PART 2

BUDGET SUMMARY AND PRIORITIES

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The President's budget for 1988 proposes further reduction in the deficit while maintaining Federal support for the core functions of Government. In particular, this budget:

- meets the Gramm-Rudman-Hollings 1988 deficit target of $108 billion—a reduction of $65 billion in 1988, following a reduction of $48 billion in 1987;
- avoids increasing the Nation's tax burden;
- reflects bipartisan consensus to protect social security;
- provides 3 percent real growth in funding for national defense, that is, 3 percent real growth above the 1987 appropriated level; and
- reforms, reduces, or terminates an assortment of programs, saving taxpayers $19 billion in 1988 alone.

PRESIDENT'S 1988 BUDGET

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Totals:							
Receipts	769.1	842.4	916.6	976.2	1,048.3	1,123.2	1,191.2
Outlays	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9
Deficit or surplus	−220.7	−173.2	−107.8	−92.8	−59.5	−21.3	12.3
Gramm-Rudman-Hollings targets	−171.9	−144.0	−108.0	−72.0	−36.0	0.0	0.0
Year-to-Year Changes:							
Receipts	35.0	73.3	74.2	59.6	72.1	74.9	68.1
Outlays	43.5	25.8	8.8	44.6	38.8	36.6	34.5
Deficit	−8.5	+47.5	+65.4	+15.0	+33.3	+38.2	+33 .6

As a share of gross national product (GNP), the proposed reduction in the deficit is dramatic—from 5.3 percent of GNP in 1986 to just 2.3 percent in 1988.

The President's budget calls for holding the outlay increase to $9 billion, from $1,016 billion in 1987 to $1,024 billion in 1988. After adjustment for inflation, spending would decline in real terms.

The $9 billion increase in proposed outlays reflects the net impact of:

- an increase of $2 billion for net interest payments;
- an increase of $11 billion for social security benefits under existing law;
- an increase of $15 billion in spending for national defense;
- an increase of $1 billion for major medical programs; and
- a net decrease of $21 billion for other Federal spending. This decrease reflects the net impact of increased revenues from asset sales, privatization initiatives, and user fees—a total of $13 billion—as well as a wide variety of programmatic increases and decreases.

After a brief discussion of economic assumptions, the following sections describe the major budget proposals by programmatic category. Social security, national defense, major medical, and the category of other mandatory programs are discussed separately from domestic discretionary programs. Spending for mandatory programs is determined largely by the number of individuals or businesses that meet eligibility and benefit criteria established by law. Funding for national defense and domestic discretionary programs is determined by authorizations and appropriations, rather than by benefit criteria in substantive legislation. Domestic discretionary programs are described in three broad groupings—economic subsidies and development, social programs, and general government functions (including the conduct of international affairs). The discussion of programmatic changes is followed by a discussion of the proposed changes in revenues from the sale of assets, the collection of user fees, and other sources. Summary tables on these categories are provided at the end of this chapter.

ECONOMIC ASSUMPTIONS

In December the economy entered its fifth year of sustained economic recovery, and the prospects for continued expansion are excellent. Last year inflation reached its lowest rate in over 2 decades, and interest rates dropped around 2 percentage points. Movements in prices, wages, and interest rates favor continued economic growth.

Jobs are being created at a remarkable rate: 12.4 million during the expansion that has occurred since late in calendar year 1982. A higher percentage of the working-age population is now employed than at any other time in our history. Economic growth has been moderate during the past 2 years, averaging a bit more than 2.5 percent annually. While recent indicators suggest an improvement in our trade balance and a strengthening of industrial production, the evidence so far suggests only a modest pickup during the remainder of calendar year 1987.

On a fourth-quarter over fourth-quarter basis, real GNP is expected to grow 3.2 percent in calendar year 1987 compared with 2.7

SHORT-RANGE ECONOMIC FORECAST

(Calendar years; dollar amounts in billions)

Item	Actual 1985	Forecast		
		1986	1987	1988
Major economic indicators:				
Gross national product, percent change, fourth quarter over fourth quarter:				
Current dollars	6.3	5.4	6.9	7.3
Constant (1982) dollars	2.9	2.7	3.2	3.7
GNP deflator (percent change, fourth quarter over fourth quarter)	3.3	2.6	3.6	3.5
Consumer Price Index (percent change, fourth quarter over fourth quarter) [1]	3.3	0.9	3.8	3.6
Unemployment rate (percent, fourth quarter) [2]	6.9	6.9	6.5	6.2
Annual economic assumptions:				
Gross national product:				
Current dollars:				
Amount	3,998	4,218	4,493	4,816
Percent change, year over year	6.2	5.5	6.5	7.2
Constant (1982) dollars:				
Amount	3,585	3,681	3,794	3,928
Percent change, year over year	2.7	2.7	3.1	3.5
Incomes:				
Personal income	3,314	3,493	3,700	3,941
Wages and salaries	1,966	2,075	2,210	2,371
Corporate profits before tax	223	240	309	341
Price level:				
GNP deflator:				
Level (1982=100), annual average	111.5	114.6	118.4	122.6
Percent change, year over year	3.4	2.8	3.3	3.5
Consumer Price Index: [1]				
Level (1967=100), annual average	318.5	323.4	333.1	345.2
Percent change, year over year	3.5	1.6	3.0	3.6
Unemployment rates:				
Total, annual average [2]	7.1	6.9	6.7	6.3
Insured, annual average [3]	2.8	2.8	2.6	2.4
Federal pay raise, January (percent):				
Military [4]	7.0	.....	3.0	4.0
Civilian	3.5	.....	3.0	2.0
Interest rate, 91-day Treasury bills (percent) [5]	7.5	6.0	5.4	5.6
Interest rate, 10-year Treasury notes (percent)	10.6	7.7	6.7	6.6

[1] CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.
[2] Percent of total labor force, including armed forces residing in the U.S.
[3] Unemployment under State regular unemployment insurance as a percentage of covered employment under the program; does not include recipients of extended benefits under the program.
[4] Two military pay raises occurred in calendar year 1985: 4 percent in January and 3 percent in October.
[5] Average rate on new issues within period, on a bank discount basis.

percent during calendar year 1986. A reduction in the trade deficit, resulting from the marked appreciation of other currencies relative to the dollar, is likely to be partly offset by a slowdown in consumer spending. In calendar year 1988, the rate of growth of real GNP is expected to increase to 3.7 percent as investment and consumer spending strengthen and net exports continue to rise. With oil prices stabilizing, the overall rate of inflation is projected to return to the 3 percent to 4 percent range reached earlier in the

LONG-RANGE ECONOMIC ASSUMPTIONS

(Calendar years; dollar amounts in billions)

Item	Assumptions			
	1989	1990	1991	1992
Major economic indicators:				
Gross national product, percent change, fourth quarter over fourth quarter:				
Current dollars	7.2	6.8	6.3	5.4
Constant (1982) dollars	3.6	3.6	3.5	3.3
GNP deflator (percent change, fourth quarter over fourth quarter)	3.5	3.0	2.7	2.0
Consumer Price Index (percent change, fourth quarter over fourth quarter) [1]	3.5	3.0	2.6	2.0
Unemployment rate (percent, fourth quarter) [2]	5.9	5.7	5.5	5.5
Annual economic assumptions:				
Gross national product:				
Current dollars:				
Amount	5,165	5,524	5,879	6,214
Percent change, year over year	7.3	6.9	6.4	5.7
Constant (1982) dollars:				
Amount	4,071	4,218	4,367	4,514
Percent change, year over year	3.6	3.6	3.5	3.4
Incomes:				
Personal income	4,201	4,452	4,703	4,959
Wages and salaries	2,546	2,716	2,885	3,057
Corporate profits before tax	377	411	444	459
Price level:				
GNP deflator:				
Level (1982=100), annual average	126.9	131.0	134.6	137.7
Percent change, year over year	3.5	3.2	2.8	2.3
Consumer Price Index: [1]				
Level (1967=100), annual average	357.4	369.0	379.1	387.5
Percent change, year over year	3.6	3.2	2.8	2.2
Unemployment rates:				
Total, annual average [2]	6.0	5.8	5.6	5.5
Insured, annual average [3]	2.3	2.2	2.0	2.0
Federal pay raise, January (percent):				
Military	4.3	4.6	4.5	4.2
Civilian	3.0	3.0	3.0	3.0
Interest rate, 91-day Treasury bills (percent) [4]	5.3	4.7	4.2	3.6
Interest rate, 10-year Treasury notes (percent)	6.1	5.5	5.0	4.5

[1] CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.
[2] Percent of total labor force, including armed forces residing in the U.S.
[3] Unemployment under State regular unemployment insurance as a percentage of a percentage of covered employment under that program; does not include recipients of extended benefits under that program.
[4] Average rate on new issues within period, on a bank discount basis. These projections assume, by convention, that interest rates decline with the rate of inflation.

expansion. Interest rates are expected to remain near current levels in calendar years 1987 and 1988.

The long-term economic figures are *not* intended to be forecasts. They are *assumptions* based on long-term trends and a presumption that *the policy proposals in this budget will be enacted.* The projections also presume that *monetary policy will continue to sustain the recovery while holding to the anti-inflationary course it has pursued since the administration took office.*

Between calendar years 1989 and 1992, real economic growth is projected to return gradually to its longer run trend; the unemployment rate is assumed to fall until stabilizing at 5.5 percent; and a declining path toward stable prices is shown, with the disinflationary trend evident in the recovery to date projected to resume in calendar year 1988. Interest rates are assumed to fall in line with the decline in the inflation rate and with progress toward controlling the Federal budget deficit. Projected long-term real interest rates are assumed to remain within their historical range of 2 percent to 3 percent.

PROGRAMMATIC CHANGES

Social Security.—The administration proposes no changes in social security benefits. Approximately one in every six Americans is a social security beneficiary. The average benefit for a retired worker and spouse will be about $10,000 in 1987—an increase of approximately $265 per month (or nearly $3,200 per year) over the 1981 level. Benefits will continue to increase as new retirees receive higher benefits based on higher average wages.

Nearly all Americans participate in the social security program, either by receiving benefits or by paying payroll taxes that finance them. Primarily because benefits will increase by the change in the consumer price index and a growing number of beneficiaries, outlays for social security benefits are estimated to increase from $205 billion in 1987 to $217 billion in 1988.

National Defense.—Defense budget authority levels declined in real terms in both 1986 and 1987. The 1987 appropriated amount is now 6 percent below that for 1985. In those years, Congress cut $65 billion from administration requests, with reductions in both operations and investment programs. As a result, the rebuilding of our national security capabilities has been delayed, and in the end may prove more costly. Fewer aircraft, missiles, and ships are being purchased than is prudent. There is less investment in ammunition, in war reserve stocks, and in the development of systems that will provide new capabilities. Fewer resources are available for combat readiness.

Specific congressionally mandated reductions in the President's budget request over the past 2 years include:

- a 65 percent cut in Peacekeeper strategic missiles—a reduction of 45 missiles from a 2-year request of 69 missiles;
- a 30 percent cut in funding for the Strategic Defense Initiative—a reduction of $2.8 billion from a 2-year request of $9.3 billion;

- a 27 percent cut in a variety of tactical missiles—a reduction of 14,000 from a 2-year request of over 53,000 missiles;
- a 9 percent cut in tactical fighter aircraft—a reduction of 73 F-15, F-16, and F-18 aircraft, from a 2-year request of 834 aircraft;
- a cut of 14 percent in funding for spare parts for aircraft—a cut of $1.9 billion out of a total request of $13.4 billion; and
- a cut of 17,000 in active duty military strength from levels requested in 1986 and 1987.

To meet the most critical unmet needs resulting from the 2-year decline in real defense budget authority levels, the administration proposes a 1987 supplemental appropriation of $2.8 billion to be followed by sustained moderate real growth of about 3 percent annually. The amounts requested are those minimally necessary to maintain national security and to allow the consolidation of real gains in military strength made in this administration.

The budget resumes improvements in the capabilities of strategic and conventional forces but at a slower rate than originally planned. Because of severe fiscal constraints, the budget accepts certain risks in reducing the rate of force improvements. Procurement is being stretched out for several major ground forces systems—including the Abrams tank, the Bradley Fighting Vehicle, and the Blackhawk helicopter. Similarly, ship procurement is being delayed—in 1988 only 16 ships are funded rather than the 24 projected in last year's budget. The goal of achieving 40 Air Force tactical wings has been reduced to 37 wings.

Increased Efficiencies.—To maximize the benefits of defense spending, the administration is making every effort to increase the efficiency and productivity of the defense program. For example, to improve the acquisition process, the Department of Defense is carrying out key recommendations of the President's Blue Ribbon Commission on Defense Management (i.e., the Packard Commission). The President recently appointed a new Under Secretary of Defense for Acquisition with responsibility for setting acquisition policies governing procurement, research and development, and contract administration.

The budget reflects several specific efforts to reduce costs. These include: legislation to revise thresholds for applying the Davis-Bacon and related acts (discussed in the general government section below), which cover Federal construction contracts, and the Service Contract Act, which covers Federal service contracts; and recovery of excess pension costs included in prior contracts and reducing current pension costs to reflect recent changes in the financial position of pension funds. The Department also intends to recover an equitable share of excess pension assets that become

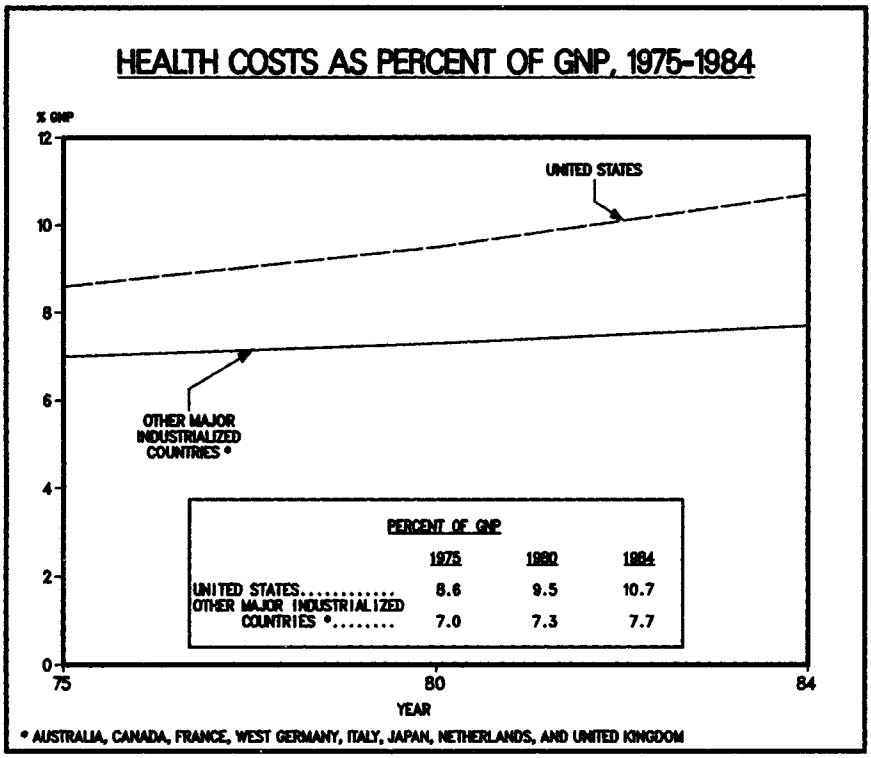
available when companies terminate their current plans and substitute annuity plans.

