# PART 5

# FEDERAL PROGRAMS BY FUNCTION

# INTRODUCTION

***National Needs and the Functional Classification.***—This section discusses budget authority, outlays, and related measures of Federal spending, focusing on the end purposes served by the spending. The presentation is organized in terms of national needs as defined by the functional structure.

The Part 5 structure includes 19 functions and two additional categories—allowances and undistributed offsetting receipts—that are not functions but are needed to encompass the entire budget. Each function is further divided into subfunctions, which consist of more homogeneous groupings of programs. Federal spending is classified in the functional structure according to the primary purpose of the activity; to the extent feasible this classification is made without regard to agency or organizational distinctions. Classifying each activity solely in the function that defines its most important purpose—even though many activities serve more than one purpose—permits adding the budget authority and outlays for each function to obtain the budget totals.

The function-subfunction-program hierarchy is used in the tables of budget authority and outlays and the text presented for each function. The text begins with a statement of national needs served by programs in the function. This is followed by a paragraph or two that describes the function and summarizes the major proposals. The President's proposals for individual programs are then described in greater detail.

***Changes in the Functional Structure.***—While it is obviously desirable to maintain stability in the functional classification from budget to budget so that budget users will not have to learn a new system each year, absolute stability is impossible. Changing conditions frequently require modifications. When such changes are made, the historical data base is usually revised to conform to the new functional structure so that budget users can compare program trends over time without discontinuities caused by changes in classification or accounting conventions.

Two major function changes have been made for this budget. First, the general purpose and fiscal assistance function has been abolished as a major function; all activities formerly included in this function have been transferred to the general government function, where they appear as a separate subfunction. This change

was made because the general revenue sharing program, which constituted the bulk of the former major function, was ended by Congress, and the remaining general purpose fiscal assistance activities are not significantly large to warrant being a separate major factor.

The second major function change is being made in conjunction with the administration's proposed reform for budgeting for Federal credit activities. Under current practice, the budget fails to distinguish between the bona fide loan component and the subsidy provided when the Federal Government makes a direct loan or guarantees a loan. The administration proposes to separate the subsidy from the non-subsidy portion of Federal credit activities. The budget authority and outlays for the subsidy portion will be shown in the present functional locations of the credit programs, while a new major function entitled "central Federal credit activities" will record the non-subsidy elements of these credit programs. Since the reform is proposed to begin in 1989, there is an inevitable discontinuity in the credit historical data by function and the data for the years after the new system is in place. The administration's credit reform proposal is discussed in greater detail in Part 6b and in Special Analysis F, "Federal Credit Programs."

One additional change, which is not a functional reclassification but does affect the totals for several functions, is the reclassification of the Federal retirement thrift savings fund from being an on-budget trust fund to a non-budgetary status. The reasons for this reclassification are discussed in Part 6e. Since this program began in 1987, this reclassification has no impact on the data for earlier years. The following functions are affected by this reclassification:

- The income security function no longer includes the thrift fund operations, employee contributions to their thrift accounts, and refunds or withdrawals of contributions.
- The net interest function no longer includes the interest received by the trust fund; instead it now includes only the interest paid to the fund, which is now classified as payments to the public.
- Collections of Federal employing agencies' contributions to the fund are no longer deducted as undistributed offsetting receipts.
- The cost and financing of thrift fund operations now appears in the general government function.

***Credit Budget.***—While budget authority and outlays are important measures of resources allocated to Federal programs, they do not cover all Federal activities. Federal credit activity may also take the form of direct loans or loan guarantees, which do not always become budget authority or outlays. For example, Federal

loan guarantees generally require no outlays unless the borrower defaults. To monitor and control Federal credit activities, a subsidiary credit budget measures and provides a mechanism for controlling all loan guarantee commitments and direct loan obligations.

Most functions contain Federal credit programs. The functional sections discuss these programs and contain a table of credit activity. The figures in these tables add up to the credit budget totals, which appear in Table 1 of Part 6g of this volume. The credit budget, and the administration's credit reform proposal, are explained in Part 6b of this volume and in Special Analysis F, "Federal Credit Programs."

***Tax Expenditures.***—Tax expenditures are provisions of the income tax laws that provide special benefits in comparison with what would be permitted under the general provisions of the Internal Revenue Code. They arise from special exclusions, exemptions, or deductions from gross income, or from special credits, preferential tax rates, or deferrals of tax liability. In many cases tax expenditures can be viewed as alternatives to other means by which the Federal Government can carry out policy objectives, such as direct outlays, loan guarantees, regulations, or other tax law provisions.

Tax expenditures are discussed in the functional presentation that follows so that they may be compared with outlays and loan guarantees that serve similar purposes. To aid in this comparison all tax expenditures estimates in Part 5 are shown as outlay equivalents, that is, the amount of outlays that would be required to provide the same level of after-tax benefits if direct spending programs were substituted for the tax expenditure. The definition and measurement of tax expenditures are discussed in Part 6d of this volume and in Special Analysis G, "Tax Expenditures."

***Relationship to Other Budget Tables.***—The following tables appear in other parts of the budget and supplement the tables shown in Part 5:

- Outlays by function and subfunction for 1979 through 1989, in Table 18 of Part 6g.
- Budget authority and outlays by function for 1987 through 1993, in Tables 8 and 3, respectively, of Part 6g.
- Budget authority and outlays for 1987 through 1989 for each agency and account, in Part 6f. Each account has a 3-digit code indicating the function and subfunction in which it is classified.
- Data for earlier years are published in *Historical Tables, Budget of the United States Government, Fiscal Year 1989*

# NATIONAL DEFENSE

The objectives of the national defense program are to protect the United States and its allies from foreign aggression and to maintain sufficient military strength to deter both nuclear and conventional war. Should armed conflict nonetheless occur, we must be prepared to defend ourselves successfully, while limiting the scope and intensity of the conflict.

Carrying out these objectives requires a full range of defense capabilities. These include survivable and flexible capabilities for nuclear deterrence; maritime superiority; strong air and ground forces forward deployed in Europe and other critical areas; and the means to deploy reinforcements rapidly from the United States and to sustain our military forces anywhere in the world.

The budget proposals for budget authority and outlays are consistent with the Bipartisan Budget Agreement for 1988 and 1989. These levels are significantly below the biennial budget request submitted last year for 1988 and 1989 ($20 billion and $33 billion, respectively). After 1989, budget authority is projected to increase by about 2 percent a year in real terms. Compared to last year's estimate, total 1988–1992 funding for national defense is reduced by $177 billion.

The budget proposes $299.5 billion in budget authority and estimates $294.0 billion in outlays for the national defense function in 1989. The defense program has been extensively revised to accommodate these reduced budget levels. Although our national defense objectives remain unchanged, the rebuilding of our national security capabilities will proceed at a slower pace. Some programs will be cancelled, while others are being deferred. This will result in smaller annual procurements of equipment, ammunition and war reserve stocks than previously planned, and slower development of new systems. Combat readiness will be preserved, but some delays in equipment maintenance will be unavoidable.

To address the requirements resulting from the recent INF Treaty with the Soviet Union, the Department of Defense will reprogram, within available funds, the amount necessary for inspection and verification required by the treaty.

The accompanying table shows budget authority and outlays for the three national defense subfunctions: military functions of the Department of Defense, atomic energy defense activities, and defense-related activities of other agencies.

***Department of Defense—Military.***—Budget authority of $290.8 billion is requested for the military functions of the Department of Defense in 1989. This budget level will provide for continuing efforts to:

## NATIONAL DEFENSE

(Functional code 050; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Department of Defense—Military:** | | | | | |
| Military personnel | 74,010 | 76,145 | 78,399 | 80,144 | 80,725 |
| Operation and maintenance | 79,607 | 80,684 | 85,649 | 89,176 | 92,803 |
| Procurement | 80,234 | 81,027 | 80,037 | 85,259 | 91,069 |
| Research, development, test and evaluation | 35,644 | 36,695 | 38,157 | 40,022 | 42,047 |
| Military construction | 5,093 | 5,354 | 5,743 | 6,022 | 6,307 |
| Family housing | 3,075 | 3,149 | 3,272 | 3,435 | 3,607 |
| Revolving funds and other | 2,647 | 854 | 788 | 976 | 1,031 |
| Offsetting receipts | −841 | −750 | −766 | −785 | −795 |
| Allowances: Civilian pay raises | | | | 833 | 1,962 |
| Allowances: Military pay raises and benefits | | | | 2,461 | 5,838 |
| Allowances: Savings from reform of Davis-Bacon and Service Contract Acts: | | | | | |
| Proposed legislation | | | −310 | −310 | −310 |
| Allowances: Other legislation (proposed) | | | −185 | 54 | 54 |
| Subtotal, Department of Defense—Military | 279,469 | 283,159 | 290,784 | 307,287 | 324,338 |
| **Atomic energy defense activities** | 7,478 | 7,749 | 8 ,100 | 8,380 | 8,630 |
| **Defense-related activities** | 480 | 508 | 645 | 733 | 732 |
| **Total, budget authority** | **287,427** | **291,416** | **299,529** | **316,400** | **333,700** |
| **OUTLAYS** | | | | | |
| **Department of Defense—Military:** | | | | | |
| Military personnel | 72,020 | 75,453 | 77,827 | 79,512 | 80,182 |
| Operation and maintenance | 76,205 | 80,433 | 82,725 | 86,667 | 90,734 |
| Procurement | 80,744 | 79,166 | 79,820 | 80,578 | 82,495 |
| Research, development, test and evaluation | 33,596 | 33,127 | 36,295 | 38,212 | 40,325 |
| Military construction | 5,853 | 5,418 | 5,668 | 5,917 | 6,241 |
| Family housing | 2,908 | 3,022 | 3,229 | 3,425 | 3,502 |
| Revolving funds and other: | | | | | |
| Existing law | 3,481 | 1,405 | 906 | 950 | 1,014 |
| Proposed legislation | | | −40 | | |
| Offsetting receipts | −841 | −750 | −766 | −785 | −795 |
| Allowances: Civilian pay raises | | | | 819 | 1,943 |
| Allowances: Military pay raises and benefits | | | | 2,312 | 5,634 |
| Allowances: Savings from reform of Davis-Bacon and Service Contract Acts: | | | | | |
| Proposed legislation | | | −196 | −268 | −288 |
| Allowances: Other legislation (proposed) | | | 33 | −34 | −10 |
| Subtotal, Department of Defense—Military | 273,966 | 277,275 | 285,500 | 297,305 | 310,977 |
| **Atomic energy defense activities** | 7,451 | 7,631 | 7,945 | 8,246 | 8,513 |
| **Defense-related activities** | 582 | 517 | 575 | 649 | 710 |
| **Total, outlays** | **281,999** | **285,423** | **294,020** | **306,200** | **320,200** |

- modernize all components of U.S. strategic forces to ensure that they deter nuclear attack by virtue of their ability to survive and retaliate should an attack occur;
- develop and procure conventional equipment for the essential modernization of U.S. conventional forces;

- maintain the readiness and improve the combat sustainability of conventional forces;
- develop sufficient sealift and airlift capacity to ensure that U.S. forces can be rapidly deployed overseas in order to protect our critical interests, support our allies, and allow continued access to essential resources; and
- strengthen alliances and coalitions to protect U.S. interests worldwide and, in particular, to achieve NATO objectives.

The budget constraints imposed by the Bipartisan Budget Agreement require a reduction in military personnel levels from the 2,172,400 authorized by the Congress for 1988 and 1989 to a new level of 2,138,300. Air Force reductions are the largest. Its proposed level is 575,600, which is 23,100 below the authorized level. The Army proposed level is 772,300, which is 8,600 below the authorized level.

Budget authority requested for the Department of Defense—Military is estimated by mission category in the second table of this section. These categories are discussed below.

*Strategic Forces.*—The budget continues the President's strategic modernization program, which is essential for strengthening deterrence and achieving meaningful arms control agreements. Maintaining a modern triad of strategic forces remains our highest defense priority. Nevertheless, some adjustments to individual strategic programs have been made as part of the administration's efforts to adapt to the reduced defense budget levels agreed to in the Bipartisan Budget Agreement.

Our bomber forces are being modernized by acquiring the advanced technology (stealth) bomber and the advanced cruise missile, while formation of operational B-1 bomber wings continues following delivery of the one-hundredth production aircraft in 1988. Continued procurement of the Peacekeeper intercontinental ballistic missile (ICBM) is proposed, to provide for operational and reliability testing. To continue the modernization of our submarine-based forces, the budget provides for procurement of one new Trident ballistic missile submarine per year, and procurement of the new Trident II missile. Finally, the budget also supports improvements to our strategic command and control systems, as well as to our early warning and strategic defense capabilities. These programs for strategic forces are essential to ensure that our deterrent remains strong in the near term and through the 1990's.

*General Purpose Forces.*—U.S. forces must be able to respond effectively to all levels of potential conflict—up to and including a war between NATO and the Warsaw Pact—while retaining the flexibility to meet other threats. The budget provides support for 18 active-duty Army divisions, 3 Marine divisions, 3 Marine and 13 Navy active-duty tactical airwings, the equivalent of nearly 25

**MISSION CATEGORIES: DEFENSE, MILITARY [1]**

(Functional code 051; in billions of dollars)

| Major missions and programs | 1987 actual | Estimate | |
|---|---|---|---|
| | | 1988 | 1989 |
| Strategic forces [2] | 21.1 | 21.0 | 23.4 |
| General purpose forces | 114.9 | 110.7 | 114.1 |
| Intelligence and communications | 27.7 | 28.0 | 28.1 |
| Airlift and sealift | 7.1 | 5.6 | 5.9 |
| Guard and reserve | 15.7 | 16.2 | 16.6 |
| Research and development [3] | 27.5 | 32.5 | 32.6 |
| Central supply and maintenance | 22.7 | 24.1 | 24.1 |
| Training, medical, and other general personnel activities | 35.5 | 35.9 | 36.6 |
| Administration and associated activities | 6.6 | 5.8 | 6.0 |
| Support of other nations | 0.7 | 0.8 | 0.8 |
| Special operations forces | ..... | 2.6 | 2.6 |
| **Total, budget authority** | **279.5** | **283.2** | **290.8** |

[1] Preliminary data; subject to revision.
[2] Excludes strategic systems development included in the research and development category.
[3] Excludes research and development in other program areas on systems approved for production.

active-duty wings of Air Force tactical aircraft, and a 580-ship Navy (including strategic missile submarines and support ships).

