia but not for accelerated public works. Of the $4.0 billion added by the House, half is to be used to build already planned public works and the other half to construct facilities to attract businesses. Because of the nature of the program, the authorization leads to expenditures over a number of years.

The prospects for the program under discussion may be illuminated by the experience with the 1962 accelerated public works program (Table 4). The program was passed in September 1962 with initial obligational authority of $850 million. Although $152 million of the amount was obligated in that fiscal year, only $62 million was spent then. The bulk of the money was obligated and spent in fiscal years 1964 and 1965, with vestiges of the program still in existence in 1971.

In summary, the delay in raising the wage ceiling on social security taxes has reduced revenues from those proposed in the budget, but some of that loss may be offset by the increases in tax rates being considered. Acceleration of the remaining reductions in individual income tax liabilities or reinstatement of the investment tax credit could give a further tax stimulus.

Table 4. New Obligational Authority, Obligations, and Expenditures under the Public Works Acceleration Program, Fiscal Years 1963–71
Millions of dollars

		Obligations			
Fiscal year	*New obligational authority*	*State and local projects*	*Federal projects*	*Administration*	*Expenditures*
1963	850.0	96.7	55.0	3.0	62.5
1964	30.0	313.7	81.8	1.9	331.8
1965	4.0	192.3	15.7	0.6	321.6
1966	...	...	...	...	88.2
1967	...	...	...	...	21.1
1968	...	...	...	...	5.0
1969	...	...	...	...	2.0
1970	...	...	...	...	0.8
1971 (est.)	...	...	...	...	3.0
Total	884.0	602.7	152.5	5.5	836.0

Sources: *The Budget of the United States Government*, various fiscal years, and *The Budget of the United States Government—Appendix*, various fiscal years.

A bill has been introduced to move forward the remaining tax rate reductions, but no action has thus far been taken.

On the expenditure side, the legislation that has passed or is pending appears to be adding to total outlays.[3] However, one-fourth of the requested increase in total expenditures is for revenue sharing. At this point in time, the ultimate fate of these proposals is in doubt. Whether fiscal 1972 expenditures will be higher, lower, or the same as requested in the budget, remains, therefore, unclear.

3. An exception is the supersonic transport program, which was expected to cost \$281 million in fiscal 1972. Although the program has been terminated, \$97 million has been requested for closing costs.