Very importantly, the Department plans to increase competition for defense contracts. In 1984 and 1985, the Department saved an estimated $4.8 billion from competition in shipbuilding and acquisition of spare parts. Further savings are anticipated from a greater proportion of defense procurement being subject to competition, and from competition on work now done by Government civilian employees that might be performed by private contractors.

The administration is also proposing two other projects to improve conditions for service men and women and their families, as well as to reduce costs. The first is a plan to collect, on a test basis, nominal fees for outpatient medical care provided to non-active-duty patients to determine whether such fees can reduce costs and improve the quality of care in military medical facilities. The second is a test, in a limited area, of whether the private sector can manage efficiently the operations of commissaries now run by the military. Under this plan, commissary privileges would remain the same for service members. If the private sector can run the commissaries more efficiently than the military, however, then services and costs for the military members would improve, and the costs to taxpayers would decline.

Finally, in keeping with the recommendation of the President's Commission on Defense Management and as required by the 1986 Defense Authorization Act, the administration is proposing a 2-year national defense budget. Favorable response by Congress should lead to enhanced program planning and execution, and more stability at the operational level where commanders and program managers carry out mandated policy.

Major Medical Programs.—Since 1960, Americans' per capita spending on health care has increased rapidly—more than three times faster than the rate of inflation. Americans now spend 10.7 percent of GNP on medical care, more than any other industrialized nation. Federal health spending has also continued to grow rapidly, despite major policy reforms enacted since 1981. Federal spending for health care is growing even faster than medical spending generally and will more than double in this decade unless present trends are reversed.



Health care costs are growing far more rapidly than can be explained by inflation or by the aging of the population. In the first half of the 1980s, medicare expenditures increased an average of 9.7 percent per year *more* than general inflation. During the same period, the elderly population increased only 2.2 percent annually, and there were many medical advances that decreased (as well as increased) the cost of care.

Americans spend more per capita on health than citizens in any other industrialized nation—28 percent more than in Canada, 52 percent more than in West Germany, and 100 percent more than in Japan. Justifiably, the Nation can be proud of the quality of its health care system. Nevertheless, the other major industrialized nations have achieved a high degree of overall health care—as indicated by their citizens' having virtually the same average life expectancy.

Rising medical costs have been cited as a factor in the declining international competitiveness of many industries. During the last decade, the competitive burden of health care costs on American industry has doubled, widening the gap between the U.S. and its major trade competitors. More efficient use of health resources would not diminish the quality of health care, but, as shown by the

experience of major international competitors, would free the Nation's resources for other productive efforts.

Without substantial health spending reform, America's competitive position will continue to erode. The Nation's businesses, which pay for most health care in the U.S. through payroll taxes and fringe benefits, have recognized the urgent need for reform. They have brought competitive market principles to the health care system, promoting among other reforms the wider use of health maintenance organizations (HMOs), i.e., a single institution that is responsible for all of an individual's health care. So, too, must Federal health spending be brought under control.

Medicare.—By far the largest Federal health program is medicare. Medicare's prospective payment system (PPS) has curbed hospital spending, which increased only 2.0 percent between 1985 and 1986 after almost doubling from 1980 to 1985. In contrast, spending on physician services grew 8.5 percent between 1985 and 1986, even though the number of beneficiaries grew only 2 percent and hospital admissions actually declined by 2 percent. And this occurred during a congressionally imposed *freeze* on physician charges!

The budget includes urgently needed medicare reforms that will restrain the rapid growth in Federal health spending and, in turn, will help improve the Nation's competitive position. The principle of capitation—paying a fixed, predetermined price for health services—would be expanded in medicare and medicaid, replacing the inflationary incentives inherent in cost reimbursement. By creating incentives for the efficient delivery of quality care, capitation and other reforms can bring to Federal programs the same efficiencies realized by employers and private insurers. This budget proposes that medicare payments to physicians whose practices are based in hospitals—radiologists, anesthesiologists, and pathologists (RAPs)—be incorporated in the set price for each procedure, providing incentives for hospitals and these physicians to provide quality care at lower costs.

The role of capitation in bringing greater efficiencies to the provision of services paid for by medicare would also be enhanced by encouraging HMOs to participate in medicare and by promoting the development of preferred provider organizations (PPOs). A private sector innovation, PPOs lower costs by contracting only with efficient providers.

Under the budget, medicare payments for hospital capital costs would become part of the hospital's fixed, predetermined price per admission (depending on the patient's diagnosis). This reform would reverse the inflationary incentives of the current system, which rewards hospitals for building excess capacity even though *one out of every three hospital beds currently is empty.* Prospective payment for capital costs would give hospitals the incentive to

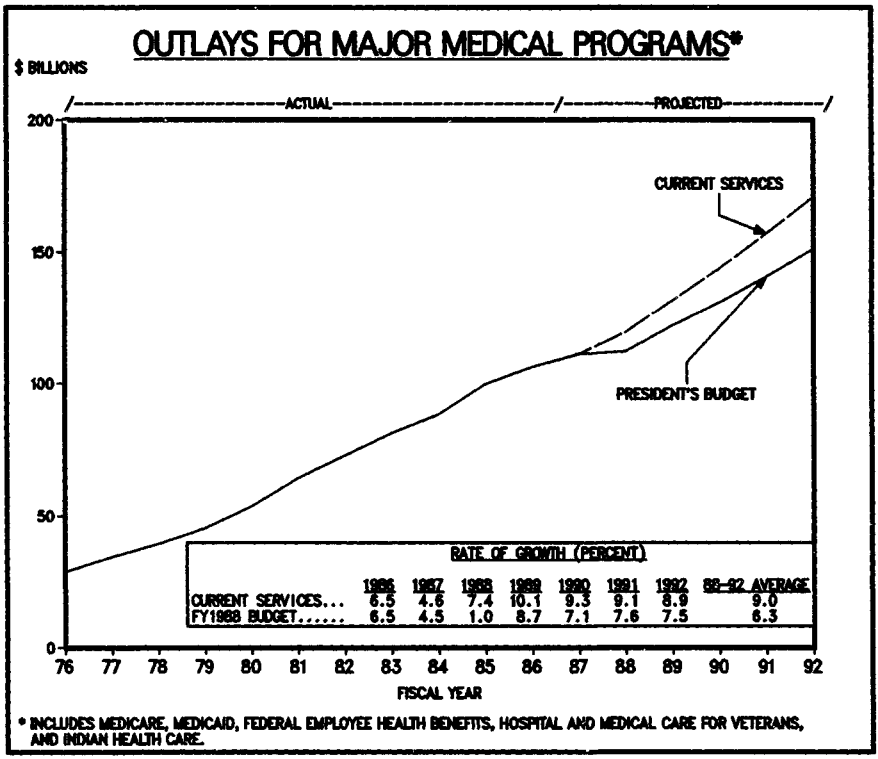
allocate resources efficiently and to restrain escalations in costs. However, consistent with provisions of the Omnibus Budget Reconciliation Act of 1986, capital reforms would not reduce medicare spending in 1988.

Revenue proposals would restrain spiraling health care costs by increasing medicare premiums to 35 percent of supplementary medical insurance costs for *new* enrollees and extending medicare coverage to the minority of State and local employees that are not already covered (most of whom are eligible for medicare benefits).

Medicaid.—The Federal Government's second largest medical program—medicaid—has grown 10 percent per year since 1980. The administration proposes an optional capitation demonstration program with fiscal incentives for States to place medicaid beneficiaries into HMOs. For the initial years of each new State-initiated capitation program, the Federal matching rate would be *increased*—as an incentive and to aid States during transition. To qualify for a demonstration, a State program would have to capitate all eligible beneficiaries in a particular geographic area—such as a county—and must have certain provisions that protect quality of care and access to care. In particular, in spite of not having a choice of reimbursement system, beneficiaries would be guaranteed freedom-of-choice of provider.

Finally, the administration reproposes the institution of a reasonable limit in the growth of Federal medicaid payments to States. Federal payments would be limited to $1 billion below projected outlays in 1988 and then be allowed to grow at the rate of the medical consumer price index.

Federal Employees Health Benefits (FEHB).—The FEHB program is the world's largest multiple-choice health plan. The administration proposes that the formula used to determine the Government's contribution to enrollees' health premiums be changed to a weighted average that reflects the premiums of *all* FEHB plans and the distribution of enrollees among those plans. Currently, this contribution is based on a simple average of the *high-option* coverage offered by *six* of the largest plans. The limitations of this outdated formula prevent it from reflecting the recent shift of enrollees from high-option to low-option coverage and the dramatic growth in the number of FEHB plans. The proposed formula would reflect these and other changes in the FEHB program, providing more equitable cost sharing between the Government and its employees.



Veterans Medical Care.—Adequate medical care for America's disabled and needy veterans is one of the Nation's highest priorities. The administration's proposal for Veterans Administration (VA) medical care provides ample resources to meet this objective. No-cost care would be provided to all service-disabled veterans who request it, as well as to former prisoners of war and veterans exposed to certain toxic substances and radiation. No-cost care would also be provided to veterans of wars prior to World War II and those receiving VA pensions. Among other veterans, funding would be provided for no-cost care for all earning less than $25,000 per year (for a veteran with one dependent; $20,000 for a single veteran); funding would not be provided for the care of those whose annual incomes exceed these levels. The administration believes that as a rule when veterans' illnesses are completely unrelated to their military service and they are financially able to provide for their own health care, they should do so.

This policy will allow the VA to concentrate its efforts on service-disabled veterans and those least able to finance the cost of their own health care. It carries out the Veterans Health Care Amendments of 1986, which established the current set of eligibility criteria for veterans' health care. The VA may, however, con-

tinue to furnish care to non-service disabled veterans with incomes above $25,000 in locations where resources remain available.

Within the $10 billion requested in 1988 for veterans' medical care, VA expects to fund 20.4 million outpatient visits. In addition, 1.3 million hospital in-patients will be treated by the VA, and almost 83,000 nursing home patients will be treated through VA-funded nursing home care—an increase of almost 3,000 nursing care patients over the number treated in 1987.

Conclusion.—As the chart on the previous page reveals, under current services major medical expenditures are projected to increase by 54 percent during the period 1988 through 1992. However, adjusting for the increase in the expected number of beneficiaries and general inflation, expenditures should have to rise by only 27 percent to maintain the same level of resources per beneficiary. Without some kind of reforms, expenditures would rise at twice the rate that would appear warranted. The proposals outlined above would *increase* real expenditures per beneficiary by 1 percent per year while lowering the overall increase during the next 5 years to 36 percent. This difference is hardly a trifle; it would save taxpayers $7.2 billion in 1988 and $65.8 billion during the period 1988 through 1992.

Other Mandatory Programs.—This category includes farm price supports, deposit insurance, Federal employee retirement, unemployment compensation, food and nutrition assistance, and other income maintenance programs, including those for veterans. The runaway growth in Government spending of the 1970s was in part a product of the unchecked expansion of outlays for these programs. Outlays for this category doubled in real terms between 1970 and 1981. With the major exception of agriculture price supports, constant-dollar outlays for this category have all but stabilized since 1981.

The administration proposes no cuts in the benefit levels for supplemental security income, veterans compensation, and food stamps. For some "other mandatory" programs, however, the administration proposes carefully targeted reforms to make the system more equitable and to reduce unnecessary costs. Farm programs must be modified to target payments better and to encourage market-oriented planting decisions. The old civil service retirement system should be put on equal standing with the newly established Federal employee retirement system. Means-tested entitlements should be reformed to focus on genuine need and on reducing administrative expenses.

Restructure Farm Price Supports.—The administration will propose legislation to modify farm commodity price support programs in order to solve the farm program problems once and for all.

In the past 5 years, spending on farm programs has increased by over sixfold—rising from $4 billion in 1981 to $25.8 billion in 1986. This $25.8 billion would amount to an average payment of more than $16,000 to each of the 1.6 million farm families if made directly. It would be enough to pay almost $42,000 to each of the 619,000 commercial sized farms in the U.S. In comparison, in calendar year 1985 U.S. median family income was $27,735. On average, each nonfarm family spent more than $425 in 1986 to support farm prices and incomes.

Despite this enormous commitment of resources, economic conditions in agriculture are not good, in large part because of contradictory and counterproductive farm programs. This situation is untenable and must be changed.

Farm programs base certain direct payments and price support loans on the volume of crops produced, so that higher production leads to higher Federal benefits. Consequently, farmers overproduce, which causes commodity prices to decline. Because current crop programs are designed to support farm income when prices decline, this overproduction generates ever-increasing Federal support.

In addition, too much Federal money goes to a relatively small proportion of farmers—and those tend to be the owners of the largest and most efficient farms. In 1985, two-thirds of American farmers did *not* receive price supports. Of the one-third of American farmers who did receive direct assistance, one-fifth—with annual sales of over $100,000—received almost 70 percent of the payments. Moreover, during 1986, 12 percent of those receiving subsidies for producing cotton received more than half the total payments, with some receiving millions of dollars; and during 1986, 50 of the largest rice producers received subsidies of over $1 million each.

Finally, certain farm programs are directly counter to the Federal Government's international objectives and responsibilities. For example, the Government's support for domestic sugar producers conflicts with the policy to encourage increased trade between the United States and the Philippines and certain Caribbean countries.

The administration's proposals will address the major shortcomings of the 1985 farm bill but will retain that bill's basic price support mechanisms. Outlay savings of $24 billion over the 1988–1992 period are projected to result from enactment of these proposals.

Specifically, the administration's proposed changes will modify farm programs to:

- remove the incentive for farmers to overproduce by decoupling program benefits from an obligation to harvest certain crops;
- limit to $50,000 (instead of $250,000 under current law) the amount of Federal payments each farmer may receive;
- close loopholes that make current payment limitations ineffective for a large number of farmers; and
- reduce target prices by 10 percent per year in order to reduce incentives for farmer's to overproduce, and to reduce the burden on the taxpayer.