*Army General Purpose Forces.*—The budget provides for new weapons to improve the firepower, mobility, and survivability of Army forces, and supports the maintenance and training of these forces.

In the 1989 budget program, the Army would procure 545 M-1 Abrams tanks and 581 Bradley fighting vehicles. Last year's biennial budget for 1988 and 1989 provided for the procurement of 534 Abrams tanks and 618 Bradley fighting vehicles in 1989.

The Army's plans for modernizing its helicopter forces have been significantly revised. Last year's budget was based on a plan to cease production of the AH–64 Apache attack helicopter after 1988 and to develop a new multipurpose helicopter, the LHX or light helicopter experimental, that would be used for both attack and utility missions. The plan assumed procurement of more than 4,000 multipurpose LHX's over a 10-year period starting in 1993. This year's revised program would continue procurement of Apaches at a rate of 72 a year, and the new LHX would be designed for the light attack mission. About 2,000 LHX helicopters are to be procured beginning in the late 1990's. This year's budget also includes funds to procure 72 Blackhawk utility helicopters, as proposed last year.

The budget continues procurement of air defense missile systems such as the short-range Stinger and Chaparral missiles and the longer-range Patriot area defense system. Initial procurement of a new forward area air defense system to provide short-range air

defense for mechanized infantry and armored divisions is planned for 1989.

The 1989 budget will support the Army's 18 active and 10 reserve divisions. The personnel strength of two active divisions, however, will be below the levels projected last year. Also, about 450 utility helicopters and their support personnel will be eliminated from the Army force structure.

*Navy General Purpose Forces.*—In peacetime, Navy forces provide a tangible demonstration of U.S. regional commitments. In wartime, Navy forces are essential to control the sea lines of communication over which U.S. reinforcements and resupply would travel to battle theaters. Naval forces also must be able to conduct offensive operations, if necessary, against Soviet naval forces and facilities.

Under the budget proposal, the Navy's deployable battle force ships (including strategic missile submarines and support ships) would increase from 570 ships in 1988, to 580 ships in 1989. This compares to 605 ships in 1989 that were anticipated before the budget revision. To keep future forces strong, the Navy's shipbuilding plan for 1989 includes 3 guided missile destroyers, 3 attack submarines (including initial procurement of the SSN-21 *Seawolf*), 1 amphibious ship, 7 support ships, and 2 minesweepers.

Active naval aviation forces will consist of 16 tactical airwings (13 Navy and 3 Marine Corps), 24 land-based patrol squadrons, and various support aircraft. The Navy's 14th active-duty tactical airwing will be deactivated. To maintain and modernize these forces, the budget provides for continued procurement of F-14, F/A-18, and AV-8B aircraft for tactical air wings, as well as SH-60B LAMPS III ship-based and SH-60F carrier-based helicopters for anti-submarine warfare. Budget limitations require cancellation of the new A-6F aircraft in favor of converting existing A-6 aircraft to a new and more capable configuration. A competitive procurement for an updated P-3 long-range patrol aircraft will be delayed until the early 1990s.

Realizing the full potential of the investment in naval ships and aircraft requires highly trained crews. Navy tactical aircraft pilots will average about 300 flying hours annually during 1988-1989, roughly double that of their Warsaw Pact counterparts.

*Air Force General Purpose Forces.*—The Air Force's tactical forces include fighter, attack, and support aircraft to gain air superiority and to conduct attacks against enemy ground forces and interdiction targets. Aircraft inventories will be maintained at a level that will support nearly 25 fully equipped active wings. Fighter and attack units of the active Air Force, the Air National Guard, and the Air Force Reserve together provide the equivalent of 38 fully equipped wings in 1988. Total wing equivalents will be reduced to 35 in 1990.

To continue modernization in 1989, the Air Force plans to procure 36 F-15E aircraft, six fewer than originally planned for 1989, and 180 F-16 multi-mission fighters.

Improvements in readiness and combat sustainability will also be made at a slower rate than previously planned. Spare parts will be purchased mainly for peacetime flying, with fewer additions to wartime stocks. Aircrew flying hours will be increased over the 1988 level, reflecting support for activities that are first in priority in maintaining high levels of readiness. To enhance air-to-air combat capability and sustainability, the budget provides for procurement of nearly 1,500 advanced medium range air-to-air missiles for the Air Force, compared to 1,750 that were projected last year to be procured in 1989.

*Intelligence and Communications.*—To employ our weapon systems and forces effectively, we must be able to direct them in accordance with national policy and military strategy. Information on friendly, hostile, and potentially hostile forces must be gathered and evaluated to aid decision makers. Decisions and operational orders, in turn, must be communicated to the appropriate forces.

The budget seeks improvements in intelligence and communications by providing for development and modernization of command centers, sensors, computers, satellites, and other data-gathering and communication links. These improvements will be made in five broad mission areas: strategic and non-strategic nuclear force management; theater and tactical force management; world-wide information and communication systems; electronic warfare; and intelligence.

*Airlift and Sealift Forces.*—Our strategy of a forward defense with a limited peacetime presence depends on being able to project military forces rapidly to crisis areas anywhere in the world and to sustain them once deployed. The budget reflects an expansion of airlift capacity through procurement of the new C-17 cargo aircraft, and continuing efforts to improve existing airlift aircraft through modifications. Sealift capabilities will be strengthened by the continued procurement of equipment to make civilian container ships more useful for military purposes.

Stockpiling equipment and materials near potential trouble spots greatly aids the deployment of forces to distant areas. The Army has stockpiled in Europe heavy equipment for four divisions and supporting units, but the acquisition of equipment for two more divisions has been slowed. Equipment to support the rapid deployment of tactical fighter squadrons is also being stockpiled in Europe.

*National Guard and Reserves.*—The Guard and Reserves are an integral part of our national defense, and this budget reflects their importance. Total Selected Reserve strength for 1989 will be

1,172,900, of which 1,101,300 will be paid drill strength and 71,600 will be full-time support personnel. Measures will be adopted to improve readiness and increase unit strength levels, improve training, and modernize equipment. Particular attention will be placed on strengthening combat support and combat service support units in the Army Guard and Reserve. The Guard and Reserves will continue receiving modern weapon systems and equipment such as C-130H and F-16 aircraft, UH-60A helicopters, and M-1 tanks. The Sixth Quadrennial Review of Military Compensation, focused on Reserve compensation, will make its report this spring in time for consideration in developing the 1990 budget.

*Research and Development.*—This category includes funds for all research and development except improvements to systems that are already operational. Weapon systems are developed, tested and evaluated to meet new military requirements. At the same time, a strong research and technology base allows continued investigation into promising new technologies and guards against technological surprise by potential adversaries. As a result of budget reductions, some programs have been cancelled and others delayed. However, the strength of our technology base is being maintained.

Major strategic force development programs include the Trident II submarine-launched missile, the B-2 advanced technology (stealth) bomber, and the advanced cruise missile. The budget requests $4.6 billion for the Strategic Defense Initiative (SDI). This is an increase of $1.1 billion from the level provided by the Congress for 1988, but $1.7 billion less than the 1989 level planned in last year's budget. Additional SDI funding of $0.4 billion is provided in the Department of Energy budget. The budget continues development of a rail garrison basing mode for the Peacekeeper ICBM. Funding requested for the development of the small ICBM has been reduced substantially from the 1988 level, pending further review of the program.

For general purpose forces, development continues on the joint service tilt-rotor aircraft and new fighter and attack aircraft for the Air Force and the Navy. Major efforts on anti-submarine warfare are funded. The Army continues development of advanced anti-tank weapon systems, cannon-fired precision munitions, and ground-based missile and control systems to fulfill its air defense mission.

*Training, Medical, and Other General Personnel Activities.*—These activities include training and medical services for active duty personnel. The budget request continues the improvements to individual training and realistic operational training that simulate actual combat conditions. Efforts to improve the readiness of our medical forces and the provision of peacetime care continue.

*Special Operations Forces.*—A new Special Operations Command was recently established at MacDill Air Force Base, Florida, to strengthen the integration of units specialized in land, sea and air operations. These units include Army Special Forces and Rangers, Navy SEALS, and Air Force special units. Modernization of these forces will continue with procurement of new and specially modified helicopters, transport aircraft, and high-speed boats. Although special operations forces are mainly oriented toward low-intensity conflict, they can be employed across the entire spectrum of military operations—from peacetime operations to conventional and nuclear war.

*Military Personnel and Compensation.*—The military services continue to enjoy unprecedented success in manning our forces with competent and highly motivated volunteers. A key to this success has been a commitment to maintaining attractive levels of military compensation. The budget provides for a pay raise of 4.3 percent effective January 1989, which should roughly match increases in private sector pay. This pay raise is especially crucial in light of the reduced pay raise enacted in 1988.

*Management Initiatives.*—Over the past 7 years, the Department of Defense (DOD) has made major improvements in the way it does business. Continued improvements have become increasingly important in light of recent budget reductions. For 1989, major goals of the department's management improvement program include simplifying and improving the acquisition process, strengthening the financial management system by consolidating financial management data within each military department and the defense agencies, and accelerating the Department's efforts to improve productivity.

Competition will be encouraged in order to keep costs down, quality up and the industrial base strong. Multiyear procurement will be emphasized to improve program stability. Commercially available products will be used instead of custom-made items wherever possible and an information system will be established to gather and maintain data on DOD's use of commercial products. The administration will propose legislation to streamline commercial products acquisition procedures, as well as to simplify the basic procurement statutes. The administration will also develop a policy on contractors' rights to technical data developed under Government contracts. DOD plans to continue improving its cash management programs.

As required by Executive Order 12615, the Department will accelerate its program of contracting-out some of its commercially available activities. The Order requires studies covering 25,000 full-time-equivalent positions (FTE) in 1988. For 1989 and beyond, DOD will conduct studies covering no less than 3 percent of its civilian

**SUMMARY OF ACTIVE MILITARY PERSONNEL AND FORCES**

(Year end—i.e., as of September 30)

| | 1987 actual | Estimate | |
|---|---|---|---|
| | | 1988 | 1989 |
| **Military personnel (in thousands):** | | | |
| End strength: | | | |
| Army | 781 | 772 | 772 |
| Navy | 587 | 593 | 593 |
| Marine Corps | 200 | 197 | 197 |
| Air Force | 607 | 576 | 576 |
| **Total, Department of Defense** | **2,174** | **2,138** | **2,138** |
| Average strength: | | | |
| Army | 777 | 770 | 764 |
| Navy | 582 | 584 | 592 |
| Marine Corps | 199 | 198 | 197 |
| Air Force | 609 | 594 | 579 |
| **Total, Department of Defense** | **2,167** | **2,145** | **2,132** |
| **Strategic forces:** | | | |
| Intercontinental ballistic missiles: | | | |
| Peacekeeper | 27 | 46 | 50 |
| Minuteman | 973 | 954 | 950 |
| Poseidon-Trident | 640 | 624 | 656 |
| Strategic bomber squadrons | 23 | *25 | * 25 |
| **General purpose forces:** | | | |
| Land forces: | | | |
| Army divisions | 18 | 18 | 18 |
| Marine Corps divisions | 3 | 3 | 3 |
| Tactical air forces: | | | |
| Air Force wing equivalents | 25.2 | 25.5 | 24.5 |
| Navy attack wings | 14 | 13 | 13 |
| Marine Corps wings | 3 | 3 | 3 |
| Naval Forces: | | | |
| Attack and multipurpose carriers | 14 | 14 | 14 |
| Battleships | 3 | 3 | 4 |
| Nuclear attack submarines | 97 | 96 | 99 |
| Other warships | 214 | 204 | 200 |
| Amphibious assault ships | 61 | 62 | 65 |
| **Airlift and sealift forces:** | | | |
| C-5 airlift squadrons | 4 | 4 | 4 |
| Other airlift squadrons | 13 | 13 | 13 |
| Sealift fleet | 61 | 61 | 61 |

*Includes 4 B-52G squadrons that will be reassigned to conventional forces.

employment annually until all identified potential commercial activities have been studied. Also, a test of contracting out commissary store operations will begin in 1988. When the results of that test have been assessed, the Department will conduct a test to examine the feasibility of contracting out the operation of military exchanges.

This budget also reflects expected combined savings of $310 million annually from enactment of pending legislation to raise to $1

million the dollar threshold for defense contracts covered by Davis-Bacon and related acts and the Service Contract Act.

*Atomic Energy Defense Activities.*—These activities, conducted by the Department of Energy, include research, development, testing, and production of nuclear weapons; production of special nuclear materials; storage of nuclear wastes from defense programs; and design of reactors for nuclear-powered Navy vessels.

The accompanying table shows the funding levels for these programs. In total, budget authority of $8.1 billion is requested for 1989, compared to $7.7 billion for 1988. Outlays are estimated to increase from $7.6 billion in 1988 to $7.9 billion in 1989.

**ATOMIC ENERGY DEFENSE ACTIVITIES**

(Functional code 053; in millions of dollars)

| Major missions and programs | 1987 actual | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| Weapons research, development, test and production | 4,180 | 4,208 | 4,243 | 4,390 | 4,521 |
| Weapons materials, production, and waste management | 2,531 | 2,704 | 2,972 | 3,074 | 3,166 |
| Naval reactor development | 575 | 607 | 630 | 652 | 671 |
| Other research programs | 192 | 230 | 255 | 264 | 272 |
| **Total, budget authority** | **7,478** | **7,749** | **8,100** | **8,380** | **8,630** |
| **OUTLAYS** | | | | | |
| Weapons research, development, test and production | 4,165 | 4,144 | 4,162 | 4,320 | 4,460 |
| Weapons materials, production and waste management | 2,522 | 2,663 | 2,915 | 3,025 | 3,123 |
| Naval reactor development | 573 | 598 | 618 | 642 | 662 |
| Other research programs | 191 | 226 | 250 | 259 | 268 |
| **Total, outlays** | **7,451** | **7,631** | **7,945** | **8,246** | **8,513** |

The nuclear weapons program involves the design, testing, and production of nuclear warheads for the nuclear weapons stockpile, including quality control and periodic inspection of the finished devices. Budget authority proposed for 1989 would provide for continuing missile warhead production for current and new weapon systems, and for production of special nuclear materials for use in these warheads.