The administration will also seek changes in the counter-productive sugar program to make it more market-oriented while providing adjustment assistance to current program participants.

Reform the Civil Service Retirement System (CSRS).—A new Federal employee retirement system (FERS) was enacted in June 1986 for Federal employees hired on or after January 1, 1984. The FERS more closely parallels private sector practice, reducing the overly generous features still retained in the old civil service retirement system (CSRS) that covers most Federal employees. The budget proposes that retirement benefits under the existing CSRS program be brought in line with FERS by changing the way cost-of-living adjustments (COLAs) are provided to annuitants. While only 3 percent of all private pensions are fully and automatically adjusted for inflation, the existing civil service system continues to have full indexation to the Consumer Price Index (CPI). The administration's proposal generally would limit future COLAs to the percentage change in the CPI minus 1 percent. This change would be identical to the COLA that will be granted under the new FERS system for employees retiring at age 62 and beyond.

The administration is also seeking repeal of the lump sum withdrawal provisions in both CSRS and FERS, which enable employees to withdraw all their contributions toward retirement in a lump sum at retirement.

Indexing the Veterans Compensation COLA to the CPI.—The administration proposes to link the veterans compensation COLA to the annual change in the CPI. The Veterans Administration compensation program makes payments to 2.2 million veterans with service-connected disabilities and to 380 thousand survivors of veterans who died due to service-connected conditions. The purpose of this proposal is to ensure that these veterans and survivors receive full and timely adjustments to their benefits—and that they be protected from the possible erosion of their benefits and the uncertainties of an annually legislated COLA.

Improve the Self-Sufficiency of AFDC Recipients.—The administration is proposing several changes designed to prevent and reduce welfare dependency in the aid to families with dependent children (AFDC) and child support enforcement programs. Under a new AFDC work and training proposal, teenage recipients will be encouraged to remain in or return to school; older recipients will participate in a variety of employment and training activities designed to improve their employability, including job search, remedial education, training under the Job Training Partnership Act, time-limited training directed at immediate employment, and other State-designed activities approved by the Secretary of the Department of Health and Human Services. A proposal to require States to establish mandatory child support guidelines will also promote self-sufficiency and family stability. These guidelines will help ensure that single-parent families receive adequate support from parents who are absent from the home.

Withhold Funds From States for Excessive Issuance of Food Stamp Benefits.—Over the past decade, substantial progress has been made by States in giving the proper food stamp benefits to those who lawfully deserve them. But State laxity, resulting in the over-issuance of food stamps, remains a large problem that costs taxpayers dearly. Actual State error rates for 1983 and 1984 (8.4 percent and 8.6 percent, respectively), and the estimated error rate for 1985 (8.4 percent), are too high and show no recent improvement. In contrast, AFDC and medicaid State error rates are much lower (6.0 percent and 2.7 percent, respectively, in 1984). To date, only $1.3 million of approximately $100 million in outstanding State food stamp liabilities have been collected.

This budget proposes to withhold from grants to States the value of their excessive food stamp issuance. As in medicaid, at the beginning of the fiscal year Federal grants to States would be adjusted for each State's estimated erroneous payments above the national food stamp error tolerance rate of 5 percent. As States improve their benefit issuance systems and error rates fall, Federal withholdings would also fall. It is estimated the proposal would save $264 million in 1988.

Target School Meal Subsidies to Low-Income Students.—The child nutrition programs give cash and commodity subsidies to institutions for meals served in schools, child care facilities, and other places. In 1987, schools and other institutions will receive $4.5 billion in Federal subsidies for meals served to 27.6 million students. Of that amount, $705 million will subsidize meals to 14.7 million students whose families earn more than 185 percent of the poverty level—approximately $20,350 per year for a family of four.

The administration proposes to maintain Federal nutrition subsidies to institutions for meals served to children from families with incomes below 185 percent of the poverty level, but discontinue subsidies for students from families with incomes above that level. Under the administration's proposals, nearly 13 million needy children will receive federally subsidized meals in 1988, for total budget authority of $4 billion. But by limiting the subsidy to those who need it most, savings of nearly $757 million will be realized.

Economic Subsidies and Development.—This category covers discretionary programs for science and space, energy, natural resources and the environment, agricultural research and services, commerce and housing credit, transportation, community and regional development, and subsidies for health professions. Many programs in these areas should be and are being increased, including those that improve the safety and efficiency of the national airspace system, address the acid rain issue, and encourage investments in science and technology that over the longer run will enhance America's competitiveness. Other programs no longer warrant current levels of Federal support. Many reward inefficient private activities, and much of the State and local development funded by the Federal Government is more appropriately financed directly by these governments or by the private sector. Discussed below are the major changes for these programs proposed in this budget.

Improve the National Airspace System.—The Federal Aviation Administration (FAA) operates and maintains the national airspace system and provides funds to the Nation's airports to ensure the safe and efficient movement of the Nation's air traffic. For these activities, the administration proposes a 20 percent increase in budget authority—from $4.8 billion in 1987 to $5.8 billion in 1988. Most of this increase would be used to modernize our Nation's airspace system, for which the administration proposes a 68 percent increase in budget authority—from $805 million in 1987 to $1,350 million in 1988. Among other activities, these funds would be used to finance the advanced automation system, precision landing systems, improved surveillance radar and communications equipment, and weather radars designed to detect potentially deadly wind shears.

The airport improvement program is proposed to be funded at $1,017 million in budget authority in 1988, slightly more than the $1,000 million made available for obligation in 1987. Airports that can be self-financing would be allowed to withdraw from the Federal grant program and to assess their own local passenger facility charges, in addition to landing and other fees they currently assess. This change would give these airports more discretion in their

capital investment programs. In addition, 27 percent of the Federal grant funds would be turned over to the States to administer, thereby allowing greater State involvement in funding general aviation and small commercial service airports. Large commercial service airports that remain in the Federal program would continue to receive grants directly from the FAA. Discretionary grants would be channeled primarily into projects to increase airport capacity nationwide and to improve airport safety.

The administration also proposes a 17 percent increase for FAA operations. This would increase budget authority from $2.8 billion appropriated in 1987 to $3.2 billion in 1988. Among other items, this will permit increases in the controller workforce from a minimum of 15,000 to a minimum of 15,225 and increases in the safety inspection workforce from 2,020 to 2,198.

Increase Efforts To Resolve the Acid Rain Issue.—In March 1985, the President and the Prime Minister of Canada requested a full report by the Special Envoys on the acid rain issue. In 1986, the President and the Prime Minister endorsed the Envoys' Report.

As a first step in carrying out the Envoys' recommendations, the Department of Energy committed $400 million that already had been appropriated to share costs with the private sector for nine clean coal technology demonstration projects at an estimated total cost of just under $1 billion. Over the period 1981 to 1985, the administration committed over $2 billion to clean coal technology research and development. From 1986 to 1992, the administration proposes an additional $1 billion for clean coal research.

The administration proposes an additional $350 million in spending over 5 years for new clean coal technology demonstration projects, with at least as much funding to be provided by industry. These additional demonstrations are in response to the recommendations in the Envoys' Report. The amounts proposed in this budget to address the acid rain issue do not include the funds being spent by non-Federal sources. States such as Ohio, Illinois, and New York are allocating approximately $300 million, and the utility industry's Electric Power Research Institute is investing more than $300 million over the next four years to develop clean coal technologies. Additional funds are being provided by other private sources. Together, the Federal and non-Federal investments beginning in 1986 constitute a national effort exceeding $5 billion in research, development, and demonstration of new technologies.

The administration also will continue to press forward its research program to resolve the scientific uncertainties regarding the cause and effect of acid rain. The Government-wide acid rain research task force has received more than $300 million through 1987. An additional $86 million is requested in 1988, and another $170 million is anticipated for 1989 through 1990.

Finally, the President has instructed the Administrator of the Environmental Protection Agency (EPA) to determine whether the current Clean Air Act can be used to promote the implementation of innovative ways of reducing those pollutants that are thought to cause acid rain (e.g., emissions of sulfur dioxide). The Administrator's report is scheduled to be completed early in 1987.

The United States has reduced the emission of sulfur dioxide by almost 30 percent since 1973 under the current clean air program at a cost of $45 to $50 billion, and further emission reductions are projected to occur through 1995 under current law.

It is critical to know with a significant degree of confidence the environmental effects of any further new emission reduction efforts, because such efforts will be extremely expensive for the American people. Estimates of the costs of programs now under consideration, using existing technology, range between $3 billion and $9 billion *per year* and could affect adversely up to 80,000 jobs in mining and related industries. These costs would have to be borne by Americans who use electricity and by manufacturers who use fossil fuels.

Before assuming a commitment to bear such costs, the American people should be assured that there will be sufficiently positive environmental effects, and should know, with some degree of certainty, the extent and location of those effects. To the extent possible, ways must be found to reduce the tremendous costs of such control efforts. The program funded in this budget moves toward these objectives.

Restore America's Competitiveness.—The ability of the Nation to meet global competition, to provide for national security, and to improve the quality of life for all citizens depends in part upon national investments in science and technology. The Nation's future position in global markets will depend upon:

- the allocation of national resources to the generation of new knowledge; and
- the effective and timely transfer of this new knowledge to specific applications.

To satisfy these needs, the administration proposes continued increases in federally supported basic research, including:

- an increase of about 18 percent in funding for basic research for the National Science Foundation and a doubling of its budget by 1992;
- an increase of about 22 percent in basic research activities of the National Aeronautics and Space Administration, including the initiation of two new science and technology programs; and

- an increase of about 15 percent for the general science programs of the Department of Energy, permitting better use of basic research facilities.

Support for basic research, particularly at universities, is a key factor in generating sufficient new knowledge to ensure continued technological innovation. The Federal Government traditionally has assumed a key role in the support of basic research, because the private sector has insufficient incentives to invest in this area. Federal support for basic scientific research is estimated to increase by 76 percent between 1982 and 1988—an average rate of growth of nearly 10 percent annually. All this is in recognition of the critical importance of basic research in universities to the welfare of U.S. citizens and our international competitiveness.

With the increased level of support of basic research proposed for 1988, interdisciplinary research will receive special emphasis. Basic research among several disciplines often leads to the creation of important new fields of science. The administration proposes to establish between 5 and 10 new interdisciplinary basic science and technology centers through the National Science Foundation, modeled after the existing engineering research centers. These new centers will focus on basic research among scientific disciplines and will attract and encourage substantial participation by industry and the States to speed the transfer of new knowledge from the laboratory to the marketplace.

A second key element in the continued leadership of the U.S. in science and industry is the future availability of high-quality scientists and engineers. Academic basic research is a primary means to help expand the U.S. pool of trained scientists and engineers; this in turn helps to ensure, over the long term, the ability of the United States to compete in global markets. The administration proposes to increase the emphasis on research programs that would contribute to the development of such "human capital." This emphasis will be reflected in the new basic science and technology centers, and in a variety of ongoing programs of the National Science Foundation (NSF), including the engineering research centers, the advanced scientific computing centers, the graduate fellowship program, and programs to improve student research and increase funds for scientific equipment at undergraduate institutions. Increased support will also be provided for other NSF programs aimed at improving the quality of pre-college science and mathematics education.

The Federal Government should also encourage the transfer to the private sector of technology and new knowledge created in Federal laboratories. New knowledge generated through research and development in Federal laboratories is of little use unless that knowledge is made available to the private sector to permit the

marketplace to make economically efficient choices. To achieve this end, there will be increased Federal efforts to transfer the results of federally supported research and development both through greater use of incentives for federally employed scientists and engineers and through the exchange of scientists and engineers between Government and industry.

Finally, the administration proposes to strengthen the Nation's "leading edge" technologies to meet other national needs. Examples include:

- initiation of a new civil space technology initiative, together with previously planned funding increases to deploy the space station, develop the national aerospace plane, and foster the commercial development of space;
- the Strategic Defense Initiative, and associated Department of Defense initiatives involving strategic computing and very high speed integrated circuits; and
- support for cooperative research and development ventures by the Department of Energy to encourage greater private sector participation in fossil, solar, and energy conservation research and development.

Increase the Number of Subsidized Housing Units.—Housing vouchers continue to be the cornerstone of the administration's housing policy. They are less expensive than new construction subsidies and benefit tenants by giving them more freedom of choice about where they live. For 1988, the administration is proposing to provide 102,000 additional households with subsidies—twice the level proposed in 1987. Most are vouchers: 79,000 funded through the Department of Housing and Urban Development (HUD) and 20,000 through the Farmers Home Administration (FmHA). The other 3,000 subsidized units include new construction of housing specifically for Indians and for the elderly and handicapped. With the exception of the Indian and elderly/handicapped housing units, this budget envisions no other commitments for new housing construction in FmHA or HUD.

Another 1,700 vouchers are being proposed in 1988 for those tenants currently living in HUD or FmHA projects. To prevent economic hardship or displacement resulting from higher rents that may occur when project owners prepay their mortgages, existing tenants would be provided vouchers that they could use either in the project or elsewhere.

The administration also proposes a series of reforms in the section 8 program for existing housing to increase the similarity between section 8 certificates and vouchers. Both the section 8 existing and voucher programs rely on the private market to supply rental units. However, the section 8 program is more restrictive than the voucher program since section 8 tenants must occupy only

units that rent for less than the HUD-established "fair market rent." In addition, section 8 tenants must pay 30 percent of their income for rent and therefore receive no benefit from renting a lower cost (but acceptable quality) unit. Voucher recipients have more freedom to choose the kind of housing they prefer, as well as access to more neighborhoods than households that use the current version of section 8 certificates. The 1988 budget reforms would give the section 8 program participants the same freedom of choice and access to housing as voucher recipients.

A demonstration project is also proposed to test ways of promoting more housing choices for both public housing tenants and voucher holders. Public housing tenants will be given vouchers to use for public housing or for the private rental market. Voucher holders, including individuals not currently residing in public housing, could use their vouchers to live in public housing. Public housing would thus become an integral part of the community's overall housing supply.

Set Federal Highway Funding Equal to User Fee Receipts.—Highway construction and repair on the 834,000-mile Federal-aid highway system is financed by Federal highway user fees in combination with State and local funds. The administration proposes to set annual Federal highway spending equal to the average annual amount of user fee receipts, excluding interest, deposited in the highway trust fund. This approach is necessary, because in recent years highway program authorizations have exceeded annual user fee collections and hence have contributed to the deficit. Consolidation of several Federal-aid programs, together with provisions to increase the flexibility States have in spending these funds, would improve the abilities of States to meet highway needs.

Limit the Federal Role in Mass Transit Funding and Distribute Funds More Appropriately.—The Federal Government assists States and localities with their mass transit programs through grants for capital and operating expenses. These grants are financed in part by a dedicated source of funding from a share of motor fuel tax receipts. These funds currently provide financial assistance for selected capital and planning projects, at the discretion of the Secretary of Transportation (though often directed by Congress). The return on the taxpayer's investment on many of these projects has been low. For example:

- In 1973 Detroit estimated that its automated people mover would cost $30 million to build. It is now estimated that the people mover will cost $210 million to build and will attract no more than 15,000 riders daily—far fewer than the 37,000 originally projected.

- In 1969 the 63rd Street tunnel on Manhattan's East Side was projected to cost $245 million. By 1985, when further Federal financing was suspended, the cost had risen to $800 million, with only 1,700 passengers expected to use the tunnel each day. After almost 17 years of construction, the tunnel remains unfinished.
- In Miami, a $1 billion transit investment carries only one-tenth of the ridership originally estimated to justify the project. The bus riders of Miami have endured higher fares and reduced service because current transit funds have been diverted to the rail system.

Moreover, the administration seeks a more appropriate distribution of this dedicated source of transit funding. Currently, 83 percent of these funds benefit fewer than 20 cities. The administration is proposing that these funds, which are collected in every State, be allocated by formula to States and local agencies.

Because benefits derived from mass transit accrue primarily to localities, and because the Federal deficit is so high (among other reasons), the administration advocates increased financial participation by States and localities in federally subsidized projects. The administration's proposal would eliminate discretionary grants for new transit systems because they encourage investment in inefficient and expensive systems. The Federal role in transit would be limited to management and allocation of the dedicated penny tax for transit, with no further funding of transit from general funds (except for the Washington, D.C. system, which is separately authorized). Moreover, the proposal includes an increased local match on Federal funds from 20 percent to 50 percent.

Terminate Costly and Unjustified Electrification and Telephone Subsidies.—The Rural Electrification Administration (REA) program has gone far beyond its original purpose of making loans available to cooperatives to provide electricity and telephone service to rural areas. Recipients of subsidized REA loans today include electric cooperatives serving prosperous urban or suburban areas of cities such as Washington, D.C., Atlanta, Houston, Minneapolis, and Denver. Loans are also used to provide electric service to exclusive recreation communities, such as ski resorts in Vail, Aspen, and Steamboat Springs, Colorado, as well as other resorts in Myrtle Beach, Kiawah Island, and Hilton Head Island in South Carolina. In addition, REA has provided loans to telephone borrowers that are subsidiaries of large multi-million dollar holding companies with excellent credit ratings.

When the REA was established in 1935, only 12 percent of the farms in the country received electricity; today over 99 percent of farms have electric service. In 1949 the REA act was amended to bring telephone service to rural areas; today over 95 percent of

farms have telephones. The REA's original mission is complete, and reforms to the loan subsidy programs are needed.

The administration proposes to terminate the costly existing subsidized direct loan program (5 percent interest), the 100 percent REA guaranteed Federal Financing Bank (FFB) loans, and the subsidized Rural Telephone Bank lending to electric cooperatives and telephone companies. To ensure continued credit availability, most borrowers will be eligible for a new program of privately originated loans with an REA guarantee of 70 percent of the loan principal. Electric and telephone borrowers serving largely urban, suburban, or recreation areas and most telephone borrowers who are subsidiaries of larger holding companies would no longer be eligible for any REA assistance starting in 1988. Moreover, to encourage privatization, the administration is proposing that any borrower with existing REA loans outstanding have an opportunity to prepay all loans without a prepayment premium or at a discount determined by the Administrator if the borrower agrees not to seek REA assistance again.

Fill the Strategic Petroleum Reserve at 35,000 Barrels per Day.—The strategic petroleum reserve (SPR) is a Government stockpile of crude oil to supplement the market in the event of a severe disruption in world oil supplies. The administration is proposing to continue development and fill of the reserve at the current rate of 75,000 barrels per day during 1987, but to reduce the rate to 35,000 barrels per day in 1988. This proposal is consistent with the administration's support for development of a 750 million barrel reserve and continues to preserve the Nation's energy security.

By the end of 1987, SPR will contain 534 million barrels of crude oil. This amount is equal to over 100 days of 1986 net U.S. imports from all countries, nearly 200 days of imports from all OPEC countries, and 20 months of imports from the Persian Gulf. This level of the SPR more than meets U.S. obligations to the International Energy Agency. In view of the more than 10 million barrels per day of surplus oil production capacity in the world, the 350 million barrels of stocks under the control of other major importing nations' governments, and the stocks contained in the private sector, there is no need to fill SPR at the 75,000 barrel daily rate, at a yearly extra cost of more than $225 million.

Reduce or Eliminate Unnecessary Subsidies for Energy Technology.—The Department of Energy now supports technology research and development in renewable energy, fossil energy, and energy conservation. The administration proposes a reduction of $269 million in funding for spending in this area—a reduction of more than 40 percent from the 1987 enacted level of $625 million. This reduction reflects the administration's belief that the proper Federal

role is to support longer term, high-risk, or generic technologies. Most of the activities proposed for elimination are near-term or are subsidies that benefit primarily one company. Other activities proposed for elimination are inordinately expensive compared to other options for achieving similar benefits, such as coal-fired magnetohydrodynamics. The administration also proposes to use Federal research and development funding more effectively by promoting the formation of industrial cooperative research and development ventures. Such ventures provide a mechanism to spread the costs, risks, and benefits of federally supported technology research and development more broadly.

Constrain or Eliminate Community and Economic Development Programs for State and Local Governments.—In 1988, the administration will continue its effort to concentrate Federal resources on national priorities and provide maximum opportunities for State and local governments to meet their own local community and development needs. Shifting responsibility for economic development programs to the State and local levels brings both economic development funding and priority decisions closer to the people. To achieve this, the administration proposes to eliminate a number of Federal categorical programs currently providing support for specific local community and economic projects. The comprehensive and more flexible community development block grants (CDBG) will be the principal vehicle for continued Federal support.

The administration proposes to establish the CDBG program level at $2.6 billion for 1987 and 1988. Although this will be a reduction in total resources, the most needy communities will continue to receive adequate resources through legislation to target resources to such areas. Many communities with the resources to meet their own needs amply without Federal assistance—such as Cherry Hill, New Jersey, and Montgomery County, Maryland—currently receive Federal aid from this program.

As part of the Government-wide effort to reduce unnecessary subsidies and excessive Federal intervention in the economic decisions of private firms and individuals, the administration is proposing termination and rescission of most of the 1987 appropriations of the urban development action grants (UDAG) program and the Economic Development Administration (EDA), and part of the 1987 appropriations of the Appalachian Regional Commission (ARC).

These grant programs siphon productive resources from private investment projects to politically designed projects that may provide local benefits, but that are less efficient for the national economy as a whole. By approving awards for hotels in resort areas such as Stowe, Vermont, and Newport, Rhode Island, or for office buildings for major banks, the UDAG program is diverting precious capital from its best possible use.

The UDAG and EDA programs warrant termination because they have become tools through which the Congress provides "pork barrel" Federal funds for favored local areas, to the detriment of the overall national economy. In 1987 alone, for example, Congress used the EDA program to target $7.5 million for the renovation of stockyards in Fort Worth, Texas; $1 million for the improvement of a county road in Sumter County, Alabama; and $1 million for the renovation of a museum in Portland, Oregon.

Phase Out EPA Sewage Treatment Grants.—The Environmental Protection Agency's (EPA) sewage treatment grant program provides financial assistance to State and local governments for the construction of publicly owned sewage treatment systems. The administration's budget provides $2 billion each in 1987 and 1988 and declining amounts in future years as part of a major legislative proposal to phase out the program by 1994. In addition to the $47 billion already provided for this program between 1972 and 1985, the proposal provides $12 billion for the period 1986 through 1993. This amount is halfway between the $6 billion proposed in the administration's 1987 budget and the $18 billion included in the Clean Water Act amendments of 1986, which was disapproved by the President at the close of the last Congress.

The administration's program fulfills the remaining Federal commitment made in 1972 to help local governments finance the backlog of needed improvement in their sewage treatment systems. By providing these funds through 1993, the proposal gives State and local governments a lengthy and stable period to reassume financial responsibility for this program. The Federal commitment will be limited strictly to assistance for construction of treatment facilities and related appurtenances to ensure maximum environmental benefits and cost-effectiveness from the use of these remaining funds.

Defer Land Acquisition for Recreation and Refuge Purposes.—The administration proposes that discretionary land acquisition for recreation and refuge purposes be deferred through 1992 except for wetlands acquired with Duck Stamp and other receipts collected under the Migratory Waterfowl Conservation Act. The Federal Government owns over 730 million acres of land—one-third of the Nation's total land area. About 410 million of these acres are in the lower 48 States and 320 million acres are in Alaska. The total comprises an area more than 25 times the size of the State of Pennsylvania; the lower 48 State total alone is more than 14 times the size of that State. Most of this acreage is available for outdoor recreation. The budget includes funds for administering the acquisitions in progress from prior year appropriations and for limited emergency acquisitions.

Eliminate Extension Service Funds for Certain Directed Programs.—The Extension Service, created in 1914 to provide agriculture and home economics instruction to the farm population, now provides free, non-means-tested social and economic services that would seem totally beyond the responsibility of the Federal Government. The administration proposes to reduce (but not eliminate) Federal funding for the Extension Service by terminating *categorical* grants to States that are used for such programs as urban gardening, pest management, support for rural development centers, financial management, and food and nutrition education. These activities are either not essential activities of the Federal Government or are already partially carried out under the Extension Service *formula* grant program that is fully funded in this budget. States and localities can increase their allocations within their share of the Federal formula grants, their own contributions, and/or their pool of volunteers if they wish to offset some or all of the reduction in Federal categorical grants. Outlay savings for this proposal are estimated to be $518 million over the next 5 years.

Terminate Small and Fragmented Conservation Assistance Programs.—The Federal Government provides several forms of conservation cost-sharing assistance, including financial assistance for the construction of small watershed and flood prevention projects, conservation technical assistance to landowners, and soil and snow surveys. The administration is repeating its 1987 proposal to terminate immediately the outdated conservation cost-sharing and watershed financial assistance programs. However, the administration continues funding for technical assistance, soil and snow surveys, and plant materials center programs.

The existing array of small fragmented conservation assistance programs duplicates activities in the new conservation reserve program, which has the same objective. Through this program, Federal funds will subsidize the 10-year retirement of between 40 and 45 million acres of highly erodible cropland to less intensive use. The 5-year eligibility period for enrolling in this program began in 1986. The Federal Government will pay farmers a total of about $25 billion over the 15-year life of this new program to take these lands out of production and put them in permanent cover, while saving about $2.1 billion during the 1988–92 period by eliminating the former programs.

Finally, the small watershed program is proposed for elimination. This program provides highly localized benefits and is composed of small construction projects that landowners and local governments are able to finance without Federal assistance.

Eliminate Subsidies for Most Health Professions.—Twenty-five years of Federal training subsidies for health professions have

resulted in a significant expansion of the supply of physicians and other health professionals. Initiated primarily to address perceived shortages of health professionals, the broad array of federally subsidized institutional and student grant and loan programs have also helped improve the distribution of health care practitioners throughout medically underserved areas of the country. Since 1965, the number of professionals in every major health occupation has increased both in absolute number and relative to the population. For example, by 1985 there were 218 doctors for every 100,000 Americans, compared to 148 in 1965—a 48 percent increase. Because the supply of health professionals is now adequate (in fact, many disciplines are now in oversupply), direct Federal subsidies for clinical health professions training are no longer essential for most professional specialties.

With projected outlay savings of $1,082 million between 1987 and 1992, the administration's proposal would eliminate funding for most health professions training subsidies administered by the Department of Health and Human Services. Funding for family medicine and geriatric training would continue. Federal contributions to health professions and nursing student loan funds, combined with the multi-billion dollar Department of Education and Department of Health and Human Services loan guarantee programs, have established a continuing foundation of Federal student aid for health professions training. These programs ensure access for all students who otherwise lack the resources to pursue an education in one of the health professions. In addition, the administration proposes unlimited, non-needs tested access to market rate student loans in certain guaranteed student loan programs.

Terminate Remaining Economic Regulation of the Motor Carrier Industry and Related ICC Activities.—Legislative changes, beginning in 1980, partially deregulated the surface transportation industry and reduced the Interstate Commerce Commission's (ICC) jurisdiction, workload, and staff. The administration proposes to terminate all remaining economic regulation of the motor carrier, freight forwarder, interstate water carrier, and bus industries. The ICC would close by October 1, 1987, with most railroad activities transferred to the Department of Transportation, except for antitrust matters, which would be transferred to the Department of Justice. Handling of consumer complaints regarding those who move household goods would be transferred to the Federal Trade Commission. Termination of the ICC reflects the administration's commitment to deregulation of the surface transportation industry, based on its strong belief that continued economic regulation imposes greater costs than benefits to the public.

Social Programs.—The Federal Government supports a wide range of social programs involving education, training and employment, social services, health, and income support. This section discusses major administration initiatives that affect discretionary programs in these areas. For some programs, the administration is proposing increases, including research and education activities for acquired immune deficiency syndrome (AIDS), basic biomedical research, and demonstration projects designed to help State and local governments provide for the homeless.

Provide Major Increases for AIDS Research and Education.—Acquired immune deficiency syndrome (AIDS) remains the administration's highest public health priority. The administration proposes $534 million for the Department of Health and Human Services (HHS) AIDS research and education programs in 1988—a 28 percent, or $118 million, increase over the 1987 level and more than twice the level for 1986.

The administration also proposes to expand the discretion permitted in its AIDS programs. Broadening the authority to transfer funds would expedite mid-year funding allocations for new research and education opportunities that might emerge after submission of the budget. Permitting AIDS funds to be used over several years will reinforce efforts to develop the AIDS programs according to the best scientific judgment. These improvements will build upon administrative actions undertaken recently to improve the programs' management. In addition, the administration proposes $98 million for use by the Veterans Administration and the Department of Defense to screen for the AIDS antibody and to counsel and provide medical care for veterans with AIDS.

Provide Stable Support for Basic Biomedical Research.—The administration proposes to adopt a long-term policy of stable and sustainable support for basic biomedical research by seeking obligational authority of $5.8 billion for the National Institutes of Health (NIH) in 1987 and 1988. The 2-year total of $11.6 billion represents a 12 percent increase over the previous 2-year total of $10.4 billion. These funds would permit NIH to fund about 19,100 research project grants in 1987 and 1988, compared to about 18,800 funded in 1986.