The defense nuclear waste management program provides interim storage for all defense nuclear wastes. The program also supports research and development activities for the isolation and permanent storage of these wastes. Pursuant to the stipulated agreement of 1982 between the Department of Energy and the State of New Mexico, the Department will provide funds from this function for the improvement of roads relating to the Waste Isolation Pilot Plan (WIPP).

The naval reactor development program includes the research and development, design, procurement, and testing of prototype reactors for current and future nuclear-powered naval vessels.

Other atomic energy defense and research and development programs cover security at defense nuclear facilities, security investigations, and arms control and verification technology development.

***Defense-Related Activitives.***—Activities of departments and agencies that support national defense include emergency preparedness programs, management of the Ready Reserve Force, the Selective Service System, and assistance for the Nicaraguan democratic resistance.

The Federal Emergency Management Agency conducts civil defense and other preparedness programs. Budget authority of $160 million is proposed for 1989 for civil defense programs in order to improve State and local preparedness to cope with emergencies. Total outlays for all defense-related activities of this agency are estimated at $325 million in 1989.

**CREDIT PROGRAMS—NATIONAL DEFENSE**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Navy industrial fund: | | | | | |
| Change in outstandings | 40 | −29 | −38 | −48 | −48 |
| Outstandings | 1,788 | 1,759 | 1,721 | 1,672 | 1,624 |
| Defense stock fund: | | | | | |
| Change in outstandings | −1 | ..... | ..... | ..... | ..... |
| Defense production guarantees: | | | | | |
| Change in outstandings | −10 | ..... | ..... | ..... | ..... |
| Total, direct loans: | | | | | |
| Change in outstandings | 29 | −29 | −38 | −48 | −48 |
| Outstandings | 1,788 | 1,759 | 1,721 | 1,672 | 1,624 |

To meet defense and essential civilian requirements for strategic and critical materials in the event of a national emergency, a stockpile of such materials is maintained. In 1988, the President designated the Secretary of Defense stockpile manager, consolidating responsibility for stockpile policy, budgeting, and administration. Legislation will be proposed to authorize the disposal of $180 million of surplus material stocks and the acquisition and upgrading of $90 million worth of materials in 1989. These amounts are included in the Department of Defense-Military.

The Maritime Administration (MarAd) maintains the Ready Reserve Force (RRF), a group of inactive commercial vessels that can be used to support military contingency operations. This group of cargo ships is to be ready to carry military unit equipment within five to ten days of notification. Through 1988, MarAd had program

responsibility, while the Navy budgeted for most costs including acquiring additional ships and providing maintenance. In 1989, funding and program management responsibility will be consolidated in MarAd. Although in 1989 funding will remain in the national defense function, the administration will consult with Congress about transferring funding to the transportation function in future budgets.

The Selective Service System maintains a high level of readiness to meet defense manpower requirements in case of a national emergency. Activities in support of this objective include national and regional operational planning, maintenance of automated registration information on eligible inductees, and training of Reserve officers and local and appeal board members necessary to set up local offices. The agency will begin planning for the development of a post-mobilization system for the registration and classification of health care personnel. Estimated outlays for 1988 and 1989 are $26 million a year.

By law, funds appropriated or transferred to the President to support the Nicaraguan democratic resistance to advance democracy in Nicaragua and security for all of Central America are administered by the Secretary of State. Additional assistance for the Resistance will be requested in 1988 and 1989 as required to achieve U.S. foreign policy objectives.

***Tax Expenditures.***—The housing and meals provided military personnel, either in cash or in-kind, are excluded from taxable income, which results in a tax expenditure estimated at $2.2 billion in 1989.

# INTERNATIONAL AFFAIRS

The Federal Government bears the primary responsibility for protecting and advancing the interests of the United States and its people in international affairs. The funds for international affairs proposed in this budget are necessary to carry out that responsibility.

The Bipartisan Budget Agreement set ceilings for discretionary programs; i.e., those that are appropriated annually and are not mandated by permanent legislation. Budget authority in 1989 for discretionary programs is $18.1 billion, the same as the ceiling in the Bipartisan Budget Agreement. Outlays are $15.6 billion, or $0.5 billion below the ceiling. This is because the administration has allocated the 2 percent increase allowed by the Bipartisan Budget Agreement to programs with low outlays in the year in which funds are appropriated.

For all international affairs programs in 1989, $16.5 billion in budget authority is requested and outlays of $13.3 billion are estimated. These amounts are lower than the discretionary totals primarily because non-discretionary programs include large amounts of receipts. For 1989, new direct loan obligations for international affairs are proposed to be $5.9 billion, and new guaranteed loan commitments are proposed to be $12.9 billion.

***Foreign Aid.***—Two budget subfunctions—international security assistance and international development and humanitarian assistance—comprise foreign aid.

***International Security Assistance.***—Security assistance programs are vital to the exercise of national security and foreign policy and serve to strengthen allied and friendly governments where the United States has special security concerns. These programs make it possible for other governments to strengthen their economies and to acquire and use the U.S. military equipment necessary for their defense. Security assistance also helps ensure U.S. access to military bases and facilities overseas. Because of the importance of national security objectives, but in keeping with current budget requirements, 1989 budget authority of $9.0 billion is proposed. Outlays are estimated to be $6.0 billion in 1989.

*Foreign Military Sales Credit.*—This program provides financing for foreign governments to purchase U.S. military equipment, training, and design and construction services for their security needs. The program proposed for 1989 consists of only forgiven loans. For 1989, budget authority of $4.6 billion is requested and net outlays of $1.2 billion are estimated, including credit reform.

This year the budget also reflects the estimated impact of a new foreign military sales (FMS) debt reform program for existing FMS

credit loans. Under this program, FMS credit debtor countries have the option of refinancing their loans through commercial financial institutions. This would reduce the interest rate for allies and friendly developing countries whose FMS loans are at interest rates that are now above market rates. Loan repayments under this refinancing arrangement are credited to the program, lowering net outlays.

*Military Assistance.*—This program provides the same types of articles and services as the foreign military sales credit program. For 1989, budget authority of $0.5 billion is requested. Outlays are estimated to be $0.6 billion.

*Economic Support Fund.*—This account finances programs in over 40 countries; the largest portion goes to countries where there are special political and security concerns. Grants provide general budget and balance of payments support to friendly governments and finance individual development projects where doing so enhances our ability to achieve important national security objectives. Aid to Egypt and Israel accounts for approximately two-thirds of the program. The proposed budget authority for 1989 is $3.3 billion. Outlays are estimated to be $3.5 billion.

*Other.*—The budget authority requested in 1989 for security assistance includes $32 million for peacekeeping operations, $52 million for international military education and training, and $10 million for anti-terrorism assistance.

***International Development and Humanitarian Assistance.***—An important complement to security assistance are international development and humanitarian assistance programs. These programs are designed to encourage the expansion of a market-oriented international economic system and to help meet the development and humanitarian needs of developing countries. Budget authority requested for 1989 is $4.7 billion. Outlays for 1989 are estimated at $4.6 billion.

*Multilateral Development Banks (MDBs).*—The United States contributes to the World Bank group of institutions and regional banks for Latin America, Asia, and Africa. These institutions provided more than $23.5 billion in long-term loans and technical assistance in 1986 and promoted sound economic policies in recipient countries. Lending programs are funded through the direct contributions of members and through borrowing in world capital markets, backed by guaranteed repayment of that borrowing by member governments. Both are provided in accord with multiyear international agreements to replenish the resources of each bank.

To support international commitments to the MDBs, budget authority of $1.3 billion is requested for 1989. Nearly three-fourths of the proposed budget authority will be used to meet existing pledges to the International Development Association, which lends to the

## NATIONAL NEED: CONDUCTING INTERNATIONAL RELATIONS

(Functional code 150; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Foreign aid:** | | | | | |
| **International security assistance:** | | | | | |
| Foreign military sales credit: | | | | | |
| Existing law | 4,053 | 4,017 | 4,460 | 4,540 | 4,615 |
| Proposed credit reform | ..... | ..... | 155 | 219 | ..... |
| Military assistance | 950 | 701 | 467 | 475 | 483 |
| Economic support fund | 3,576 | 3,201 | 3,281 | 3,340 | 3,395 |
| Guarantee reserve fund | ..... | 532 | 643 | 40 | ..... |
| Other | 98 | 89 | 94 | 96 | 97 |
| Offsetting receipts | −464 | −114 | −132 | −191 | −298 |
| Subtotal, International security assistance | 8,213 | 8,425 | 8,968 | 8,520 | 8,293 |
| **International development and humanitarian assistance:** | | | | | |
| Multilateral development banks | 1,207 | 1,206 | 1,324 | 1,805 | 1,400 |
| International organizations | 237 | 245 | 200 | 204 | 207 |
| Agency for International Development: | | | | | |
| Existing law | 2,162 | 2,240 | 2,169 | 2,215 | 2,244 |
| Proposed credit reform | ..... | ..... | 16 | 17 | 18 |
| P.L. 480 food aid: | | | | | |
| Existing law | 1,083 | 1,060 | 1,023 | 1,094 | 1,050 |
| Proposed credit reform | ..... | ..... | −214 | −205 | −197 |
| Refugee assistance | 361 | 338 | 340 | 313 | 307 |
| Other: | | | | | |
| Existing law | 300 | 292 | 296 | 305 | 314 |
| Proposed credit reform | ..... | ..... | 25 | 26 | 28 |
| Offsetting receipts | −449 | −479 | −458 | −479 | −492 |
| Subtotal, International development and humanitarian assistance | 4,902 | 4,901 | 4,722 | 5,295 | 4,878 |
| **Subtotal, Foreign aid** | 13,114 | 13,326 | 13,690 | 13,815 | 13,171 |
| **Conduct of foreign affairs:** | | | | | |
| Administration of foreign affairs: | | | | | |
| Existing law | 2,091 | 2,039 | 2,071 | 2,380 | 2,421 |
| Proposed credit reform | ..... | ..... | −* | −* | −* |
| International organizations and conferences | 420 | 515 | 525 | 543 | 560 |
| Other | 80 | 91 | 89 | 91 | 91 |
| Subtotal, Conduct of foreign affairs | 2,591 | 2,645 | 2,685 | 3,014 | 3,072 |
| **Foreign information and exchange activities** | 1,022 | 1,041 | 1,110 | 1,371 | 1,108 |
| **International financial programs:** | | | | | |
| Foreign military sales trust fund (net) | 811 | −791 | −1,214 | −751 | −761 |
| Export-Import Bank: | | | | | |
| Existing law | 78 | 110 | ..... | ..... | ..... |
| Proposed credit reform | ..... | ..... | 336 | 317 | 294 |
| Other | 1,196 | ..... | ..... | ..... | ..... |
| Offsetting receipts | −89 | −90 | −92 | −94 | −96 |
| Subtotal, International financial programs | 1,997 | −771 | −970 | −528 | −563 |
| **Total, budget authority** | **18,724** | **16,241** | **16,515** | **17,673** | **16,789** |

*$500 thousand or less.

## NATIONAL NEED: CONDUCTING INTERNATIONAL RELATIONS

(Functional code 150; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Foreign aid:** | | | | | |
| **International security assistance:** | | | | | |
| Foreign military sales credit: | | | | | |
| Existing law | 3,758 | −2,264 | 1,091 | 724 | 4,371 |
| Proposed credit reform | ..... | ..... | 155 | 219 | ..... |
| Military assistance | 356 | 633 | 624 | 578 | 506 |
| Economic support fund | 3,466 | 3,362 | 3,459 | 3,469 | 3,508 |
| Guarantee reserve fund | −117 | 723 | 701 | 40 | ..... |
| Other | 108 | 89 | 93 | 90 | 94 |
| Offsetting receipts | −464 | −114 | −132 | −191 | −298 |
| Subtotal, International security assistance | 7,106 | 2,428 | 5,991 | 4,931 | 8,181 |
| **International development and humanitarian assistance:** | | | | | |
| Multilateral development banks | 1,043 | 1,248 | 1,298 | 1,397 | 1,431 |
| International organizations | 263 | 257 | 239 | 229 | 226 |
| Agency for International Development: | | | | | |
| Existing law | 2,012 | 2,056 | 2,126 | 2,229 | 2,162 |
| Proposed credit reform | ..... | ..... | * | 1 | 1 |
| P.L. 480 food aid: | | | | | |
| Existing law | 970 | 1,155 | 1,082 | 1,091 | 1,048 |
| Proposed credit reform | ..... | ..... | −194 | −204 | −197 |
| Refugee assistance | 341 | 335 | 336 | 322 | 310 |
| Other: | | | | | |
| Existing law | 139 | 173 | 186 | 196 | 200 |
| Proposed credit reform | ..... | ..... | 3 | 8 | 9 |
| Offsetting receipts | −449 | −479 | −458 | −479 | −492 |
| Subtotal, International development and humanitarian assistance | 4,319 | 4,744 | 4,618 | 4,790 | 4,699 |
| **Subtotal, Foreign aid** | 11,425 | 7,173 | 10,609 | 9,721 | 12,880 |
| **Conduct of foreign affairs:** | | | | | |
| Administration of foreign affairs: | | | | | |
| Existing law | 1,793 | 2,037 | 2,156 | 2,197 | 2,227 |
| Proposed credit reform | ..... | ..... | −* | −* | −* |
| International organizations and conferences | 360 | 565 | 523 | 542 | 559 |
| Other | 65 | 97 | 90 | 91 | 91 |
| Subtotal, Conduct of foreign affairs | 2,218 | 2,699 | 2,769 | 2,829 | 2,877 |
| **Foreign information and exchange activities** | 990 | 1,119 | 1,115 | 1,221 | 1,219 |
| **International financial programs:** | | | | | |
| Foreign military sales trust fund (net) | 1,407 | 155 | 142 | 98 | −44 |
| Buffer stocks | 3 | ..... | ..... | ..... | ..... |
| Export-Import Bank: | | | | | |
| Existing law | −2,300 | −985 | −1,084 | −565 | −829 |
| Proposed credit reform | ..... | ..... | 81 | 79 | 9 |
| Other | −2,006 | −145 | −206 | −160 | −110 |
| Offsetting receipts | −89 | −90 | −92 | −94 | −96 |
| Subtotal, International financial programs | −2,985 | −1,065 | −1,160 | −642 | −1,070 |
| **Total, outlays** | **11,649** | **9,926** | **13,334** | **13,129** | **15,905** |

*$500 thousand or less.

poorest countries on concessional terms. The administration is also proposing to provide funding for the general capital increase of the World Bank's International Bank for Reconstruction and Development. The remaining funds will be used to make authorized annual payments to the other multilateral banks.

The 1989 budget provides currently scheduled annual payments to the MDBs. However, $405 million remains outstanding on prior pledges that could not be accommodated in the budget due to the ceiling in the 2-year Bipartisan Budget Agreement. The administration intends to request funding for the full amount of these arrearages in the 1990 budget, consistent with its international obligations.

*International Organizations.*—Voluntary contributions of $200 million in budget authority are proposed for 1989 for several developmental, humanitarian and scientific programs carried out by the United Nations and other international organizations—$45 million less than the 1988 level. The administration believes that, useful as some of these programs may be, a higher priority must be afforded other foreign assistance activities accomplishing the same objectives.

*Agency for International Development (AID).*—AID carries out bilateral development assistance programs in more than 60 countries in Latin America, Africa, and Asia. The agency also supports the overseas humanitarian relief and development programs of U.S. private and voluntary organizations and assists development-related research activities in U.S. universities. Proposed budget authority for AID programs for 1989 is $2.2 billion, about 3 percent below 1988. Principal objectives of bilateral development programs include meeting the basic human needs of aid recipients, supporting sound economic policies in recipient countries, using the private sector as a vehicle for economic growth, improving the capability of indigenous institutions in developing countries, and increasing the use of science and technology in development.

*Public Law 480 Food Aid.*—This program provides U.S. agricultural commodities to foreign governments under either long term (up to 40 years) low interest rate (2 to 3 percent) loans or grants. Food aid commodities are limited to those declared by the Secretary of Agriculture as available, if excess to normal domestic and commercial export needs.

The U.S. agricultural sector benefits when these available commodities are exported in a manner that does not displace commercial exports. The food aid program serves U.S. objectives in promoting international security, agricultural export market development, and economic development. Recipients of these loans benefit by saving their scarce foreign exchange to import non-food goods and services beneficial to economic development.

Under the Title II grant program, food aid is targeted by foreign governments and private and voluntary organizations, as well as international organizations, mainly to needy children, pregnant women, and refugees. Title II also constitutes the U.S. Government's primary response mechanism to emergency food needs in Africa, Asia, and Latin America.

The budget includes a total program level of $1.4 billion, with a request of $809 million in 1989 budget authority for the P.L. 480 food aid program. This will allow for a program level of $812 million under Title I (concessional loans) and $595 million under Title II (grant assistance), after incorporating receipts from repayment of prior loans.

*Refugee Assistance.*—Budget authority of $340 million is proposed in 1989 for assistance to refugees abroad, primarily in Africa, the Near East, Pakistan, and Southeast Asia, and for the admission of up to 68,500 refugees to the United States. Together with the continuing needs of existing refugee populations, this admissions level will cover the potential major inflow of Armenians and Soviet Jews into the United States. This budget request continues United States leadership in international humanitarian programs to assist refugees. Additional funding for refugee assistance in the United States is discussed in the income security function.

***Conduct of Foreign Affairs.***—Funds for this group of programs cover primarily the operating costs of the Department of State in carrying out diplomatic and consular activities with foreign governments and international organizations. Contributions assessed by international organizations of which the United States is a member are also included here. For 1989, $2.7 billion of budget authority is requested, and $2.8 billion in outlays are estimated.

*Administration of Foreign Affairs.*—To promote United States interests abroad, diplomatic and consular relations are maintained with foreign governments at 262 posts throughout the world. The overall request for 1989 budget authority is $2.1 billion, with estimated outlays of $2.2 billion. The administration's 1989 request for State Department operations reflects the need for budget restraint. This "hold the line" request maintains ongoing activities and emphasizes the need for efficiencies in departmental operations. Increased funding will be sought for only the highest priority requirements, such as a new Foreign Service Institute facility in Arlington, Virginia. This tight budget climate has not diminished the administration's commitment to further the interests of the United States abroad and to ensure that those interests may be pursued in a physically and technically secure environment. The diplomatic security program remains a high priority, and requested funding for its operating expenses will permit the continuation of high priority perimeter security programs, countermeasures and office

equipment protection programs, and foreign national replacement in Eastern Bloc countries. The administration is not requesting funds for new diplomatic security construction projects, preferring to focus on projects currently underway.

*International Organizations and Conferences.*—Budget authority of $525 million in 1989 is proposed for assessed contributions to international organizations, international peacekeeping activities in the Middle East, and participation in international conferences. This amount, the maximum feasible under the Bipartisan Budget Agreement, is less than the total assessments on the United States from these organizations; as a result, arrearages to them will increase further. The United States remains committed to effective participation in international organizations in pursuit of important U.S. interests. The United States will continue to press for implementation of the administrative and program budget reforms required to rebuild confidence in the operational effectiveness and policy relevance of these organizations. The administration intends no downgrading of the importance of multilateral activities and will consult with both the Congress and other countries regarding ways to address the arrearage problem.

***Foreign Information and Exchange Activities.***—An important objective of this administration is to increase international understanding of American society and foreign policy. The United States Information Agency (USIA) seeks to do so through personal contacts, academic and leadership exchanges, WORLDNET satellite television broadcasting, Voice of America (VOA) radio broadcasting, distribution of books and periodicals, English language teaching, and the operation of libraries and cultural centers in 127 countries. For 1989, the administration proposes $881 million in budget authority for USIA, an increase of $61 million from 1988. The VOA multiyear modernization program includes funds for two major new transmitter facilities. The 1989 request of $65 million in budget authority for radio construction maintains strong administration support for VOA modernization—which received no new funding in 1988—while modifying the previous plans to focus on establishing new relay facilities in Morocco and Thailand. The Television and Film Service funding request is increased over the 1988 level in order to complete the global satellite television broadcasting infrastructure for the WORLDNET television service. These two program areas account for most of the funding increases for USIA in 1989.

The Board for International Broadcasting provides grants to Radio Free Europe/Radio Liberty, Inc. (RFE/RL), which broadcasts in 22 languages to Eastern Europe and the Soviet Union. For 1989, $227 million of budget authority is requested for the Board. This includes $35 million for continuing construction of a transmitter in

Israel, to be used by both RFE/RL and the Voice of America. An operating budget increase is proposed to offset the decline in value of the dollar against the three foreign currencies that RFE/RL uses to pay for the bulk of its activities.

***International Financial Programs.***—To assist in the steady growth of the international economy, the United States conducts programs to improve the international financial system and to facilitate U.S. participation in world trade, including arms sales. For 1989, total net outlays are estimated to be −$1.2 billion, because Export-Import Bank loan repayments are expected to exceed new loan commitments, and Export-Import Bank loans will continue to be prepaid.

**CREDIT PROGRAMS—INTERNATIONAL AFFAIRS**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Foreign military sales credit: | | | | | |
| New obligations | 4,053 | 4,049 | 4,460 | 4,540 | 4,615 |
| Change in outstandings | 1,066 | −5,070 | −1,571 | −1,966 | 1,573 |
| Outstandings | 24,935 | 19,865 | 18,293 | 16,327 | 17,900 |
| Economic support fund: | | | | | |
| New obligations | 109 | 25 | ..... | ..... | ..... |
| Change in outstandings | 5 | −43 | −73 | −78 | −81 |
| Outstandings | 6,310 | 6,267 | 6,194 | 6,116 | 6,035 |
| Development credit: | | | | | |
| New obligations | 124 | 65 | ..... | ..... | ..... |
| Change in outstandings | −35 | −66 | −88 | −134 | −111 |
| Outstandings | 12,072 | 12,006 | 11,918 | 11,784 | 11,672 |
| OPIC subsidies: | | | | | |
| New obligations | ..... | ..... | 17 | 18 | 18 |
| Change in outstandings | ..... | ..... | 1 | 7 | 11 |
| Outstandings | ..... | ..... | 1 | 8 | 19 |
| Overseas Private Investment Corporation: | | | | | |
| New obligations | 23 | 23 | ..... | ..... | ..... |
| Change in outstandings | 8 | 4 | 2 | −1 | −6 |
| Outstandings | 49 | 53 | 56 | 54 | 48 |
| AID private sector loan subsidies: | | | | | |
| New obligations | ..... | ..... | 5 | 5 | 5 |
| Change in outstandings | ..... | ..... | ..... | 1 | 2 |
| Outstandings | ..... | ..... | ..... | 1 | 4 |
| AID private sector revolving fund: | | | | | |
| New obligations | 15 | 12 | ..... | ..... | ..... |
| Change in outstandings | 6 | 7 | 8 | 4 | −1 |
| Outstandings | 17 | 24 | 32 | 36 | 35 |
| AID housing & other guarantee programs: | | | | | |
| Change in outstandings | 23 | 19 | 20 | 26 | 21 |
| Outstandings | 92 | 112 | 132 | 158 | 179 |
| Public Law 480 food aid: | | | | | |
| New obligations | 804 | 777 | 739 | 752 | 764 |
| Change in outstandings | 597 | 543 | 499 | 607 | 556 |
| Outstandings | 11,219 | 11,762 | 12,261 | 12,868 | 13,424 |
| Export-Import Bank: | | | | | |
| New obligations | 677 | 693 | ..... | ..... | ..... |
| Change in outstandings | −3,149 | −1,552 | −1,471 | −960 | −1,148 |
| Outstandings | 11,202 | 9,649 | 8,178 | 7,218 | 6,070 |
| Export-Import Bank subsidies: | | | | | |
| New obligations | ..... | ..... | 705 | 718 | 730 |

**CREDIT PROGRAMS—INTERNATIONAL AFFAIRS—Continued**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Change in outstandings | ... | ... | 96 | 218 | 297 |
| Outstandings | ... | ... | 96 | 315 | 612 |
| Other: | | | | | |
| New obligations | 1 | 1 | 1 | 1 | 1 |
| Change in outstandings | −99 | 556 | 643 | 41 | −4 |
| Outstandings | 1,332 | 1,888 | 2,531 | 2,572 | 2,568 |
| Total, direct loans: | | | | | |
| New obligations | 5,806 | 5,645 | 5,927 | 6,034 | 6,133 |
| Change in outstandings | −1,577 | −5,601 | −1,935 | −2,237 | 1,110 |
| Outstandings | 67,229 | 61,627 | 59,693 | 57,456 | 58,566 |
| Guaranteed loans: | | | | | |
| Foreign military sales credit: | | | | | |
| New commitments | ... | 5,153 | 2,300 | 3,266 | ... |
| Change in outstandings | −20 | 5,133 | 2,280 | 2,730 | −562 |
| Outstandings | 140 | 5,273 | 7,553 | 10,283 | 9,721 |
| OPIC subsidies: | | | | | |
| New commitments | ... | ... | 175 | 178 | 181 |
| Change in outstandings | ... | ... | 11 | 68 | 92 |
| Outstandings | ... | ... | 11 | 80 | 171 |
| Overseas Private Investment Corporation: | | | | | |
| New commitments | 200 | 200 | ... | ... | ... |
| Change in outstandings | 40 | 30 | 19 | −23 | −60 |
| Outstandings | 308 | 338 | 357 | 333 | 273 |
| AID private sector loan subsidies: | | | | | |
| New commitments | ... | ... | 100 | 100 | 100 |
| Change in outstandings | ... | ... | ... | 25 | 50 |
| Outstandings | ... | ... | ... | 25 | 75 |
| AID housing guarantee subsidies: | | | | | |
| New commitments | ... | ... | 100 | 100 | 100 |
| AID housing & other guarantee programs: | | | | | |
| New commitments | 145 | 125 | ... | ... | ... |
| Change in outstandings | 112 | 95 | 112 | 124 | 86 |
| Outstandings | 1,328 | 1,423 | 1,535 | 1,659 | 1,745 |
| Export-Import Bank: | | | | | |
| New commitments | 6,754 | 14,601 | ... | ... | ... |
| Change in outstandings | 294 | −115 | −1,125 | −647 | −554 |
| Outstandings | 5,079 | 4,964 | 3,839 | 3,192 | 2,638 |
| Export-Import Bank subsidies: | | | | | |
| New commitments | ... | ... | 10,200 | 10,384 | 10,555 |
| Change in outstandings | ... | ... | 1,184 | 1,498 | 1,461 |
| Outstandings | ... | ... | 1,184 | 2,682 | 4,143 |
| Total, guaranteed loans: | | | | | |
| New commitments | 7,099 | 20,079 | 12,875 | 14,028 | 10,936 |
| Change in outstandings | 426 | 5,143 | 2,481 | 3,774 | 514 |
| Outstandings | 6,855 | 11,998 | 14,479 | 18,254 | 18,767 |
| **Total, new obligations and new commitments** | **12,905** | **25,724** | **18,802** | **20,062** | **17,069** |

*Export-Import Bank.*—The Export-Import Bank (Eximbank) administers direct loan, guarantee and insurance programs to promote U.S. export sales. The direct loan program offers loans generally below market rates, consistent with an international agreement that reduces, but does not yet completely eliminate, interest rate subsidies. The administration proposes that Eximbank's direct

loan program be $705 million in 1989, a 2 percent increase over the 1988 enacted level.

In 1989, as part of an overall Federal credit reform proposal discussed in Part 6b of this volume, the administration is proposing to appropriate the subsidies associated with Eximbank's direct loan and guarantee programs to reflect more accurately the cost to the U.S. economy of these programs. Loan prepayments of $525 million in 1989 are anticipated.