As part of the administration's efforts to ensure long-term funding stability for NIH, the administration requests that Congress appropriate the full budget authority associated with multi-year NIH research project grant commitments incurred in 1988. Replacing the current system, which funds new awards without regard to their full eventual cost, with a new policy of fully funding multi-year commitments at the time they are incurred would eliminate grantees' annual uncertainties over the level and timing of NIH

non-competing awards; allow NIH program managers to take advantage of rapidly emerging scientific opportunities; permit proper review and consideration of the total costs of funding additional project grants; and result in a more rational allocation of funds between NIH and other Federal priorities.

Provide Assistance to the Homeless.—The administration believes the problem of the homeless is one characterized by intense personal suffering, but one not given to easy solutions. This administration responds to the problem of homelessness in several ways, including:

- funding emergency needs for food and shelter;
- directing that more efforts be made to ensure that the homeless have access to entitlement programs, such as food stamps, supplemental security income, aid to families with dependent children, VA benefits, and social security;
- encouraging States and local governments to use Federal grant funds, such as the community development block grant (CDBG) and the social services block grant, to assist the homeless; for example, to date, more than $100 million of CDBG funds have been used to renovate and acquire buildings for use as emergency shelters for the homeless and for related services;
- providing information and assistance to State and local governments and private providers on Federal and other resources available to help the homeless;
- redirecting surplus Federal commodities and facilities to assist local groups in providing services to the homeless; and
- conducting research and demonstration projects. (For example, the Department of Housing and Urban Development (HUD) has issued 1,000 housing vouchers for use in a national demonstration for chronically mentally ill; vouchers are provided to the homeless in conjunction with health and other services supported by the private sector.)

Thus the administration proposes to continue and expand efforts that benefit the homeless. Resources will be provided in 1987 and 1988 to establish a clearinghouse on the homeless in the Department of Health and Human Services (HHS), which heads the Interagency Task Force on the Homeless. The clearinghouse will serve as the Federal focal point for information and technical assistance, helping States and communities develop strategies and package resources available to help the homeless.

The budget proposes to continue the emergency funds for feeding and housing the homeless for the Federal Emergency Management Agency at $80 million in 1988, to be distributed through a national board of major private charities.

Additional initiatives are being taken. For example, $5 million in budget authority for the transitional housing demonstration project in HUD is requested for 1988. This program tests innovative approaches to providing shelter and supportive services for the homeless. The budget also proposes to increase funding for the community support program of State and local demonstrations sponsored by the Alcohol, Drug Abuse and Mental Health Administration in HHS. Budget authority is proposed to increase these grants from $15 million in 1987 to $20 million in 1988. This additional funding would be provided to complete demonstration projects targeted on mental health services for the homeless mentally ill.

Limit the Federal Role in the Financing, Content, and Structure of Education Programs.—Education has always been and should remain primarily a State, local, and family responsibility. Although the Federal Government plays an important role—particularly for programs for the disadvantaged the handicapped, and others in special need of additional support—the administration seeks to reduce the current size of the Federal financial involvement in education. In total, budget authority for Department of Education programs is proposed to be $14.0 billion for 1988. Major program proposals are described below.

Handicapped and rehabilitation.—For these programs the budget allows for increases to offset inflation for the major State grants in 1987 and 1988. A significant increase over 1986 is provided in the preschool State grant. Reductions are requested in selected smaller programs in which the Federal investment exceeds legitimate program needs. For example, reduced funding is sought for training because available data on personnel shortages do not support current appropriation levels. The administration requests $2.9 billion for these programs—a reduction of $0.3 billion from the 1987 enacted level.

Compensatory education.—For over 20 years, the Federal Government has provided support to States and local school districts to operate compensatory (remedial) education programs for educationally disadvantaged children. About 4.8 million children receive services. The administration proposes $4.1 billion for these compensatory education programs for 1988—a $200 million increase over the 1987 appropriation. The budget will be accompanied by a legislative proposal to revise and strengthen these programs, which are authorized under Chapter 1 of the Education Consolidation and Improvement Act.

Adult education.—The administration requests $130 million for programs funded under the Adult Education Act—the central Federal program in the fight to reduce adult illiteracy. This 20 percent

increase over the 1987 enacted level will allow State and local agencies that operate adult education programs for more than 2.3 million participants to expand program services or to enhance the quality of existing activities. The budget also provides for increased funding for adult education each year until 1992, when total funding will reach $200 million.

Student aid.—Although society benefits from a better educated workforce, students are the principal beneficiaries of their investment in higher education. It is therefore reasonable to expect them—not taxpayers—to shoulder most of the costs of that investment. The Federal Government's role is to help make the investment possible, primarily by providing support for student loans. The administration accordingly proposes that guaranteed loans that have no direct costs to the Government be made available *to all students without any limit* other than the cost of education.

The administration recognizes the particular needs of low-income students, who may be reluctant to borrow significant amounts for school or who may have more trouble in paying off loans once they have left school. A Pell grant program for the neediest students would be maintained, with targeting improvements allowing funding reductions from $3.8 billion in 1987 to $2.7 billion in 1988 and $2.0 billion in 1989 and beyond. In addition, the need-tested, income-contingent loan program, with its more manageable repayment arrangements that tie the repayment amount to the recipient's income, would be expanded substantially to assist more poor students.

Vocational education.—The administration proposes to eliminate all Federal support for vocational education, for which $0.9 billion was appropriated in 1987. Federal funds are not essential to the maintenance and expansion of the vocational education system, which currently is supported with more than $10 of State and local funds for every $1 of Federal support. The existing Federal statutes are too prescriptive and contain too many (about 40) conditions or set-asides that affect fund distribution. Research has shown that investment in vocational education produces only small marginal benefits to participants, and these tend to disappear after several years.

Reform Job Training Programs.—The various programs now providing job search, job training, and cash benefits to dislocated workers, such as Title III of the Job Training Partnership Act (JTPA) and the trade adjustment assistance programs, are proposed to be replaced by an entirely new program. This new program would assist all dislocated workers without regard to whether they were unemployed because of increased imports, or because

they were permanently laid off, lost their farms, or were long-term unemployment insurance recipients. Services, which would include counseling, job search assistance, basic education, and job skill training, would be provided in a two-tiered approach, with the quick-action services provided first. States would be responsible for operating the programs, which would be linked to the unemployment insurance system, with the private industry councils set up under JTPA given local oversight responsibilities. These changes will allow States and local areas to use a variety of new approaches to encourage workers to recognize when their old jobs are gone and move more quickly on to new careers. The new program would receive $980 million in 1988, compared to the $344 million appropriated for job search, training, and cash assistance in 1987. It is expected that the new approach will provide readjustment services faster than is possible under current programs.

The summer youth employment program is proposed to be converted into a year-round program of remedial skill training, subsidized summer jobs, or a mixture of both, as determined by local areas, for youth in families receiving support from the aid to families with dependent children (AFDC) program. This new program is aimed at the multiple objectives of helping these at-risk youth achieve higher earnings throughout their lives, increasing the number of workers with needed skills, and reducing welfare dependency. The administration proposes to provide $800 million, $50 million more than the 1987 enacted appropriation for the summer youth employment program.

For the basic block grant for training and employment services under the Job Training Partnership Act, the administration is proposing $1.8 billion—the same amount as in 1986—to assist State and local governments, in cooperation with industry, in helping some 1 million disadvantaged people prepare for a productive life.

Legislation will be proposed to decentralize authority, financing, and responsibility for administering State unemployment insurance and employment service programs to the States. Based on an extensive consultative process involving all interested groups, the legislation will answer the many questions raised by States and others over the equity of current Federal allocation of administrative resources, the adequacy of the resources provided, and lack of flexibility provided for States to use resources to meet their requirements. This decentralization will place administrative policy, financing, and decisionmaking at the same State level of government that already is responsible for unemployment insurance benefit policy, financing, and decisionmaking. The Department of Labor will retain its current responsibilities of ensuring that State programs meet the general requirements of Federal law and of financing the costs of State administration of Federal programs.

Continue Support for Important Social Services Programs; Reduce Support for Others.—The supplemental nutritional assistance program for women, infants, and children (WIC) will give food supplements every month to more than 3 million low-income women and young children in 1988. WIC is designed to lessen health problems associated with inadequate diets during critical—particularly prenatal—stages of child development. Federal funding for the program has expanded rapidly in recent years, more than doubling since 1980. The administration is requesting $1.7 billion in budget authority in 1988—$24 million above the 1987 level.

The administration proposes $253 million for the refugee and entrant assistance program, reflecting continued declines in refugee admissions and continuing efforts to encourage refugees' early self-sufficiency. Beginning in 1988, the administration proposes to reduce subsidies to States and limit the time during which refugees may receive special Federal assistance that is not available to similarly situated U.S. citizens.

The foster care and adoption assistance programs provide payments for approximately 108,000 foster care children and 25,000 children in adoption assistance. Federal funding for these entitlement programs has grown uncontrollably since 1981, primarily as a result of rapidly rising State claims for administrative expenses rather than increased benefit payments to families. Thus, the administration proposes to limit Federal matching of State administrative and training costs for these programs to 50 percent of maintenance payments. This proposal will save an estimated $84 million in 1988 without reducing assistance to the beneficiaries.

The low-income home energy assistance block grant helps States provide heating and cooling assistance to low-income households. The administration requests $1.2 billion in budget authority for this program for 1988—a reduction of $0.6 billion from 1987—in recognition of the hundreds of millions of dollars in oil overcharge settlements available to States for these purposes.

Consistent with the last five budgets, the administration again proposes no new Federal funding and no substantive reauthorization for the Legal Services Corporation. Efforts to prevent inappropriate activities by local legal aid grantees have not been fully successful, and adequate State funds are available to fund legal aid through the social services block grant, currently funded at $2.7 billion. Responsive and accountable to local needs, States are in the best position to structure and finance legal aid programs. Furthermore, Federal supply of these services has stunted the development of low-cost legal services supplied by the private sector.

The administration proposes to begin to phase out Federal support for the community services block grant (CSBG); in 1988, the administration is requesting $310 million in budget authority. Com-

munity action agencies—the primary recipients of these funds—derive less than 13 percent of their funding from this block grant. A phased reduction in Federal CSBG support will provide these agencies time to solicit funding from other sources. At this time of Federal budget constraints, it is hoped that contributions from non-Federal sources can maintain critical activities.

Social services for the needy will continue to be supported. Effective community action agencies can be funded through the social services block grant, Head Start, low-income energy, community development, job training, and other available funding sources that are already the main sources of funding for community action agencies.

General Government.—This category of discretionary programs includes many of the core functions of Government: conduct of international affairs, administration of justice, legislative and central executive functions, and fiscal operations such as tax collection.

International Affairs.—The President proposes to reverse the sharp decreases in funding for many international affairs programs that have taken place over the past 2 years. A 1987 supplemental appropriation of $1.3 billion in budget authority is proposed. Budget authority for 1988 is requested at $19.1 billion, which is $1.0 billion above the 1987 level with the supplemental. Outlays in 1988 are estimated to be $15.2 billion.

The increases proposed for international affairs reflect full consideration of the need for tight control of all Federal spending in order to achieve the overall Federal deficit targets established by the President and Congress. Thus, international spending will be carefully targeted. A major portion of the proposed increases is needed to make good on firm commitments of the United States to other countries and organizations, commitments that Congress has fully reviewed and affirmed. The increases also will allow vital support for the national security of the United States in a variety of ways, particularly through the provision of military and economic aid to democratic governments struggling to maintain their freedom. Further, the increases are intended to protect the lives of American citizens and officials against widespread threats by international terrorists. Finally, the United States must further strengthen its international information programs. These programs reach out to peoples throughout the world to provide them with the truth about the United States, the rest of the democratic world, and repressive, totalitarian regimes.

Nearly 60 percent of the 1987 supplemental is directed at *international security assistance* objectives. Over half of these security funds are needed to honor the obligations of the United States to

countries that provide military bases or base access for United States forces. These commitments simply cannot be ignored without impairing the Nation's security. Much of the remaining security aid will provide crucial economic assistance to four major Central American democracies. Lesser amounts are being provided to meet special needs, including support for friendly countries in southern Africa and encouragement to nations that are taking major and difficult steps to halt international narcotics trade. The various objectives of this additional security assistance have had widespread support in Congress and among the American people. It is necessary now to provide the funding to meet these objectives. The 1988 security assistance request for budget authority would continue to meet worldwide commitments, including the objectives addressed in the proposed supplemental.

For *international development and humanitarian assistance*, the supplemental proposes $100 million in urgently needed reconstruction funds for El Salvador in the wake of that country's recent severe earthquake. The supplemental also partially would reduce large arrearages in U.S. payments to the multilateral development banks—the World Bank and the Asian, African, and Inter-American Development Banks. The arrearages have occurred because of congressional reductions to the 1986 and 1987 budget requests for U.S. contributions to these institutions. The administration has achieved significant reforms in the way that these institutions operate. Given these accomplishments, the U.S. must meet its pledges, confirmed in authorizing legislation, to provide specific annual amounts over multiyear periods. For 1988, the elimination of the remaining multilateral bank arrearages is proposed, and other development and humanitarian programs are held below 1987 levels in total.

The *conduct of foreign affairs* is inherently a Federal governmental function carried on for all Americans. If the United States is to remain a world power, it must be prepared to provide adequate levels of personnel and funding to carry out diplomacy. The budget calls for modestly increased funds for the State Department's regular operations—including enhanced reporting and analysis and improved data processing and telecommunications capability. Most of the $0.6 billion in increased spending in this area would protect U.S. facilities and officials abroad from attack. The increase in such attacks over the past decade and the resulting loss of life demand a major upgrade for diplomatic security by the United States.

In trying to communicate more effectively with the peoples of the world—particularly those of communist countries—the United States has embarked on a major worldwide modernization and expansion of Voice of America and Radio Free Europe/Radio Liber-

ty broadcasting facilities. This is the primary reason for the budget increases requested for *foreign information and exchange activities.* The U.S. broadcasting effort is exceeded in funding by that of the Soviet Union, but it is superior in quality, primarily because it speaks the truth. To ensure that the U.S. message gets through to a growing audience, increases in radio construction and modernization programs are needed.

Expand Government-wide Drug Enforcement and Fight Drug Abuse.—Overall, for drug law enforcement, prevention, and treatment, budget authority has climbed from $1.2 billion in 1981 to more than $3.0 billion proposed in 1988.

Improvement of the Federal drug law enforcement program has been one of the administration's top domestic priorities. Since 1981, budget authority for drug law enforcement has grown by almost 200 percent, from $0.9 billion in 1981 to a proposed level of $2.5 billion in 1988. In 1986, in response to nationwide concern over the level of illicit drug abuse in the country, Congress passed and the President signed the Anti-Drug Abuse Act of 1986. The Act established tougher penalties for drug traffickers, and authorized large budget increases for a number of Federal agencies.

This budget proposes resource levels for 1988 necessary to continue the Federal priority given to drug enforcement. The 1988 request is $0.5 billion lower than the enacted 1987 level of $3.0 billion for two reasons. First, $225 million was appropriated in 1987 for grants to assist in drug enforcement activities at the State and local level. The administration believes that this one-time infusion of funds will provide significant assistance to local drug enforcement efforts, so such grant funds will no longer be needed for 1988. Second, approximately $350 million was appropriated for capital purchases made in 1987, which need not be repeated in 1988. Partially offsetting these decreases are about $70 million of increases for drug enforcement operations in 1988. For example, budget authority for the Drug Enforcement Administration is proposed to increase from $490 million in 1987 to $522 million in 1988.

The administration also proposes to expand the drug abuse treatment, research, and prevention programs begun in the President's drug abuse initiative. The recently created Office for Substance Abuse Prevention, which coordinates the Department of Health and Human Services' prevention efforts, will increase the effectiveness of these programs; the Department will also support a second year of expanded State and local drug abuse treatment services. The budget proposes to continue substantial levels of drug abuse research funding. The administration also proposes to continue the Department of Education's 3-year program of grants to States and localities for school and community-based drug abuse programs and related national activities. Funding for the second and third years

is lower than funding for the first year, reflecting one-time, start-up costs and increased State and local participation. Finally, block grant funding for State and local government programs will be maintained at the 1987 level of $495 million, and the Veterans Administration and Department of Defense will maintain their drug abuse treatment and prevention programs.

Implement Immigration Reform.—On November 6, 1986, the President signed into law a landmark revision of the Nation's immigration laws—a revision 6 years in the making. The Immigration Reform and Control Act of 1986:

- prohibits the hiring of illegal aliens;
- provides legal status to certain aliens who have been living in the country illegally;
- establishes new programs to permit the entry of aliens to harvest perishable crops; and
- provides increased staff for the Immigration and Naturalization Service (INS) for its new responsibilities under the Act.

The budget seeks $138 million in supplemental 1987 budget authority and $194 million in 1988 budget authority for INS to carry out this legislation. In addition, INS is expecting to obligate an additional $149 million in 1987 and $181 million in 1988 from fees charged to applicants in the legalization program. The actual fee charged will be established by regulation and will be sufficient to make the legalization program entirely self-financing.

Provide Necessary Resources for Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC).—The administration is proposing budget increases for the independent regulatory agencies responsible for ensuring that the nation's financial markets are kept efficient and that their integrity is preserved. A 30 percent increase in the SEC's budget authority for 1988 and almost a 10 percent increase in the CFTC's budget authority for 1988 will enable these agencies to address workload increases—particularly in the areas of market surveillance and enforcement. Since 1980, the annual volume of securities transactions and financings has more than doubled, as has the number of registered broker-dealers. The futures and options markets also have grown rapidly in terms of the number and types of traders, as well as contracts and financial products offered. In a joint venture with a private contractor, the administration is proposing to fund an electronic disclosure system (EDGAR) to increase the efficiency and integrity of the securities markets for the benefit of investors, corporations, and the economy. This system will accelerate dramatically the filing, processing, dissemination, and analysis of time-sensitive corporate information.

Reform of the Davis-Bacon and Related Acts and the Service Contract Act.—The administration is proposing legislation to increase the thresholds of coverage under the Davis-Bacon and related acts and the Service Contract Act. The Davis-Bacon Act covers wages paid to workers on Federal and federally aided construction projects. The Service Contract Act covers wages and benefits paid to workers under Federal service contracts. The threshold of coverage under the Davis-Bacon Act has not been revised since it was set at $2,000 in 1935. Similarly, the threshold of coverage under the Service Contract Act has not been revised since it was set at $2,500 in 1965. An increase in the thresholds of coverage under these statutes is appropriate in recognition of economic changes in the past several decades and to encourage competition and efficiency in Government procurement.

REVENUE CHANGES

In addition to the programmatic changes discussed above, the administration proposes a number of revenue changes to:

- collect taxes owed but not paid;
- improve the allocation of Federal credit;
- sell loan assets where appropriate;
- shift to the private sector the production of certain goods and services; and
- charge reasonable user fees for Federal programs that deliver services to identifiable beneficiaries.

Governmental Receipts.—Thanks to the support of the American people and a bipartisan coalition in the Congress, one of the most sweeping tax bills in this Nation's history became law last year. With the enactment of the Tax Reform Act of 1986, the Nation now has the lowest marginal tax rates and the most modern tax code of any major industrialized country.

Having come this far, tax reform must not be undone with tax rate increases. The President believes firmly that certainty must be restored to the tax code and the economy, and has pledged to oppose any attempt to raise taxes. In keeping with this pledge, the receipt changes proposed in this budget are limited to initiatives to collect taxes owed but not paid, increased user charges for Federal services, and trust fund reforms. Together, these changes are estimated to increase receipts $6.1 billion in 1988, resulting in total receipts in 1988 of $916.6 billion. The major changes being proposed are discussed below.

Internal Revenue Service (IRS) Initiatives.—As a result of the Tax Reform Act of 1986, the tax system is simpler and fairer, making it easier for taxpayers to pay the correct amount of taxes and for IRS to determine how much each taxpayer owes. The

administration proposes to increase IRS funding in 1988 to ensure the smooth implementation of tax reform, to improve tax law enforcement, and to close the gap between taxes owed and taxes paid. These initiatives are estimated to increase 1988 receipts by $2.4 billion. This increase is in addition to the nearly $5.0 billion in 1988 receipts (reflected in the current services receipts estimates) that is estimated to result from increased taxpayer compliance due to tax reform, recent increases in penalties, and more effective enforcement.

Extend Medicare Hospital Insurance (HI) Coverage to All State and Local Government Employees.—A minority of State and local government employees who were hired prior to April 1, 1986 may not be assured of medicare coverage. Because of eligibility through their spouse or short periods of work in covered employment, over 75 percent of employees who contribute nothing to the program are entitled to the full range of medicare benefits. Coverage of these employees, who are the only major group of employees lacking medicare coverage, would eliminate this inequitable drain on the medicare trust fund. This change in coverage, proposed to be effective January 1, 1988, is estimated to increase receipts $1.6 billion in 1988.

Repeal Exemptions from Gasoline and Other Highway Excise Taxes.—Under current law, gasohol and certain other alcohol fuels are partially exempted from Federal excise taxes on gasoline and diesel fuel. Public bus operators are fully exempted from Federal gasoline, diesel fuel, and other highway excise taxes; in general, private bus operators are fully or partially exempted from these taxes. State and local governments are exempted from all Federal highway excise taxes. Consistent with its position that highway users should pay taxes that correspond to the wear and tear that they cause the highway system, the administration proposes to repeal these exemptions effective October 1, 1987, resulting in increased receipts to the highway trust fund of $0.8 billion in 1988.

Increase Contribution to the Rail Industry Pension Fund.—Financing legislation for the rail industry pension fund enacted in 1974, 1981, and 1983, was based on what have proven to be optimistic assumptions, and Railroad Retirement Board actuaries now recommend measures equivalent to raising rail pension contributions. To protect the solvency of the fund, the administration proposes to increase rail pension contributions 1.5 percent effective January 1, 1988, and by an additional 1.5 percent effective January 1, 1989. These changes are estimated to increase receipts $0.1 billion in 1988 and $0.3 billion in 1989.

Require Employers to Pay the Employer Portion of the Social Security (OASDHI) Payroll Tax on Total Tips.—Under current law, employees must pay their portion of the OASDHI payroll tax on the total amount of cash tips; the liability of their employers generally is limited to the portion of tips considered to be wages under the Federal minimum wage law. Benefits are based on the total amount of cash tips. To eliminate this subsidy, the administration proposes that the employer contribution be based on the total amount of cash tips. This proposal is estimated to increase 1988 receipts by $0.2 billion.

Increase Excise Tax on Coal Production.—The excise tax paid by coal mine operators is insufficient to cover the cost of medical and income replacement benefits for miners disabled by the black lung disease, for which those operators are legally responsible. The black lung disability trust fund is $2.8 billion in debt, even though the Federal Government has assumed responsibility for paying $1 billion a year in income replacement benefits for some miners, and the general taxpayer currently is required to pay the interest costs on the amounts the trust fund has borrowed. The administration proposes to increase the excise tax receipts to the trust fund by $0.4 billion in 1988 and to repeal the requirement that the general taxpayer pay the interest costs. These changes, together with modest benefit reforms, would eliminate the trust fund deficit by the year 2007.

Extend Social Security (OASDHI) Coverage to Certain Earnings.—Under current law some 1.4 million Armed Forces reservists do not receive social security credit for their inactive duty earnings, because inactive duty training has not been covered employment. Earnings from full time active duty or active duty training are covered. The administration proposes to extend coverage to inactive duty earnings. The administration also proposes to extend coverage to certain students, agricultural workers, children age 18-21 employed by their parents, and spouses employed by the other spouse. The proposal would also conform the social security treatment of group term life insurance to the income tax treatment. These changes, proposed to become effective January 1, 1988, are estimated to increase receipts $0.3 billion in 1988.

Customs User Fee.—Last year Congress enacted an ad valorem tax on imports of 0.22 percent of value in 1987, dropping to 0.17 percent in 1988, and expiring September 30, 1989. In implementing this change, Congress exempted imports with American made components. The administration proposes to correct this technical deficiency to ensure that the costs of services provided by the U.S. Customs Service are borne by the users of those services and not

the general taxpayer. The administration also proposes to extend the fee beyond its scheduled expiration date. This proposal is estimated to increase receipts $0.1 billion in 1988.

Other.—Additional changes being proposed include: increases in Nuclear Regulatory Commission fees; extension of Immigration and Naturalization Service inspection fees at current rates; inclusion of income replacement benefits for miners disabled by the black lung disease in taxable income; initiation of Federal marine fishing license fees for commercial and recreational fishing; extension of Federal/State unemployment insurance coverage to railroad employment; initiation of rail sector financing of a portion of windfall benefits; increases in fees for services provided by the Treasury's Bureau of Alcohol, Tobacco, and Firearms; increases in the contributions of the District of Columbia and its employees to civil service retirement; initiation of fees for the United States Travel and Tourism Administration; and repeal of the windfall profit tax.

EFFECT OF PROPOSED LEGISLATION AND ADMINISTRATIVE ACTION ON RECEIPTS [1]

(In billions of dollars)

	1988	1989	1990	1991	1992
Current services receipts estimates	910.4	968.2	1,039.7	1,114.3	1,182.3
Proposed changes:					
IRS initiatives	2.4	3.1	3.3	3.3	3.4
Extend HI coverage to State and local employees	1.6	2.2	2.2	2.2	2.2
Repeal gasoline and other highway tax exemptions [2]	0.6	0.6	0.6	0.6	0.6
Increase contribution to rail industry pension plan	0.1	0.3	0.3	0.3	0.3
Require employer tax on total tips [2]	0.2	0.3	0.3	0.4	0.4
Increase tax on coal production [2]	0.3	0.3	0.3	0.3	0.3
Extend OASDHI coverage to certain earnings	0.3	0.3	0.4	0.4	0.4
Customs user fee [2]	0.1	0.1	0.5	0.5	0.5
Other	0.5	0.9	0.8	0.8	0.8
Subtotal, proposed changes	6.1	8.0	8.6	8.8	8.9
Administration policy receipts estimates	916.6	976.2	1,048.3	1,123.2	1,191.2

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.
[2] Net of income tax offsets.

Credit Reform.—The administration proposes to change the way Federal credit programs are treated in the budget. The proposal would charge the true economic cost of credit—the present value of the subsidy—to any agency making or guaranteeing loans. Adoption of this proposal would be a significant improvement over current practice. It would:

- accurately and equitably measure the benefits of Federal credit programs;
- encourage delivery of benefits in the form most appropriate to the needs of beneficiaries;
- put the cost of credit programs on an expenditure basis equivalent to other Federal spending; and
- improve the allocation of resources among credit programs and between credit and other spending.

Under this reform, Federal agencies would obtain appropriations equal to the subsidy component of the direct loans and loan guarantees they make each year. As agencies make new direct loans or loan guarantees, they would pay the subsidy value of those loans into a newly created central revolving fund that would be established in the Department of the Treasury. The cash disbursement for direct loans would be recorded in the central fund; in this way, the subsidy value of a direct loan would be evaluated and recorded separately from its financing in the budget account of the originating agency. The subsidy value of a loan guarantee would be evaluated and recorded directly for the first time in the budget account of the originating agency. As a result of this process, loan guarantees would be put on a basis comparable to direct loans.

The central fund would oversee the sale of all direct loans for which there are no policy or programmatic constraints to asset sales, and it would oversee the private sector reinsurance of guaranteed loans insofar as it is available. The subsidy cost of direct loans sold and loan guarantees reinsured would be determined by the actual price established by the market. Other loan subsidies would be calculated according to the procedures already established.

Because of the limited availability of reinsurance for Federal loans at present, the net savings from the sale of direct loans—$1.8 billion—would exceed the cost of reinsurance by an estimated $1.3 billion in 1988, reducing the deficit by this amount compared to past accounting practices. As a private industry develops to reinsure these guarantees, the amount of reinsurance purchased would grow and is expected to exceed the proceeds from loan sales by 1990.

Details of this proposal and specific legislative language will be prepared and sent to the Congress at a later date.

Other Loan Asset Sales.—The Federal Government will continue and expand its pilot program of selling existing loan assets without recourse—a program first proposed in the 1987 budget. These sales are designed to achieve four main goals:

- reduce the Government's cost of administering credit;
- provide an incentive for agencies to improve loan origination and documentation;

- assist in determining the subsidies on Federal credit programs; and
- increase budgetary offsetting receipts in the year of sale.

The sales program includes loans with a face value of $11.2 billion in 1988, which are estimated to produce offsetting receipts of $5.3 billion. The loans will be sold from the portfolios of the following agencies: Farmers Home Administration, Rural Electrification Administration, Small Business Administration, Department of Housing and Urban Development, Department of Education, Veterans Administration, Export-Import Bank, Bureau of Reclamation, Department of Health and Human Services, Department of Transportation, and the Tennessee Valley Authority.