Puratant to the September 1987 OMB/Eximbank report to Congress titled "Report on Government Involvement in Export Credit Insurance," Eximbank and OMB will continue to examine the benefits of alternative delivery mechanisms for insurance provided through the Foreign Credit Insurance Association (FCIA). The study will also explore the current operating arrangement, in which the FCIA operates as an agent of Eximbank, in light of the withdrawal of meaningful private sector participation in FCIA.

***Tax Expenditures.***—In an effort to encourage exports, a portion of the profits from the export sales of foreign sales corporations (FSCs) is not taxed. Also, Americans working abroad are permitted to exclude substantial amounts of earned income and housing allowances from taxation. Tax expenditures resulting from FSCs and the foreign earned-income exclusion are an estimated $0.6 billion and $1.8 billion, respectively, for 1989. Additional estimated tax expenditures of $4.4 billion, $95 million, and $155 million result from the source rules exception for inventory property sales, the interest allocation rules exception for certain nonfinancial institutions, and the deferral of income tax on the undistributed earnings of foreign corporations controlled by U.S. shareholders. Total tax expenditures for international affairs are estimated to be $7.1 billion in 1989.

# GENERAL SCIENCE, SPACE, AND TECHNOLOGY

The programs in this function help to ensure U.S. strength and leadership in science and space technology. All the programs of the National Science Foundation, the space programs of the National Aeronautics and Space Administration, and the general science programs of the Department of Energy are included in this function. Continued support for these programs in the budget reflects the administration's view that the ability of the Nation to meet global competition, provide for national security, and improve the quality of life for all citizens depends in part upon national investments in science and technology.

Proposed budget authority for these programs is $13.9 billion in 1989, an increase of $3.1 billion or 29 percent above the 1988 level. Outlays for programs in this function are estimated to reach $13.1 billion in 1989, an increase of 20 percent or $2.2 billion over 1988.

The budget would increase funding for general science programs, and strengthen a vigorous and balanced space program. Even in a time of fiscal restraint, the increased budget authority proposed for these programs represents a necessary investment in the Nation's future because of the important contribution such programs make to long-range economic growth and the competitiveness of the U.S. economy.

The programs in this function all support basic research, and account for well over one-third of total Federal funding for such research. These programs are of particular importance to the Nation because they, along with research programs of the Department of Defense (DOD), constitute the predominant Federal sources of funding for basic research in the physical and engineering sciences.

The major initiatives proposed in the 1989 budget include:

- a 19 percent increase for the National Science Foundation, including full funding for the Science and Technology Centers program, as well as a continued commitment to double the support for academic basic research through NSF by 1993;
- an increase of nearly 50 percent in the general science programs of the Department of Energy, including funds to initiate construction of the Superconducting Super Collider (SSC); and
- a nearly 30 percent increase for the space research and technology programs of the National Aeronautics and Space Administration, including a doubling of support for the development of the space station to nearly $1 billion, and the initiation of a major new technology program, Pathfinder.

***General Science and Basic Research.***—This area covers all the programs of the National Science Foundation (NSF), as well as the

**NATIONAL NEED: INCREASING BASIC SCIENTIFIC KNOWLEDGE AND USE OF SPACE**

(Functional code 250; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **General science and basic research:** | | | | | |
| National Science Foundation programs | 1,639 | 1,733 | 2,066 | 2,149 | 2,414 |
| Department of Energy general science programs | 702 | 804 | 1,197 | 1,617 | 1,500 |
| Subtotal, General science and basic research | 2,340 | 2,537 | 3,263 | 3,766 | 3,914 |
| **Space research and technology:** | | | | | |
| Space flight | 6,864 | 4,683 | 6,359 | 7,918 | 8,551 |
| Space science, applications, and technology | 2,297 | 2,444 | 2,998 | 3,099 | 3,165 |
| Supporting space activities | 1,037 | 1,077 | 1,259 | 1,419 | 1,394 |
| **Subtotal, Space research and technology** | 10,198 | 8,203 | 10,616 | 12,436 | 13,111 |
| **Total, budget authority** | **12,538** | **10,741** | **13,879** | **16,202** | **17,024** |
| **OUTLAYS** | | | | | |
| **General science and basic research:** | | | | | |
| National Science Foundation programs | 1,562 | 1,673 | 1,818 | 2,033 | 2,276 |
| Department of Energy general science programs | 697 | 795 | 1,104 | 1,349 | 1,372 |
| Subtotal, General science and basic research | 2,260 | 2,468 | 2,922 | 3,382 | 3,648 |
| **Space research and technology:** | | | | | |
| Space flight | 4,137 | 5,180 | 6,350 | 7,345 | 8,660 |
| Space science, applications, and technology | 1,942 | 2,352 | 2,673 | 3,100 | 3,148 |
| Supporting space activities | 878 | 903 | 1,158 | 1,364 | 1,374 |
| **Subtotal, Space research and technology** | 6,957 | 8,435 | 10,181 | 11,809 | 13,181 |
| **Total, outlays** | **9,216** | **10,903** | **13,103** | **15,191** | **16,830** |

general science projects and programs of the Department of Energy (DOE) in high energy and nuclear physics. Budget authority of $3.3 billion is proposed for these programs in 1989, an increase of 29 percent or $0.7 billion over the 1988 level.

*National Science Foundation Programs.*—The principal mission of the NSF is to support basic research in all fields of science and engineering. The NSF's broad-based research programs complement the basic research programs of agencies with specialized missions, such as the National Aeronautics and Space Administration, DOD, and the National Institutes of Health. This approach of funding basic research across several agencies helps ensure balanced Federal support across all scientific disciplines. The 1989 budget includes $2.1 billion in proposed budget authority for the NSF, an increase of 19 percent or $0.3 billion over the 1988 level. Within this amount, the support of basic research would increase from $1.4 billion in 1988 to $1.7 billion in 1989. In addition, the

budget projects a doubling of support for academic basic research through the NSF by 1993.

The NSF supports research at academic institutions through grants to individual scientists. The increased level of basic research support proposed for 1989 would continue to place special emphasis on interdisciplinary research. Basic research among several disciplines often leads to the creation of important new fields of science (e.g., biotechnology). The administration proposes to establish 10 to 15 new fully funded interdisciplinary basic science and technology centers over the next 5 years from a one-time appropriation in 1989. These centers would be modeled after the existing engineering research centers, and would focus on research among scientific disciplines, encouraging substantial participation by industry and the States to speed the transfer of new knowledge from the laboratory to the marketplace.

Research programs that contribute to the development of "human capital" would also be emphasized. Continued U.S. leadership in science and industry depends on the future availability of high-quality scientists and engineers. Academic basic research is a primary means of expanding the U.S. pool of trained scientists and engineers that, over the long term, enhances the ability of the U.S. to compete globally. This emphasis would be reflected in the new basic science and technology centers, discussed above, as well as in a variety of ongoing NSF programs, including the engineering research centers, the advanced scientific computing centers, the graduate fellowship program, and programs to improve student research and to increase funds for scientific equipment at undergraduate institutions.

Increased support is also requested for NSF programs aimed at improving the quality of pre-college science and math education. These programs are intended to complement the efforts of State and local education agencies and the private sector.

In addition, continued support is requested for the U.S. Antarctic program, managed by the NSF. Through this science program, the U.S. maintains an active and influential presence in that region.

*Department of Energy General Science Programs.*—The general science programs of the DOE support basic research in nuclear and high energy physics, and support the construction and operation of facilities required to carry out this research. The goal of the research is to achieve a comprehensive understanding of the basic components of matter and energy and the forces that govern their interaction. Budget authority of $1.2 billion is requested for support of these programs in 1989, an increase of $0.4 billion or 49 percent over the 1988 level.

The proposed budget would continue funding for research carried out at the nuclear and particle physics accelerators supported by

DOE. It would also continue funding for advanced accelerator and detector research and development related to the next generation of high energy particle accelerators.

The administration requests funding of $0.4 billion for the initiation of construction of the Superconducting Super Collider (SSC). The SSC will be the world's most powerful proton-proton collider, producing particle collisions with total energies approaching 40 trillion electron volts, an energy twenty times the highest energies available in the world today. The budget projections assume substantial cost sharing by the host State and other nations, beginning in 1991.

The budget also proposes establishment of a separate new account that would support the construction, operation, and maintenance of the DOE's basic research user facilities. General science facilities funded through this account would include Fermilab, the Stanford Linear Accelerator Center, the Brookhaven National Laboratory, the Continuous Electron Beam Accelerator Facility (CEBAF), and the new Superconducting Super Collider project, discussed above. A separate appropriation account would facilitate the budgeting process and help ensure the funding levels necessary for effective operation of these unique national facilities.

***Space Research and Technology.***—This part of the function covers the space-related activities of the National Aeronautics and Space Administration (NASA). The proposed budget would continue a vigorous and balanced program in the primary areas of space flight, space science, and space technology. These activities ensure U.S. preeminence in areas critical to achieving the Nation's goals in space. Budget authority of $10.6 billion is proposed for these programs in 1989, compared to $8.2 billion in 1988, an increase of about 29 percent. Outlays are estimated to increase 21 percent, from $8.4 billion in 1988 to $10.2 billion in 1989. The proposed increase in budget authority would provide for continued development of the space station, increases in shuttle recovery activities, compensation for loss of previously planned reimbursements for the use of the shuttle, and procurement of additional expendable launch vehicle services for scientific and other missions. Additional requested increases are for program enhancements such as the advanced solid rocket motor, new activities such as Pathfinder, a program supporting the long-range goal of expanding human presence and activity beyond low earth orbit into the solar system, and initiation of a new science mission.

*Space Flight.*—U.S. preeminence in critical areas of manned space flight is ensured through programs to improve the space shuttle and to develop, deploy, and use the space station. Commitment to the use of commercial goods and services, and private sector investment and involvement in the space station, encourage

greater commercial use of space. Budget authority of $6.4 billion is proposed for these programs in 1989, compared to $4.7 billion in 1988, an increase of about 36 percent. Outlays are estimated to be $6.4 billion in 1989, 22 percent or $1.2 billion over the 1988 level.

The administration continues to place high priority on returning the space shuttle safely to flight. The proposed budget calls for the continuation of modifications and redesigns identified by post-Challenger accident reviews, particularly the solid rocket motor. The recommendations of the Rogers Commission would continue to be implemented in order to enhance the safe and effective operation of the shuttle fleet. The orbiter logistics program would continue to provide hardware to support the flight rate when flights resume. Proposed funding for operations would support training, mission planning, hardware and payload processing, and other preparations for flights planned in 1989 and 1990. Work on the replacement orbiter would continue, with delivery scheduled for 1991. A new advanced solid rocket motor would be initiated in 1989 to improve the safety, reliability, and performance of the shuttle fleet. The first delivery of the new motor is planned for 1993. Requested funding would also allow for the initiation of an improvement to the shuttle for extending the stay time in orbit. Use of domestic commercial launch services would be increased for small, medium, and large classes of expendable vehicles. The advanced launch system, a joint program of NASA and DOD, would explore new approaches to meet national space transportation needs.

For the manned space station program, the administration is requesting an increase in budget authority from $0.4 billion in 1988 to $1.0 billion in 1989, and a three-year advance appropriation commitment from Congress for $6.0 billion, to expand development activities leading to an operating capability in the mid-1990's. Later in the year, the administration will request legislation to establish a total program cost ceiling on the space station. When operational, the space station will facilitate space-based research, help develop advanced technologies potentially useful to the economy, and encourage greater commercial use of space. The administration's proposal strengthens its commitment to private sector investment and involvement in the space station and relies, to the greatest extent feasible, on private sector design, financing, construction, and operation of future space station requirements, including those currently under study.

*Space Science, Applications, and Technology.*—This area includes programs that study the solar system, the universe, and Earth's environment; support research on materials processing in space; and develop technology for future space programs. Budget authority of $3.0 billion is proposed for 1989, an increase of $0.6 billion from the 1988 level.

In *space science*, the administration proposes to continue broad-based, high-quality flight programs and supporting ground-based research. Spacecraft development would continue for the gamma ray observatory, the Magellan mission, and the Mars observer. Operational support would be provided in 1989 for the Hubble space telescope, the Galileo mission to Jupiter, and the planned Voyager 2 rendezvous with Neptune in 1989. Planning activities would continue for several smaller space physics, astronomy, and life sciences experiments, which were rescheduled due to the Challenger accident. In addition, preparations would be made for future science flight missions. Specifically, for planetary exploration, such activities would include advanced technology development with emphasis on the Mariner Mark II Spacecraft. A major new mission, the Advanced X-ray Astrophysics Facility, would be initiated to allow the viewing of the universe in the X-ray region of the spectrum with an unprecedented degree of sensitivity, 1000 times better than any previous or planned X-ray mission. In 1989, proposed funding would provide for launch opportunities for small payloads on Scout rockets and for the explorer program. The global geospace sciences program would continue to expand space-based research on the physics of the interaction between the Sun and the Earth.

For *space applications*, the budget emphasizes space experiments and ground-based supporting research to study the Earth and its environment and to explore concepts and techniques for materials processing in space.

The administration proposes continued efforts to develop space-based remote sensing technologies to help better understand the Earth's environment and the interaction of the Sun and the Earth. It also calls for the continuation of planning activities for the ocean topography experiment, which will permit oceanographic studies aiding a better understanding of the effect of ocean circulation on the Earth's climate. In the area of materials processing, increased funding would allow support for the operation of the microgravity materials science laboratory and numerous ground-based microgravity experiments, including $25 million to initiate the development of microgravity payloads for possible use on promising private sector space facilities. The budget provides for continuing planning activities for space-based experiments to be undertaken when shuttle flights resume.

For the generic *space technology* program, the administration is proposing continued growth in funding for 1989 to help provide the technology base for future space programs in areas such as propulsion, electronics, and materials research. The civil space technology initiative started in 1988 would continue as planned. Increased funding would allow the initiation of the Pathfinder program, a

major new effort oriented toward potential missions outside earth orbit, to develop a variety of generic space technologies such as transfer vehicles, closed cycle life support, and operations. These initiatives are intended to strengthen the technology base for continued U.S. leadership in space.

The commercial space programs encourage and facilitate greater private sector investment and involvement in space. The budget provides for increased funding to help non-aerospace firms and universities explore potential new uses of space for future economic benefits.

The transatmospheric research and technology program, a joint program of NASA and DOD, explores new approaches for cost-effective hypersonic vehicles for flight in the atmosphere and for access to space. Funding increases are proposed to continue cooperative research, as well as technology development and testing. These efforts are expected to lead to a transatmospheric flight research vehicle demonstration as part of the National Aerospace Plane program. The budget authority request for civil space-related elements of this activity is in this function; budget authority for NASA efforts related to aeronautical applications are discussed in the transportation function.

*Supporting Space Activities.*—Budget authority of $1.3 billion is proposed in 1989 for spacecraft tracking, data gathering, and data processing support for the space program, an increase of $0.2 billion over the 1988 level. The budget also provides for continued repayments of loan obligations for the tracking and data relay satellite (TDRSS) services, and for other tracking and data acquisition services required to support planned missions. The accompanying credit table shows NASA's repayment schedules on the outstanding direct loans made by the Federal Financing Bank for TDRSS construction and acquisition. No new obligations for this account are expected.

**CREDIT PROGRAMS—GENERAL SCIENCE, SPACE, AND TECHNOLOGY**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| NASA: | | | | | |
| Change in outstandings | −79 | −91 | −105 | −121 | −138 |
| Outstandings | 809 | 717 | 612 | 491 | 354 |

***Tax Expenditures.***—In addition to direct Federal funding of basic research, the tax code encourages private sector research and development, including basic research, by allowing expenditures for such purposes to be deducted as a current expense. The 1989 esti-

mate for this provision is $1.2 billion. A 25 percent tax credit to encourage increases in certain basic research and experimentation was allowed to expire in 1985, but was reinstated at a reduced rate of 20 percent through December 31, 1988 by the Tax Reform Act of 1986. This will cost $0.8 billion in 1989. The administration is proposing that this credit be made permanent after 1988, in which case the 1989 cost would be an additional $0.4 billion. The administration also proposes that the apportionment of research and experimentation expenses be at least 67 percent to domestic-source income. This tax expenditure would cost nearly $1.0 billion in 1989. Tax expenditures for general science, space, and technology are estimated to total $2.0 billion in 1989.

# ENERGY

The Nation needs adequate supplies of energy at reasonable prices. Experience shows this is best achieved through minimum Government intervention in the operation of energy markets. The elimination of counterproductive Government intervention has resulted in significant benefits. For example, while the economy has greatly expanded, the United States is using no more energy and less oil than 10 years ago.

Further progress can be achieved by eliminating controls on natural gas prices, providing open access to natural gas pipelines, deregulating most of the Nation's oil pipelines, repealing the windfall profit tax on domestic crude oil production, and adopting new regulatory proposals to increase competition in the electric utility industry.

Federal spending can complement the workings of our market economy if it is carefully focused on meeting appropriate Federal responsibilities. For example, the Nation's strategic petroleum stockpiles have been increased fivefold since 1980 to provide protection against energy supply disruptions.

The 1989 budget continues this policy of limited Federal energy spending focused on meeting appropriate Federal responsibilities. It proposes that spending be reduced on activities that are more appropriately non-Federal responsibilities, that activities be privatized that can and should be undertaken by non-Federal entities, and that remaining programs be managed on a business-like basis. The major initiatives in the 1989 budget are:

- A renewed request for a 5-year, $2.5 billion program to support the demonstration of innovative clean coal technologies.
- A proposal to sell the Government-run oil fields at Elk Hills and Teapot Dome. The proceeds from the sale would be used to accelerate the fill rate of the strategic petroleum reserve and to create an additional oil stockpile to replace the access the Government now has to these oilfields.
- Proposed major reforms to overhaul the lending practices of the Rural Electrification Administration (REA) and reduce costly subsidies by relying on partial REA guarantees of private loans rather than direct REA lending.

Total budget authority of $4.8 billion is requested for energy programs in 1989, a reduction of $0.7 billion from the level in 1988. This reduction is the net result of a $1.3 billion decrease for REA and a $0.4 billion decrease for the Tennessee Valley Authority, offset in part by a $0.6 billion increase for the strategic petroleum reserve and a $0.4 billion increase for energy supply research and development. Outlays are estimated to be $3.1 billion in 1989, an increase of $0.3 billion from the level in 1988. This increase is due

mainly to the increased fill rate proposed for the strategic petroleum reserve.

The budget also includes $3.5 billion in receipts from the proposed sale of the naval petroleum reserves and $0.1 billion from the proposed sale of assets of the Alaska power marketing administration. These proceeds are included in the undistributed offsetting receipts category.

***Energy Supply.***—The Federal Government's energy supply activities fall into three main categories: research and development (R&D), direct production activities, and subsidies for certain electric utilities and telephone systems.

A total of $2.9 billion in budget authority is requested for energy supply *research and development* programs in 1989. This program level is $0.4 billion above the level of funding in 1988. Federal spending on energy technology R&D is focused on longer-term, high-risk activities with high potential payoff. Federal support complements, rather than duplicates or competes with, R&D investments undertaken by the private sector.

Budget authority of $352 million is requested for nuclear fission R&D in 1989, slightly above the level in 1988. An increase in funding is proposed for reactor concepts to meet space and military nuclear power requirements. This program serves national security interests and helps to maintain a technical and industrial base for potential commercial use of advanced nuclear technologies in the future.

For nuclear fusion R&D, budget authority of $360 million is requested for 1989, a 7.5 percent increase above the 1988 level. The requested budget authority will fund fusion reactor development at a pace consistent with the potential contribution of fusion power in meeting national energy needs. In 1989, the program will continue to focus on resolving scientific questions key to the ultimate achievement of fusion energy. This includes planning and R&D to demonstrate that it is feasible to control the fusion process. The budget also includes funding to support cooperation with the Soviet Union on magnetic fusion research.

The administration requests total budget authority of $692 million for two R&D programs addressing the clean and economical use of fossil fuels: a fossil energy program and a clean coal technology demonstration program. Budget authority of $167 million is requested for the research program, a reduction of $160 million from the 1988 level. The proposed reductions would close out the operation of synthetic fuels test facilities that have either completed their test programs or have proven uneconomic; eliminate subsidies for proprietary technology development, such as fuel cells, by individual companies; and reduce lower priority R&D, such as magnetohydrodynamics, not central to the core research program.

**NATIONAL NEED: ENERGY**

(Functional code 270; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Energy supply:** | | | | | |
| Research and development: | | | | | |
| Fission | 325 | 347 | 352 | 417 | 415 |
| Fusion | 342 | 335 | 360 | 375 | 392 |
| Fossil | 293 | 377 | 692 | 753 | 787 |
| Solar and renewable energy resources | 174 | 149 | 125 | 131 | 134 |
| Energy science | 833 | 914 | 859 | 937 | 1,008 |
| Other | 423 | 397 | 464 | 485 | 487 |
| Offsetting transfers | −684 | −104 | ..... | ..... | ..... |
| Direct production (net): | | | | | |
| Petroleum reserves: | | | | | |
| Existing law | −542 | −596 | −574 | −558 | −592 |
| Proposed legislation | ..... | ..... | ..... | 558 | 593 |
| Federal power marketing: | | | | | |
| Existing law | 64 | −213 | −175 | −28 | 49 |
| Proposed credit reform legislation | ..... | ..... | ..... | 6 | 98 |
| Tennessee Valley Authority: | | | | | |
| Existing law | 1,243 | 1,269 | 858 | 1,075 | 595 |
| Proposed credit reform | ..... | ..... | −45 | −37 | −29 |
| Uranium Enrichment | 55 | −159 | −108 | −253 | −183 |
| Nuclear Waste Disposal Fund | 58 | −148 | −88 | 57 | 76 |
| Other subsidies: | | | | | |
| Nonconventional fuel production | −596 | * | 16 | * | * |
| Rural electric and telephone: | | | | | |
| Existing law | 294 | 1,442 | 22 | 22 | 22 |
| Proposed legislation | ..... | ..... | 81 | 85 | 80 |
| Subtotal, Energy supply | 2,280 | 4,010 | 2,838 | 4,025 | 3,930 |
| **Energy conservation:** | | | | | |
| Conservation research and development | 153 | 154 | 81 | 88 | 90 |
| Conservation grants | 81 | 157 | 9 | 7 | 4 |
| Subtotal, Energy conservation | 234 | 311 | 89 | 95 | 94 |
| **Emergency energy preparedness:** | | | | | |
| Existing law | 153 | 609 | 513 | 204 | 194 |
| Proposed legislation | ..... | ..... | 684 | 793 | 829 |
| Subtotal, Emergency energy preparedness | 153 | 609 | 1,197 | 997 | 1,023 |
| **Energy information, policy, and regulation** | 763 | 588 | 711 | 765 | 769 |
| **Total, budget authority** | **3,430** | **5,518** | **4,837** | **5,883** | **5,816** |

*$500 thousand or less.

The budget request continues to support important, broad-based research in coal chemistry, coal-derived fuels, and petroleum and natural gas extraction. In particular, the budget provides increased funding for enhanced oil recovery and geoscience. It also includes funding to encourage cost-shared cooperative R&D ventures among companies and the Federal Government.

The administration is requesting $2.5 billion over 5 years for clean coal technology demonstration projects to stimulate development and deployment of innovative technologies to reduce emission

**NATIONAL NEED: ENERGY**

(Functional code 270; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Energy supply:** | | | | | |
| Research and development: | | | | | |
| Fission | 320 | 332 | 355 | 408 | 407 |
| Fusion | 340 | 320 | 398 | 376 | 393 |
| Fossil | 323 | 380 | 463 | 534 | 667 |
| Solar and renewable energy resources | 174 | 148 | 128 | 128 | 131 |
| Energy science | 806 | 904 | 867 | 902 | 970 |
| Other | 409 | 408 | 455 | 449 | 471 |
| Offsetting transfers | −87 | −26 | ..... | ..... | ..... |
| Direct production (net): | | | | | |
| Petroleum reserves: | | | | | |
| Existing law | −515 | −597 | −587 | −577 | −591 |
| Proposed legislation | ..... | ..... | ..... | 627 | 591 |
| Federal power marketing: | | | | | |
| Existing law | −401 | −622 | −580 | −632 | −500 |
| Proposed legislation | ..... | ..... | ..... | 7 | 99 |
| Tennessee Valley Authority: | | | | | |
| Existing law | 979 | 907 | 774 | 648 | 89 |
| Proposed credit reform | ..... | ..... | −45 | −37 | −29 |
| Uranium Enrichment | −102 | −3 | −91 | −257 | −191 |
| Nuclear Waste Disposal Fund | 5 | −87 | −102 | −23 | 37 |
| Other subsidies: | | | | | |
| Nonconventional fuel production | 272 | 108 | 161 | 164 | 188 |
| Rural electric and telephone: | | | | | |
| Existing law | −206 | −998 | 805 | 389 | 59 |
| Proposed legislation | ..... | ..... | −2,093 | −667 | −489 |
| Proposed credit reform | ..... | ..... | 10 | 33 | 52 |
| Subtotal, Energy supply | 2,318 | 1,177 | 915 | 2,470 | 2,354 |
| **Energy conservation:** | | | | | |
| Conservation research and development | 113 | 150 | 138 | 112 | 95 |
| Conservation grants | 168 | 176 | 171 | 72 | 27 |
| Subtotal, Energy conservation | 281 | 325 | 308 | 184 | 122 |
| **Emergency energy preparedness:** | | | | | |
| Existing law | 788 | 611 | 634 | 292 | 196 |
| Proposed legislation | ..... | ..... | 479 | 761 | 818 |
| Subtotal, Emergency energy preparedness | 788 | 611 | 1,113 | 1,053 | 1,015 |
| **Energy information, policy, and regulation** | 727 | 600 | 724 | 751 | 761 |
| **Total, outlays** | **4,115** | **2,713** | **3,061** | **4,458** | **4,252** |

of air pollutants. This Presidential initiative, which implements the recommendations of the U.S. and Canadian Special Envoys on Acid Rain, is funded by $0.7 billion already made available for 1988 and 1989 plus an additional $1.8 billion in budget authority requested in the form of advance appropriations for 1990 through 1992. Non-Federal sources are expected to contribute at least equal amounts of funding to these projects, as they did with cooperative agreements negotiated in 1987. Outlays for this program are estimated to be $55 million in 1988 and $163 million in 1989.

Budget authority of $125 million is requested for solar and renewable energy R&D, a reduction of $24 million from 1988. This research covers a broad range of technologies, with emphasis on the generation of electricity from sunlight, biomass, geothermal, and wind energy. The budget also proposes a new initiative to study the use of the new high-temperature superconducting materials by electric utilities. Like the fossil energy R&D budget, this budget provides for cost-shared government/industry cooperative ventures.

Energy science programs support energy-related basic and applied research in the physical, biological, environmental, and engineering sciences. The work is conducted at major universities and the Department of Energy's (DOE) national laboratories. The objective of this work is to provide fundamental scientific knowledge and a broadened engineering data base useful for future industrial development of a wide spectrum of energy technologies.

The 1989 budget requests $859 million for these programs, a reduction of $55 million from the 1988 level. The reduction is the net change resulting from elimination of $126 million for congressionally-earmarked university buildings, offset by an increase of $69 million, or nearly 10 percent, for on-going programs. The 15 building projects added by Congress in the 1988 continuing resolution have not been approved through a merit review process, and are not necessary to further program objectives. The increases for this on-going program would emphasize research on new high temperature superconducting materials and development of methods for mapping the constituents of human DNA. In addition, the budget proposes initiation of construction of a new synchrotron facility that will enable scientists to investigate the structure of matter and thereby make significant contributions to materials science.