Small portfolios of terminated programs will be liquidated in their entirety in 1 to 2 years. For larger portfolios, a sustainable rate of sales is proposed throughout the 5-year budget horizon. Agencies are being encouraged to hire private sector financial consultants to assist them in evaluating and marketing their loans.

Privatization.—Privatization is a strategy to shift the production of goods and services from the Government to the private sector in order to reduce Government expenditures and to take advantage of the efficiencies that normally result when services are provided through the competitive marketplace. Privatization is a natural counterpart to other administration initiatives—such as federalism, deregulation, and an improved tax system—that seek to return the Federal Government to its proper role. Privatization can be an important part of efforts to build a more productive America, because the central rationale for privatizing public activities is to enhance productivity—to get greater output from fewer inputs. Building on the sale of Conrail, which was approved by the Congress last year and is expected to take place in 1987, the administration proposes in this budget a number of privatization initiatives.

The administration's privatization program rests on several basic principles. The first principle is that the Government should not compete with the private sector in supplying ordinary goods and services. The proper role of Government is to provide goods that are truly public in nature, such as national defense and law enforcement, and to provide assistance in obtaining the necessities to those who are truly in need. Candidates for privatization should include any Government operation that sells goods or services in competition with the private sector or that provides goods or services that *could* be offered by the private sector.

Once a decision is made that Government responsibility should be reduced or terminated, there are a variety of privatization methods that can be used, depending on the circumstances. For example, Government can simply sell on-going businesses and produc-

tive assets to the private sector, using a public offering, negotiated sale, or auction. Government can reduce legal barriers to competition, or otherwise scale back the operations, and thereby encourage the development of private alternatives. Even where Government needs to play a continuing role, private sector efficiencies can be obtained by contracting out for the provision of commercially produced goods and services, and by using vouchers to provide financial help for individuals unable to pay the market price for certain goods (e.g., housing, food, and education).

Major privatization initiatives in this year's budget include:

Amtrak.—Following on the sale of Conrail, the administration proposes that the Federal Government get out of the passenger rail business by severing its financial ties to Amtrak. The budget proposes to terminate all Amtrak subsidies and dispose of some or all of Amtrak's assets, the majority of which are in the Boston-to-Washington corridor, to one or more private sector companies, rail passenger organizations, or other entities. Such transactions will be designed to preserve viable intercity rail passenger services to the extent economically feasible. Despite providing the only intercity rail passenger service and a subsidy averaging $27 per passenger, Amtrak carried less than 0.5 percent of all intercity travel in 1985. The disposal of Amtrak's assets will generate offsetting receipts estimated to be $1.0 billion in 1988, which will partially repay the more than $12 billion in Federal subsidy already paid to Amtrak.

Naval Petroleum Reserves (NPRs).—The administration proposes, as it did last year, that the Federal Government sell the two oil fields it operates—Elk Hills, California, and Teapot Dome, Wyoming.

Running an oil field is a business, not a Government activity. Private owners can produce and market oil more efficiently and effectively than can the Federal Government.

There is little national security reason for the Government to retain these oil fields, which were originally set aside by President Taft and President Wilson to fuel the Navy as it converted from coal to oil-fired ships. In 1975, Congress decided emergency petroleum needs could best be met by creating the strategic petroleum reserve, which, in an emergency, can pump out oil 30 times faster than can the NPRs. That same year, Congress also decided to start selling NPR oil commercially.

By selling the NPRs, the Federal Government—and taxpayers—will get a better financial return than by holding onto them. There is no reason to delay the sale to wait for oil prices to rise: the price potential buyers are willing to pay will reflect expectations about future oil prices, and those who are willing to bet their own money

are in a better position to gauge the validity of speculation that prices will begin to escalate.

Selling the NPRs is estimated to reduce the deficit by $2.5 billion in 1988 and $0.3 billion in 1989. In addition, if the assets are sold, they will generate hundreds of millions of dollars in tax receipts for the Treasury in future years.

Power Marketing Administrations.—The budget reproposes divestiture of the five power marketing administrations (PMAs), which supply 6 percent of the electricity generated in the country. These are commercial activities, which in most areas of the country are performed by private and other non-Federal enterprises.

The administration continues to believe that divestiture can lead to creation of new enterprises that are more responsive to regional and customer needs, without significant increases in power rates. Consequently, legislation is being proposed with the budget to study a possible divestiture of the Southeastern Power Administration. Also, work will continue on the Alaska Power Administration divestiture. Administration activities will be coordinated with Congress and with existing power customers, and legislative authorizations will be sought when necessary. (Implementation, of course, cannot proceed until there are necessary legislative approvals.) The budget assumes that divestiture of the Southeastern and Alaska Power Administrations will be authorized and implemented at the end of 1989.

As long as the PMAs remain under Federal ownership and control, it is highly appropriate that they repay the federally financed investment on a regular, business-like basis. To assure regular repayments, the budget proposes reforms that would require the PMAs to repay the Federal investments on a fixed, straight-line amortization schedule. The proposal would not increase the PMAs' interest costs or the total Federal investment to be repaid, but merely would ensure that annual repayments occur on a predictable and stable schedule.

Debt repayment reform will result in near-term power rate increases of zero to 13.5 percent for bulk wholesale power sales. The impact on retail power rates for residential and other customers will be only zero to 5 percent. Home electric bills in the Pacific Northwest, the region most affected, will increase less than $5 per month for all-electric homes, yet the resulting monthly bills will still be only about *half* of the national average.

On a long-term basis, however, the PMA power customers will benefit from putting the PMAs on a sound financial basis. Without reforms to require meaningful and regular repayments of principal, PMA customers will experience even larger rate increases in the longer run, resulting from higher interest costs on the growing debt and large "balloon" principal payments that become due in

future years. Bonneville Power Administration customers already are paying higher power rates partly as a result of a lack of past repayment, because their interest costs almost quadrupled over a decade (from $89 million in 1975 to $334 million in 1985).

Auction of the Unassigned Spectrum.—The administration proposes to allow the use of auctions, instead of the present practice of using hearings and lotteries, in assigning Federal Communications Commission licenses for use of the unassigned spectrum. Auction authority will not affect the terms of the licenses awarded and will not apply to licenses awarded in any medium of mass communications, or for public safety or amateur services. Only those licenses for unassigned spectrum allocated for non-mass media services are affected. Non-mass media services include 2-way common carrier paging, common carrier cellular, private multiple address, and low-power television.

Public auctions will capture the true value of the license and give taxpayers a return for the use of the spectrum, which is considered public property. Auctioning the assignments for frequencies is expected to generate $600 million in 1988. Hundreds of licenses currently assigned through lotteries could be assigned through an auction in future years.

Helium Operations.—The budget proposes an increased role for industry in supplying helium to U.S. Government users. The private helium industry will provide purification and transportation services to Federal helium consumers using crude helium from the Government's existing inventory in the Cliffside field storage reservoir. Government-owned helium facilities and helium program assets other than the inventory of crude helium will be offered for sale. The Bureau of Mines will continue its helium resource assessment activity.

Excess Real Property.—In 1987, Federal agencies will identify more than $800 million in excess real property for disposal. The General Services Administration will sell this property over the next 2 years; the receipts will help reduce the deficit.

User Fees.—Some of the services the Federal Government provides are utilized by narrowly defined groups or individuals. Agencies should recover a portion of their costs for providing these services through "user fees," in which recipients of the service are charged directly. Direct charges to users are appropriate because those who benefit from the service pay the cost; taxpayers do not. User fees increase efficiency of service delivery by reaching those willing to pay. Cost-based user fees may also provide an incentive for the private sector to provide comparable service at lower cost.

The beneficiaries of the services for which the administration is proposing new or increased fees generally consist of corporations or the relatively affluent. Charging these groups directly avoids the need to impose additional general taxes on lower- and middle-income citizens.

Increase Fees in the Mortgage Finance Programs of the Federal Housing Administration (FHA) and the Government National Mortgage Association.—The FHA enjoys certain governmental privileges that enable it to charge significantly lower mortgage insurance premiums than private insurers charge. This makes it difficult for private firms to compete with FHA. Preliminary estimates indicate that FHA may be charging 25 percent less for the same guarantee. The administration proposes legislation to allow FHA to increase its premium to levels on a par with those that private insurers would have to charge to provide a comparable guarantee.

In the secondary mortgage market, Federal agencies and Government-sponsored enterprises compete directly with private mortgage conduits. The President's Housing Commission in 1982 concluded that these organizations impeded the growth of private conduits and recommended that the administration seek to privatize them. The administration proposes to reduce the ability of the principal Federal agency—the Government National Mortgage Association (GNMA)—to compete with the private sector by increasing GNMA's guarantee fee to a level closer to that charged by private market entities performing similar secondary mortgage market functions.

The administration is studying ways of privatizing the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac")—the major Government-sponsored enterprises involved in the secondary mortgage market. The administration also plans to propose legislation that will limit permanently the maximum amount of a mortgage these Government-sponsored enterprises can purchase. This will limit their continued encroachment on the market served by private firms for as long as these entities enjoy the advantages conferred by their association with the Federal Government.

Increase Fee for Veterans Administration (VA) Home Loans.—The VA home loan program provides a partial mortgage guaranty that enables eligible veterans to purchase a home without a downpayment. The administration proposes to increase the current 1 percent origination fee, which expires at the end of 1987, to 2.5 percent. The increased fee is essential to offset costs associated with high levels of future foreclosures, and would keep the fund solvent while still providing subsidized mortgages to veterans. Since 1978

the program has required $2 billion in appropriations and internal transfers to cover costs associated with foreclosures.

Charge for Coast Guard Services.—The Coast Guard currently provides services such as inspections, licenses, navigation aids, and search and rescue without charge to commercial operators and recreational boaters. The administration proposes a phased implementation of fees for users of Coast Guard services, totaling $355 million in 1988 and $474 million a year thereafter. Fees for direct services involving a transaction (e.g., issuing licenses) would be set to recover the cost to the Coast Guard of providing the specific service. Fees for other services would be set in proportion to the Coast Guard's cost of providing the availability of the services to each class of users—recreational, commercial fishing, deep-sea commercial, and inland commercial. The cost of Coast Guard programs that benefit the general public (e.g., defense preparedness, law enforcement, and polar ice operations) would not be included in the user fees, because they are core functions of Government that should be paid for by all taxpayers.

Increase Recreation User Fees.—The administration again proposes, as it has in past years, the enactment of permanent authority to expand national park entrance fees. This authority will permit the Federal Government to recover from users a greater share of the costs of providing recreational opportunities where it is feasible to collect fees. Although substantially higher than existing charges, the proposed fees will continue to be modest. The maximum fee to enter a single park would be $10 per vehicle, and would entitle all occupants to admission to the park for 1 week. Entrance fees would be priced at less than $10 for most units. The price of the Golden Eagle Passport, which entitles all occupants of a vehicle to enter all units of the national park system for a year, would be increased to $40. Total revenue is expected to be $74 million in 1988, an increase of $52 million over revenue anticipated under current law. All revenues obtained will be available for use within the national park system without further appropriation action. This authority will succeed the temporary 1-year fee program enacted in the 1987 appropriations bill.

Legislation will also be proposed to permit charges at many developed sites in the national forest system. Current law prohibits charges at many primitive and developed sites that lack certain improvements. Revenue is anticipated to increase from $31 million in 1987 to $52 million in 1988. The legislation would return all receipts to the national forest system for operation and maintenance of recreation programs.

Charge User Fees for the Food Safety and Inspection Service.—The administration reproposes user fees for Federal meat and poultry inspection. Federal health and safety laws require that all slaughter and processing of meat and poultry occur under Federal inspection and supervision. The Food Safety and Inspection Service currently provides these services free of charge. Although the importance of uncontaminated meat supplies would seem to justify continuing a strong Federal role in setting standards and supervising compliance and enforcement, there is no rationale for providing these services free. Rather, they should be a normal cost of doing business for companies selling animal products for human consumption. This proposal would place the meat and poultry industry on a par with other industries that include their quality control and standardization activities in product costs.

The user fees would have a negligible impact on consumer prices and would not affect enforcement of Federal health standards. Full implementation of these charges, if completely passed on to the consumer, would result in an average price increase of less than 0.3 cents per pound of federally inspected product. The industry would still be subject to Federal requirements and Federal inspection, and individual plants would be charged a fee to recover the costs of their inspection. Collection of the fees would be separated from the provision of services to ensure the absence of industry influence in the setting or enforcement of safety standards. The savings expected from this initiative are $361 million in 1988.

Reform Pension Benefit Guaranties.—Legislation will be proposed to ameliorate the extremely weak financial position of the Pension Benefit Guaranty Corporation. Despite last year's tripling of the premium rate charged to private pension plans and the repeal of provisions of law that allowed employers to dump their unfunded pension promises on the Corporation at will, the termination of underfunded pension plans in failing companies is expected to double the Corporation's deficit to $4.5 billion in 1987. Cash payments to retired workers will exceed the Corporation's income, depleting its already inadequate reserves. The proposed legislation would permit the Corporation to charge higher premiums to those employers who do not adequately fund their pension promises. The current minimum funding requirements in law would be revised to protect both the pensions expected by workers and the Corporation.

Revise User Fees for Guaranteed Student Loans.—Currently the Government pays nearly all of the costs of borrower defaults in the guaranteed student loan (GSL) program. These costs have mushroomed in recent years, exceeding $1 billion in 1985 and in 1986. GSL borrowers themselves should bear this risk; the Federal role is

properly limited to actions that ensure the continued existence of a strong student loan market.

The budget proposes new insurance fees on regular and supplemental GSLs of 9 percent and 2 percent, respectively. These one-time, up-front fees are intended to generate revenues equal to the estimated present value of the costs of defaults arising from new loans. The current 5 percent origination fee on regular GSL loans, intended to cover a portion of Federal interest subsidy costs, would be eliminated.

Establish User Fees for the United States Travel and Tourism Administration.—The administration proposes to fund from user fees the United States Travel and Tourism Administration's annual budget of $12 million. Legislation will be proposed to establish an international ticket-writing charge of $1 per ticket for international travel to and from the United States, its possessions, and its territories. The charge would be collected from airline and cruise ship carriers, which, together with their customers, are the primary beneficiaries of the program. Receipts collected in excess of the level required to support the existing program will be deposited in the Treasury.

Increase User Fees for Commerce Products and Services.—Beginning in 1988, the administration proposes increasing fees for specialized products and services of the Census Bureau, the National Oceanographic and Atmospheric Administration, and the International Trade Administration. Collections will be phased in, with increased receipts of $18 million in 1988, rising to $38 million in 1992.

Other Revenue Changes.—The administration proposes several revenue changes from other sources.