Budget authority of $464 million is requested for other energy supply R&D activities in 1989. Included in this category are Environmental Protection Agency research on acid rain, DOE studies of health and safety issues at its facilities, and investments to conserve energy at the national laboratories. Funding is also requested for environmental cleanup at DOE sites and for the cleanup of wastes from uranium mining. For cleanup of uranium mill tailings sites and the West Valley project, the administration will propose legislation to clarify and limit the Federal responsibility for these projects.

The Federal Government's *direct production activities* in the energy function include producing oil and gas at the naval petroleum reserves (NPR); producing and distributing electric power by the Federal power marketing administrations and the Tennessee

Valley Authority, enriching uranium, disposing of nuclear waste, and producing radioisotopes.

The administration proposes to sell the Government-run oilfields at Elk Hills, California and Teapot Dome, Wyoming. These fields were originally set aside in the early 1900's to assure an adequate oil supply for Navy ships converting from coal to oil.

The proceeds from selling these oil fields would be dedicated to raising the fill rate for the strategic petroleum reserve (SPR). The SPR is a much better emergency reserve than the NPR because it can pump out oil 30 times as fast, and it is also accessible to more pipelines and refineries. In addition, the proceeds would be used to create a separate 10 million barrel inventory to replace the access the Government now has to the NPRs and to provide increased flexibility to respond to a wide range of petroleum supply problems. The budget assumes the oil fields can be sold for $3.5 billion, of which $3.2 billion would be received in 1989.

The Federal power marketing administrations sell power produced at Federal hydroelectric facilities. The administration proposes divestiture of the Alaska Power Administration (APA). State and local groups in Alaska have proposed buying APA's two hydropower projects in the Anchorage and Juneau areas. Upon successful completion of negotiations, DOE will submit authorizing legislation to the Congress in calendar year 1988, with the sale likely to be completed by the end of 1989. In addition, the administration has proposed legislation to authorize a study of divestiture of the Southeastern Power Administration (SEPA). The budget includes SEPA sale proceeds of $1.4 billion in 1990, assuming congressional authorization and favorable results from the study. The proceeds are classified in the undistributed offsetting receipts category. The budget does not include funds for possible Bonneville Power Administration construction of a major new west coast power line. A final decision on funding will be made later this year, after completion of a study of possible non-Federal participation in, and funding for, the project.

The 1989 budget for the Tennessee Valley Authority (TVA) assumes revenues of $5.4 billion and power expenses of $4.6 billion. The net revenues of $0.8 billion will finance a portion of planned capital investment of $1.5 billion. The remaining $0.7 billion will be borrowed from the Federal Financing Bank (FFB). Included in this total is TVA-guaranteed borrowing by the Seven States Energy Corporation from the FFB to finance the TVA nuclear fuel inventory. In recent years, TVA has encountered problems in its power program, particularly in nuclear generation. The administration believes that the report of the Southern States Energy Board Committee on TVA, chaired by Virginia Governor Baliles, includes

important recommendations to ensure that this program remains an efficient and reliable supplier of power in the Southeast.

The budget assumes that one of the five shutdown TVA nuclear power plants will resume operation in 1988. TVA's economic development programs are described in the community and regional development function.

The Federal Government's uranium enrichment enterprise is expected to have sales revenues in 1989 of $1.3 billion and outlays of $1.2 billion. The difference of $91 million will be returned to the Treasury as repayment of prior-year investment. Included in the outlay total for 1989 is $90 million for research and development of an advanced process for enriching uranium. The budget also proposes repeal of the prohibition, enacted in the 1988 continuing resolution, of any studies on the privatization of the uranium enrichment program. Repeal of this prohibition will allow assessment of the feasibility and desirability of converting the program into a private, taxpaying enterprise, a goal too important to the Nation to have it foreclosed preemptorily, without hearings or careful consideration.

The commercial nuclear waste program, which is financed by a fee on electricity generated by nuclear power plants, provides for the permanent disposal of spent nuclear reactor fuel rods and other high-level radioactive waste. In 1987, Congress enacted substantial changes in the program. Starting in 1988 DOE is directed to focus its detailed study efforts on one waste repository site, located at Yucca Mountain, Nevada. If this site proves technically feasible, DOE will build a repository there. In addition, the newly amended Nuclear Waste Policy Act provides incentive payments to any State that agrees to host the repository.

The 1989 budget includes a separate new fund for isotope sales and distribution. This new structure, along with focused management at DOE, will ensure that this service is run on a business-like basis that fully recovers costs. In addition, the restructured program will be better able to assure a secure supply to the many customers for both radioactive and stable isotopes.

The Rural Electrification Administration (REA), Department of Agriculture, provides deeply subsidized, 5 percent interest direct loans and guarantees of direct loans by the FFB for the construction and operation of rural electric utilities and telephone systems. Total REA loans outstanding, including FFB direct loans, are estimated to be $34 billion at the end of 1987.

Since most REA borrowers are financially healthy and the goals of the REA program have been largely accomplished, the administration proposes that rural electric and telephone systems increase their reliance on private financing and that all REA lending pro-

grams be reformed through the use of partial REA guarantees of privately originated loans.

Under this proposal, 100 percent REA guaranteed FFB loans for power supply borrowers would be reformed into 80 percent REA guarantees of private loans. Further, 5 percent revolving fund direct loans would be reformed into 70 percent REA guarantees of private loans starting in 1989. Electric and telephone borrowers that serve largely urban, suburban, or recreation areas, and telephone borrowers who are subsidiaries of major telecommunications holding companies would not be eligible for such lending assistance.

Consistent with this approach, the administration proposes that REA reduce its direct loan obligations in 1989 by $1.8 billion in favor of loans originated by the private banking system. In addition, the administration encourages privatization by proposing that any borrower with outstanding REA-guaranteed, FFB-originated loans have the opportunity to prepay them utilizing an 80 percent REA guarantee and without paying the required prepayment premium. Further, all outstanding revolving fund direct loans could be prepaid at a discount if the borrower agrees not to seek REA assistance in the future.

***Energy Conservation.***—The administration proposes $89 million of budget authority in 1989 for programs in this subfunction, including energy conservation research and development and State and local energy conservation grants.

Federal Government energy conservation R&D spending supports development of methods to use energy more efficiently in buildings, transportation, and industry. The administration requests budget authority of $81 million in 1989 for energy conservation R&D, a reduction of $73 million from the 1988 appropriation. The proposed reduction would eliminate subsidies for development of proprietary commercial products, such as heat pumps and industrial cogeneration equipment, by specific companies. The proposed program continues support for many broad-based and long-range technology developments, including new ceramic materials for high efficiency engines and advanced chemical and biochemical processes for industry. The budget also includes a new initiative on high-temperature superconductors.

Energy grants to State and local governments are used to weatherize school buildings, hospitals, and the homes of low-income families. They also support State energy extension activities. States have received more than $2.8 billion from the settlement of cases involving violations of rules and regulations under the price control program which expired in 1981. Since these amounts are avail-

**CREDIT PROGRAMS—ENERGY**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| TVA power program: | | | | | |
| New obligations | 97 | 72 | 70 | 68 | 65 |
| Change in outstandings | 16 | −6 | −23 | −12 | −6 |
| Outstandings | 267 | 261 | 238 | 226 | 220 |
| TVA Seven States: | | | | | |
| New obligations | 156 | 212 | 180 | 208 | 330 |
| Change in outstandings | −16 | −80 | 169 | −362 | −190 |
| Outstandings | 1,824 | 1,744 | 1,912 | 1,550 | 1,360 |
| Rural electrification and telephone revolving fund: | | | | | |
| New obligations | 1,033 | 1,794 | ..... | ..... | ..... |
| Change in outstandings | −666 | −1,117 | −1,120 | −918 | −1,006 |
| Outstandings | 34,323 | 33,206 | 32,086 | 31,168 | 30,162 |
| Geothermal resources and other: | | | | | |
| Change in outstandings | −1 | −1 | −1 | −1 | −1 |
| Outstandings | 23 | 22 | 21 | 21 | 20 |
| Total, direct loans: | | | | | |
| New obligations | 1,286 | 2,078 | 249 | 276 | 395 |
| Change in outstandings | −668 | −1,203 | −975 | −1,293 | −1,203 |
| Outstandings | 36,436 | 35,232 | 34,257 | 32,964 | 31,762 |
| Guaranteed loans: | | | | | |
| Biomass energy development: | | | | | |
| Change in outstandings | −218 | −12 | −10 | ..... | ..... |
| Outstandings | 578 | 565 | 555 | 555 | 555 |
| Rural electrification and telephone subsidies: | | | | | |
| New commitments | ..... | ..... | 1,319 | 1,413 | 1,413 |
| Change in outstandings | ..... | ..... | 179 | 581 | 875 |
| Outstandings | ..... | ..... | 179 | 760 | 1,634 |
| Rural electrification and telephone revolving fund: | | | | | |
| New commitments | 582 | 2,000 | ..... | ..... | ..... |
| Change in outstandings | 404 | 1,985 | −15 | −15 | −15 |
| Outstandings | 1,434 | 3,419 | 3,404 | 3,389 | 3,374 |
| TVA power program: | | | | | |
| Change in outstandings | ..... | −1 | ..... | ..... | −1 |
| Outstandings | 1 | 1 | 1 | 1 | ..... |
| Geothermal resources and other: | | | | | |
| Outstandings | 50 | 50 | 50 | 50 | 50 |
| Total, guaranteed loans: | | | | | |
| New commitments | 582 | 2,000 | 1,319 | 1,413 | 1,413 |
| Change in outstandings | 185 | 1,972 | 154 | 566 | 859 |
| Outstandings | 2,062 | 4,034 | 4,188 | 4,754 | 5,613 |
| **Total, new obligations and new commitments** | **1,867** | **4,078** | **1,568** | **1,689** | **1,808** |

able in 1989 to fund the State grant programs, the budget requests $9 million for administrative costs only; no new budget authority is proposed for new grants.

***Emergency Energy Preparedness.***—The administration supports the development of a 750 million barrel strategic petroleum reserve (SPR). The SPR is a Government stockpile of crude oil that is

intended to supplement the market in the event of a severe disruption in world oil supplies. By the end of 1988, the SPR will contain over 550 million barrels of crude oil, an amount equal to nearly 100 days of 1987 net U.S. imports of crude oil and petroleum products.

The administration is requesting $334 million in budget authority to continue filling the SPR in 1989 at a minimum average rate of 50,000 barrels per day, the same fill rate approved by Congress in 1988. The budget also assumes proposed legislation to increase the SPR fill rate to 100,000 barrels per day and to create a separate 10 million barrel inventory to replace the Governments loss of access to the NPRs. These proposals would be contingent upon enactment of legislation authorizing the sale of the naval petroleum reserves (NPRs), and would be financed from the proceeds from the sale. These initiatives would require additional budget authority of $684 million and outlays of $479 million in 1989.

***Energy Information, Policy and Regulation.***—Net outlays for this subfunction are expected to be $724 million in 1989, an increase of $124 million above the 1988 level. This increase is due, in part, to the receipt in 1988 of $49 million in fees charged by the Federal Energy Regulatory Commission (FERC), which reduce net outlays in that year. Included in this total are the general administrative expenses of the DOE together with the operating expenses of the Energy Information Administration, FERC and the Nuclear Regulatory Commission (NRC).

Proposed budget authority for the FERC in 1989 is $107 million, completely offset by user fees. Proposed budget authority for the NRC is $450 million in 1989. Currently, 45 percent of NRC budget authority is derived from user fees. Consistent with the Bipartisan Budget Agreement, the budget proposes legislation to increase these fees to cover 55 percent of NRC budget authority.

***Tax Expenditures.***—To encourage energy resource exploration and production, the tax code permits certain capital costs to be deducted as current expenses rather than amortized over the useful life of the property. In addition, the smaller, independent operators in the extractive industries are generally permitted to use percentage depletion rather than cost depletion.

Special tax credits for business investments in specified energy property, which were scheduled to expire at the end of 1985, were extended at declining rates through 1988 by the Tax Reform Act of 1986.

Currently, "proven" oil and gas properties that are transferred from major oil companies to independent oil producers are ineligible for percentage depletion. This discourages the transfer of marginal wells. The administration is proposing to remove the restriction. The independents may currently not deduct more than 50

percent of the owner's net income from a property as percentage depletion. The administration's proposal also would raise the deduction back to 100 percent. These proposed changes would raise the cost of allowing percentage depletion by an additional $65 million in 1989.

Tax expenditures for energy are listed in the accompanying table and discussed in more detail in Special Analysis G.

**TAX EXPENDITURES FOR ENERGY**

(Outlay equivalents; in millions of dollars)

| Description | Estimates | | |
|---|---|---|---|
| | 1987 | 1988 | 1989 |
| Expensing of exploration and development costs: | | | |
| Oil and gas | −675 | −415 | −185 |
| Other fuels | 35 | 35 | 35 |
| Excess of percentage over cost depletion: | | | |
| Oil and gas | 1,030 | 770 | 665 |
| Other fuels | 330 | 225 | 215 |
| Capital gains treatment of royalties on coal | 75 | ..... | ..... |
| Exclusion of interest on State and local industrial development bonds for certain energy facilities | 380 | 385 | 400 |
| Residential energy credits: | | | |
| Supply incentives | 60 | 5 | ..... |
| Conservation incentives | * | * | ..... |
| Alternative, conservation and new technology credits: | | | |
| Supply incentivies | 180 | 95 | 35 |
| Conservation incentives | —* | —* | —* |
| Alternative fuel production credit | 25 | 15 | 15 |
| Alcohol fuel credit [1] | 10 | 10 | 10 |
| Energy credit for intercity buses | * | —* | —* |
| Special rules for mining reclamation reserves | 45 | 45 | 45 |
| Total (after interactions), energy [2] | 1,060 | 830 | 875 |

*500 thousand or less.

[1] In addition, the exemption from the excise tax on alcohol fuel results in a reduction in excise receipts of $475 million in 1987, $480 million in 1988, and $480 million in 1989.

[2] The estimate of total tax expenditures for this function reflects interactive effects among the individual items. Therefore, the estimates cannot simply be added.