Strengthen the Banking Agencies and Recapitalize the Federal Savings and Loan Insurance Corporation (FSLIC).—The administration continues to support the plan—originally proposed by the Department of the Treasury last year and included in both House and Senate banking bills—to recapitalize the FSLIC fund. Failure to enact the recapitalization plan, combined with continued economic difficulties in the agriculture and energy sectors, poses a direct short-term budget threat. Outlays by the major deposit insurance funds are estimated to exceed previously planned levels by $5.8 billion in 1987 (net of a change in accounting) and $4.0 billion in 1988.

The FSLIC recapitalization plan would create a separate financing facility, which would be capitalized from earnings of the Federal Home Loan Banks (FHLBs). The financing facility would issue bonds without any Federal guarantee and use the proceeds to

purchase FSLIC stock. FSLIC would raise between $10 billion and $15 billion from the sale of stock over 5 years and use these resources to accelerate its efforts to close those unprofitable and insolvent thrifts that pose the most severe financial threat. The additional resources from the recapitalization plan, together with current premium income, are expected to be sufficient to enable the Federal Home Loan Bank Board to take action to close down or merge a large portion of those failing institutions.

Share Natural Resources Receipts on a Net Basis.—Since the early 1900s, the Federal Government has been sharing with State and local governments the gross receipts from mineral leasing and timber sales on Federal lands. These payments from Federal receipts added over $800 million to State and local treasuries in 1986.

The administration again proposes to deduct from gross receipts the Federal cost of generating the natural resource receipts before sharing them according to current formulas with State and local governments. Current law distributes Federal "profits" that often do not exist, and creates an incentive for State and local governments to advocate unprofitable sales and uneconomic uses of Federal resources. After the proposed reform, State and local governments would still receive about $460 million in shared Federal receipts in 1988, while the Federal Government would save over $350 million. The Federal program of payment-in-lieu-of-taxes, funded at more than $100 million per year, would continue to offset the impact of undeveloped Federal land on local property tax bases.

SUMMARY OF TABLES

The first table in this section shows total outlays for the major components of the budget: social security benefits; national defense; major medical programs; other mandatory programs; programs that provide economic subsidies and development; social programs; general government programs; and net interest. The next table summarizes the deficit reduction proposals described in the sections above. For each of the major categories of programmatic changes and revenue changes, the table shows budget savings relative to a current services level. As explained in Part 3, the current services level is a measure of the budget outlook assuming no changes in policy. Current services estimates are based on an assumption that existing laws and programs will simply be carried forward, adjusted only for inflation and other anticipated relatively uncontrollable changes such as increases in the number of beneficiaries.

MAJOR COMPONENTS OF THE BUDGET

(In billions of dollars)

	1986	1987	1988	1989	1990	1991	1992
Social security benefits	196.5	205.5	216.9	230.0	244.4	259.1	273.2
National defense	273.4	282.2	297.6	312.2	330.0	349.5	370.9
Major medical programs	106.4	111.2	112.3	122.1	130.8	140.7	151.2
Other mandatory	151.9	156.3	144.5	143.4	144.8	146.8	148.3
Discretionary:							
Economic subsidies and development	84.5	81.3	80.9	82.2	82.3	79.8	79.9
Social programs	45.4	46.6	44.4	45.0	44.8	45.2	44.6
General government	28.7	32.1	34.1	38.3	40.2	42.6	44.5
Subtotal, discretionary	158.7	160.0	159.4	165.4	167.4	167.6	169.0
Net interest	136.0	137.5	139.0	141.5	139.0	134.8	122.1
Subtotal, gross Federal outlays	1,022.8	1,052.7	1,069.7	1,114.7	1,156.3	1,198.5	1,234.6
Undistributed offsetting receipts	−33.0	−37.1	−45.4	−45.8	−48.5	−54.0	−55.6
Total Federal outlays	989.8	1,015.6	1,024.3	1,069.0	1,107.8	1,144.4	1,178.9

SUMMARY OF DEFICIT REDUCTIONS

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Programmatic changes:						
Major medical programs	−0.1	−6.7	−7.7	−10.0	−11.8	−13.9
Other mandatory	−0.1	−3.4	−8.2	−11.4	−13.1	−13.9
Nondefense discretionary:						
Economic subsidies and development	−1.3	−4.6	−10.7	−11.9	−15.0	−16.2
Social programs	−0.5	−4.5	−7.5	−10.0	−11.3	−12.5
General government	1.1	0.5	3.2	2.5	2.1	1.5
Subtotal, nondefense discretionary	−0.7	−8.6	−15.0	−19.3	−24.2	−27.3
Subtotal, programmatic	−0.9	−18.7	−30.8	−40.8	−49.1	−55.1
Revenue changes:						
Governmental receipts	−0.1	−6.1	−8.0	−8.6	−8.8	−8.9
Credit reform	.....	−1.3	−0.6	0.9	2.2	3.6
Other loan asset sales	.....	−4.2	−1.7	−0.8	−0.3	−*
Privatization	−0.1	−5.4	−3.7	−3.8	−6.5	−5.3
User fees	−0.3	−3.2	−3.5	−3.6	−3.7	−3.8
Other revenue changes	.....	−2.1	−2.6	−3.6	−4.3	−6.7
Subtotal, revenue changes	−0.4	−22.4	−20.1	−19.5	−21.5	−21.2
Interest	−*	−1.3	−3.2	−6.0	−9.3	−14.3
Total deficit reductions	**−1.3**	**−42.4**	**−54.2**	**−66.2**	**−79.9**	**−90.6**

*$50 million or less.

The administration proposes to reduce the 1988 deficit by $42.4 billion below the current services level. Nearly 56 percent of these reductions are a result of the various revenue changes discussed above, and lower interest. Only 44 percent of the reductions are a result of programmatic changes. Even after these proposed reductions, outlays for many programs will increase between 1987 and

1988. The next table provides additional detail on the dollar amounts of proposed changes in specific programs. The last table shows that of the $42.4 billion in reductions, $12.8 billion results from privatization and other proposed terminations.

PROPOSED DEFICIT REDUCTIONS

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Programmatic changes:						
Major medical:						
Medicare		−4.6	−4.0	−5.1	−5.6	−6.3
Medicaid	−*	−1.4	−3.0	−4.0	−5.2	−6.6
Veterans medical care	−0.1	−0.1	−*	−0.1	−0.1	−0.1
Federal employees health benefits		−0.5	−0.6	−0.7	−0.8	−0.8
Other	−*	−0.1	−0.1	−0.2	−0.2	−0.2
Subtotal, major medical	−0.1	−6.7	−7.7	−10.0	−11.8	−13.9
Other mandatory:						
Farm price supports		0.5	−3.5	−6.1	−6.9	−6.9
Federal retirement systems		−1.5	−1.7	−1.9	−2.1	−2.2
Child nutrition	−0.1	−0.8	−0.9	−1.0	−1.1	−1.1
Family support payments		−0.6	−0.6	−0.5	−0.6	−0.9
Food stamps		−0.3	−0.3	−0.2	−0.1	−0.1
Other	*	−0.8	−1.2	−1.8	−2.3	−2.7
Subtotal, other mandatory	−0.1	−3.4	−8.2	−11.4	−13.1	−13.9
Nondefense Discretionary:						
Economic subsidies and development:						
Rural Electrification Administration	−0.2	−1.5	−1.8	−2.1	−3.3	−3.9
Natural resources and environment	−0.2	−1.1	−1.6	−1.8	−2.1	−2.3
Rural housing insurance fund	−0.8	−0.8	−1.4	−1.5	−1.7	−1.8
Rural development insurance fund	−*	−0.5	−1.6	−0.3	−0.3	−0.4
Subsidized housing		−0.3	−0.6	−1.2	−1.9	−1.9
Other	−0.1	−0.4	−3.6	−4.9	−5.8	−6.0
Subtotal, economic subsidies and development	−1.3	−4.6	−10.7	−11.9	−15.0	−16.2
Social programs:						
Student financial assistance	−0.2	−1.8	−3.7	−4.5	−4.9	−5.3
Other education	*	−1.1	−1.9	−2.5	−2.9	−3.2
Low income home energy assistance		−0.6	−0.7	−0.8	−0.8	−0.9
National Institutes of Health	−0.2	−0.5	−0.6	−0.8	−1.0	−1.1
Legal Services Corporation		−0.3	−0.3	−0.3	−0.3	−0.3
Other	−0.1	−0.3	−0.3	−1.0	−1.3	−1.6
Subtotal, social programs	−0.5	−4.5	−7.5	−10.0	−11.3	−12.5
General government:						
IRS enforcement	0.1	0.4	0.6	0.6	0.5	0.5
Department of Justice	0.1	0.6	0.5	0.3	0.4	0.4
Conduct of foreign affairs	0.2	0.4	0.4	0.5	0.6	0.5
Public Law 480 food aid		−0.1	−0.1	−0.1	−0.2	−0.2
Federal supply service		−0.2	−0.2	−0.2	−0.2	−0.2
Export-Import Bank		−0.4	*	0.1	0.1	0.2
Other	0.7	−0.2	1.9	1.3	0.9	0.2
Subtotal, general government	1.1	0.5	3.2	2.5	2.1	1.5
Subtotal, programmatic changes	−0.9	−18.7	−30.8	−40.8	−49.1	−55.1

PROPOSED DEFICIT REDUCTIONS—Continued

(Change from current services, in billions of dollars)

	1987	1988	1989	1990	1991	1992
Revenue changes:						
Governmental receipts	−0.1	−6.1	−8.0	−8.6	−8.8	−8.9
Credit reform	.....	−1.3	−0.6	0.9	2.2	3.6
Other loan asset sales	.....	−4.2	−1.7	−0.8	−0.3	−*
Privatization:						
Amtrak sale and grant termination	.....	−1.6	−0.6	−0.7	−0.7	−0.7
Sale of NPRs	.....	−2.5	−0.3	0.5	0.7	0.6
Sale of PMAs	.....	.....	−1.8	−2.6	−5.4	−4.0
Auction of the unassigned spectrum	.....	−0.6	.....	.....	.....	.....
GSA real property sales	.....	−0.3	−0.4	−0.2	−0.2	−0.2
Terminate crop insurance	.....	−0.2	−0.5	−0.6	−0.7	−0.8
Health professions training subsidies	−0.1	−0.2	−0.2	−0.2	−0.2	−0.2
Subtotal, privatization	−0.1	−5.4	−3.7	−3.8	−6.5	−5.3
User fees:						
Credit fees	−0.3	−1.6	−1.6	−1.7	−1.8	−1.9
Other user fees	−*	−1.7	−1.9	−1.9	−1.9	−1.9
Subtotal, user fees	−0.3	−3.2	−3.5	−3.6	−3.7	−3.8
Other revenue changes:						
FSLIC	.....	−1.6	−0.8	−0.5	0.1	−0.9
Medicare premium increase	.....	−0.6	−1.8	−3.1	−4.4	−5.8
Subtotal, other revenue changes	.....	−2.1	−2.6	−3.6	−4.3	−6.7
Subtotal, revenue changes	−0.4	−22.4	−20.1	−19.5	−21.5	−21.2
Interest	−*	−1.3	−3.2	−6.0	−9.3	−14.3
Total deficit reductions	**−1.3**	**−42.4**	**−54.2**	**−66.2**	**−79.9**	**−90.6**

*$50 million or less.

PROPOSED PHASE-OUTS AND TERMINATIONS

(Outlays, in millions of dollars)

	Current services	Savings from current services		
	1987	1988	1989	1990
Privatization:				
Amtrak sale and grant termination	640	−1,617	−640	−662
Naval petroleum reserves	−442	−2,500	−274	518
Power marketing administrations	−501	.....	−1,756	−2,631
Auction of the unassigned spectrum	.....	−600	.....	.....
GSA real property sales	−250	−305	−353	−213
Crop insurance	637	−178	−471	−627
Health professions training subsidies	232	−186	−188	−201
Subtotal, privatization	316	−5,386	−3,682	−3,816
Economic Subsidies and Development:				
Department of Agriculture:				
Rural electrification loans	−35	−2,162	−2,266	−2,267
Rural housing insurance fund	2,999	−776	−1,395	−1,530
Telephone Bank	−5	−344	−473	−438
Conservation programs	599	−276	−392	−464
Extension Service	332	−69	−92	−104
Rural water and waste disposal grants	168	−14	−39	−70
Office of Transportation	2	−2	−3	−3
Marketing payments to States	2	−1	−1	−1
Rural development insurance fund	1,023	−485	−1,589	−279
Department of Commerce:				
Economic Development Administration	358	−60	−130	−184
Trade adjustment assistance	12	−3	.....	.....
National undersea research program	11	−6	−11	−12
Coastal zone management and sea grants	80	−44	−68	−81
Public telecommunications facilities	21	−11	−6	−1
Department of Housing and Urban Development:				
Categorical housing programs	515	−10	−71	−311
Urban development action grants	440	−23	−73	−133
Rehabilitation loans	25	−97	−126	−84
Housing development action grants	157	19	−47	−106
Department of Transportation:				
Mass transit discretionary grants	898	−52	−219	−406
State maritime schools	8	−9	−9	−10
Miscellaneous highway projects	115	−12	−27	−39
Environmental Protection Agency:				
Sewage construction grants	2,610	−90	−230	−390
Asbestos-in-schools loans/grants	15	−39	−45	−50
Other Agencies:				
Postal subsidy	729	−523	−564	−582
Interstate Commerce Commission	46	−35	−46	−51
TVA economic development programs	12	−12	−13	−13
Communication technology satellite	75	−11	−3	.....
Appalachian Regional Development Commission	143	−9	−29	−61
Subtotal, economic subsidies and development	11,355	−5,156	−7,967	−7,670
Social Programs:				
Department of Education:				
Compensatory education (HEP & CAMP)	7	−6	−8	−8
Several elementary and secondary programs	48	−41	−53	−56
Education for the handicapped (grants for infants and families)	2	−38	−49	−53
Vocational education	941	−312	−749	−914

PROPOSED PHASE-OUTS AND TERMINATIONS—Continued

(Outlays, in millions of dollars)

	Current services	Savings from current services		
	1987	1988	1989	1990
Immigrant and refugee education	22	−23	−44	−48
Several higher education programs	124	−80	−94	−96
Several student aid programs	1,161	−1,239	−1,321	−1,367
Library grants	200	−55	−100	−139
Other Agencies:				
Legal Services Corporation	303	−276	−323	−333
Community services block grant	368	−54	−127	−220
Subtotal, social programs	3,176	−2,124	−2,868	−3,234
General Government:				
Justice assistance grants	267	−118	−259	−375
Total	**15,114**	**−12,784**	**−14,776**	**−15,095**