# NATURAL RESOURCES AND ENVIRONMENT

Federal natural resources and environment programs manage public lands and resources for their preservation, conservation, and economic development; assist State governments to ensure a clean environment; and encourage increased knowledge and understanding of the environment. A total of $15.2 billion in budget authority is requested for this function in 1989, a decrease of $233 million from 1988. This change results from a $804 million decrease for sewage treatment plant construction grants, and reductions in Federal land acquisition and other natural resources programs. These reductions are partially offset by a $778 million increase in the conservation reserve program.

***Pollution Control and Abatement.***—Efforts to control pollution of air, water, and land are carried out through direct Federal programs and through financial assistance to State and local governments. The administration proposes budget authority of $4.6 billion for these programs in 1989, a decrease of $281 million from 1988.

*Regulatory, Enforcement, and Research Programs.*—Proposed 1989 budget authority for these programs is increased $51 million over the 1988 level. Increases are requested to carry out new statutory responsibilities under the Clean Water Act. In addition, increases are proposed for high priority environmental problems including stratospheric ozone depletion, global climate change, radon, disposal of suspended pesticides, and the attainment of Clean Air Act deadlines. Proposed 1989 budget authority for the Federal acid precipitation task force, classified in the energy and in other functions, will ensure that the task force will be able to address the remaining scientific uncertainties associated with acid precipitation in its final assessment.

*Hazardous Substance Superfund.*—This trust fund finances the cleanup of abandoned hazardous waste sites and hazardous chemical spills. The administration proposes budget authority of $1.6 billion for 1989, an increase of $472 million over 1988. This funding level is greater than the total Superfund program from 1981-1985. The requested level would enable the Superfund program to fund all projects ready for cleanup in 1989 and meet the statutory deadline for cleanups.

*Sewage Treatment Construction Grants.*—This program provides financial assistance to States and municipalities for the construction of publicly owned treatment facilities. For 1989, funding of $1.5 billion is requested, split evenly between the existing grant program and the new State Revolving Fund (SRF) program. Capitalization grants to SRFs are intended to set up self-sustaining financial mechanisms that would make loans, enable refinancing, and provide loan guarantees. The 1989 funding level, which is $804

million below the 1988 level, is consistent with the President's long-term program level of $12 billion for 1986 to 1993, which was proposed in the 1988 budget. This program level is sufficient to fund the Federal share for all projects needed to meet the 1988 municipal compliance requirements, complete all treatment plants started with Federal funds, and give States the flexibility they need to make the transition to financial independence in this area.

**NATIONAL NEED: USING AND PRESERVING NATURAL RESOURCES AND PROTECTING THE ENVIRONMENT**

(Functional code 300; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Pollution control and abatement:** | | | | | |
| Regulatory, enforcement, and research programs | 1,487 | 1,538 | 1,589 | 1,562 | 1,560 |
| Hazardous substance response fund | 1,411 | 1,128 | 1,600 | 1,750 | 1,875 |
| Oil pollution funds (gross) | 7 | 5 | 6 | 6 | 6 |
| Sewage treatment plant construction grants | 2,361 | 2,304 | 1,500 | 1,300 | 1,100 |
| Leaking underground storage tank trust fund | 50 | 14 | 50 | 75 | 75 |
| Offsetting receipts | −20 | −68 | −104 | −122 | −175 |
| Subtotal, Pollution control and abatement | 5,296 | 4,922 | 4,641 | 4,571 | 4,440 |
| **Water resources:** | | | | | |
| Corps of Engineers | 3,236 | 3,471 | 3,537 | 3,615 | 3,565 |
| Bureau of Reclamation: | | | | | |
| Existing law | 951 | 1,057 | 1,077 | 1,106 | 1,006 |
| Proposed credit reform | ..... | ..... | −7 | −5 | −2 |
| Other | 218 | 206 | 138 | 135 | 134 |
| Offsetting receipts: | | | | | |
| Existing law | −297 | −459 | −483 | −448 | −482 |
| Proposed legislation | ..... | ..... | 10 | 11 | 11 |
| Subtotal, Water resources | 4,107 | 4,274 | 4,273 | 4,413 | 4,233 |
| **Conservation and land management:** | | | | | |
| Management of national forests, cooperative forestry, and forestry research (Forest Service) | 2,054 | 2,071 | 1,971 | 1,971 | 1,971 |
| Management of public lands (BLM) | 564 | 520 | 547 | 547 | 541 |
| Mining reclamation and enforcement | 319 | 309 | 260 | 275 | 290 |
| Conservation reserve program | ..... | 1,086 | 1,864 | 2,020 | 1,975 |
| Other conservation of agricultural lands | 642 | 687 | 486 | 480 | 480 |
| Other resources management | 293 | 301 | 303 | 285 | 285 |
| Offsetting receipts: | | | | | |
| Existing law | −2,151 | −2,298 | −2,354 | −4,529 | −2,559 |
| Proposed legislation | ..... | 23 | 23 | 23 | 23 |
| Subtotal, Conservation and land management | 1,721 | 2,699 | 3,101 | 1,072 | 3,007 |
| **Recreational resources:** | | | | | |
| Federal land acquisition:[1] | | | | | |
| Existing law | 244 | 232 | 81 | 85 | 85 |
| Proposed legislation | ..... | ..... | −30 | −30 | −30 |
| Urban park and historic preservation funds | 24 | 27 | ..... | ..... | ..... |
| Operation of recreational resources: | | | | | |
| Existing law | 1,475 | 1,560 | 1,465 | 1,478 | 1,490 |
| Proposed legislation | ..... | ..... | 23 | 23 | 43 |

**NATIONAL NEED: USING AND PRESERVING NATURAL RESOURCES AND PROTECTING THE ENVIRONMENT—Continued**

(Functional code 300; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Offsetting receipts: | | | | | |
| Existing law | −59 | −109 | −113 | −104 | −108 |
| Proposed legislation | ..... | −23 | −23 | −45 | −45 |
| Subtotal, Recreational resources | 1,685 | 1,687 | 1,403 | 1,406 | 1,435 |
| **Other natural resources:** | | | | | |
| Program activities: | | | | | |
| Existing law | 1,781 | 1,868 | 1,801 | 1,787 | 1,721 |
| Proposed legislation | ..... | ..... | ..... | 29 | 29 |
| Offsetting receipts | −11 | −26 | −27 | −27 | −27 |
| Subtotal, Other natural resources | 1,770 | 1,842 | 1,774 | 1,789 | 1,722 |
| **Total, budget authority** | **14,578** | **15,424** | **15,191** | **13,251** | **14,837** |

[1] Includes budget authority from State grants financed by the land and water conservation fund.

***Water Resources.***—Total 1989 net proposed budget authority for the Department of the Army's Corps of Engineers, the Department of the Interior's Bureau of Reclamation, and the Department of Agriculture's Soil Conservation Service (SCS) is $4.3 billion, which is approximately the 1988 level, and is about $166 million above the 1987 level. Increases due primarily to the construction of new Federal water resource projects initiated since 1985 are offset in 1989 by higher commercial navigation user fees, non-Federal project financing already authorized in law, and a decrease for SCS. Most proposed funding for water resources development covers ongoing construction of projects started in previous years, and operation and maintenance of completed projects. However, with the enactment of the Water Resources Development Act of 1986 (WRDA), the beneficiaries of water projects must pay a bigger share of planning and construction costs. While these new requirements allow continued work on needed water projects, cost-sharing has already resulted in smaller, less environmentally damaging projects.

The administration proposes six new construction starts for the Corps of Engineers, including the Santa Ana flood control project in Southern California. Construction of these projects is contingent upon the willingness of State and local governments, and other non-Federal project sponsors, to share in project costs in accordance with WRDA.

WRDA authorizes an ad valorem fee for use of the 200 U.S. commercial harbors, and will annually recover up to 40 percent of the Corps of Engineers harbor operation and maintenance expenses that were previously financed entirely by general tax funds. The

fee is equivalent to 4 cents for every $100 of value of cargo loaded or unloaded.

The administration requests budget authority of $156 million in 1989 for Corps of Engineers harbor operation and maintenance costs. These costs will be recovered from the WRDA ad valorem receipts. In addition, the administration proposes to offset 1989 construction costs of inland waterway projects with $77 million in receipts from the existing tax on fuel to transport cargo on the inland waterway system (WRDA imposes a gradual increase in this tax, doubling it by 1995). Both harbor and inland revenues are classified as governmental receipts.

WRDA also authorizes greater concurrent non-Federal financing of Corps of Engineers construction costs and established new requirements for repayment of construction costs over time with interest. Budget estimates are based on these new cost-sharing policies.

**NATIONAL NEED: USING AND PRESERVING NATURAL RESOURCES AND PROTECTING THE ENVIRONMENT**

(Functional code 300; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Pollution control and abatement:** | | | | | |
| Regulatory, enforcement, and research programs | 1,419 | 1,511 | 1,580 | 1,565 | 1,566 |
| Hazardous substance response fund | 541 | 778 | 1,205 | 1,478 | 1,646 |
| Oil pollution funds (gross) | 6 | 8 | 7 | 6 | 6 |
| Sewage treatment plant construction grants | 2,920 | 2,566 | 2,378 | 2,370 | 2,070 |
| Leaking underground storage tank trust fund | 1 | 23 | 32 | 47 | 71 |
| Offsetting receipts | −20 | −68 | −104 | −122 | −175 |
| Subtotal, Pollution control and abatement | 4,869 | 4,819 | 5,097 | 5,345 | 5,184 |
| **Water resources:** | | | | | |
| Corps of Engineers | 2,873 | 3,440 | 3,531 | 3,615 | 3,565 |
| Bureau of Reclamation: | | | | | |
| Existing law | 964 | 919 | 1,078 | 1,099 | 1,025 |
| Proposed credit reform | ..... | ..... | −4 | −5 | −2 |
| Other | 243 | 254 | 166 | 189 | 138 |
| Offsetting receipts: | | | | | |
| Existing law | −297 | −459 | −483 | −448 | −482 |
| Proposed legislation | ..... | ..... | 10 | 11 | 11 |
| Subtotal, Water resources | 3,783 | 4,154 | 4,298 | 4,460 | 4,256 |
| **Conservation and land management:** | | | | | |
| Management of national forests, cooperative forestry, and forestry research (Forest Service) | 1,876 | 2,068 | 1,977 | 1,980 | 1,971 |
| Management of public lands (BLM) | 537 | 545 | 560 | 547 | 542 |
| Mining reclamation and enforcement | 325 | 324 | 287 | 290 | 279 |
| Conservation reserve program | ..... | 736 | 1,841 | 2,393 | 1,975 |
| Other conservation of agricultural lands | 580 | 786 | 627 | 560 | 513 |
| Other resources management | 306 | 298 | 305 | 286 | 286 |
| Offsetting receipts: | | | | | |
| Existing law | −2,151 | −2,298 | −2,354 | −4,529 | −2,559 |

**NATIONAL NEED: USING AND PRESERVING NATURAL RESOURCES AND PROTECTING THE ENVIRONMENT—Continued**

(Functional code 300; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Proposed legislation | ..... | 23 | 23 | 23 | 23 |
| Subtotal, Conservation and land management | 1,473 | 2,483 | 3,266 | 1,551 | 3,030 |
| **Recreational resources:** | | | | | |
| Federal land acquisition[1] | 281 | 312 | 185 | 110 | 71 |
| Urban park and historic preservation funds | 29 | 33 | 16 | * | ..... |
| Operation of recreational resources: | | | | | |
| Existing law | 1,312 | 1,612 | 1,507 | 1,506 | 1,486 |
| Proposed legislation | ..... | ..... | 17 | 23 | 43 |
| Offsetting receipts: | | | | | |
| Existing law | −59 | −109 | −113 | −104 | −108 |
| Proposed legislation | ..... | −23 | −23 | −45 | −45 |
| Subtotal, Recreational resources | 1,564 | 1,824 | 1,589 | 1,490 | 1,447 |
| **Other natural resources:** | | | | | |
| Program activities: | | | | | |
| Existing law | 1,686 | 1,886 | 1,801 | 1,890 | 1,876 |
| Proposed legislation | ..... | ..... | ..... | 27 | 29 |
| Offsetting receipts | −11 | −26 | −27 | −27 | −27 |
| Subtotal, Other natural resources | 1,675 | 1,860 | 1,773 | 1,889 | 1,877 |
| **Total, outlays** | **13,363** | **15,139** | **16,024** | **14,735** | **15,794** |

*$500 thousand or less.
[1] Includes outlays from State grants financed by theland and water conservation fund.

Funding for the Bureau of Reclamation is consistent with the change in the Bureau's mission announced in October 1987. An increase of $32 million in budget authority over 1988 is proposed for enhanced operation and maintenance of existing dams, power plants, and irrigation facilities. Emphasis is also placed on the consolidation of many headquarters operations and technical functions in Denver, Colorado, and on completion of ongoing construction and planning activities that are substantially underway. Funding for new activities and projects is constrained. These changes will allow the Bureau to: upgrade the physical condition of its facilities; streamline administrative and technical functions; and complete more projects, or major project features, on schedule than would be possible if funding were distributed to all projects regardless of their relative stage of completion.

The Bureau is included in the administration's loan asset sale initiative. Bureau loans with a face value of about $530 million will be offered for sale, yielding estimated net receipts of $130 million in 1988.

The administration proposes major reforms for the SCS small watershed program, which provides flood control facilities in rural areas. The proposed reforms will eliminate overlap and duplication, achieve a reduction in bureaucracy, bring about a significant in-

crease in productivity, and make SCS flood control cost-sharing consistent with WRDA provisions for the Army Corps of Engineers. The administration is proposing $116 million in budget authority for the small watershed program in 1989.

***Conservation and Land Management.***—Changes in these programs reflect the administration's continuing efforts to improve the management of the national forests and public lands, to make mineral leasing programs more efficient, and to place maximum responsibility with the States for surface coal mining regulatory and reclamation programs. Proposed budget authority for these programs increases by $402 million between 1988 and 1989 because of increases in funding for the conservation of agricultural lands.

*Management of National Forests, Cooperative Forestry, and Forestry Research.*—Proposed budget authority in 1989 for direct management of National Forests is $2.0 billion, a decrease from 1988 of $10 million, after adjusting the 1988 and 1989 levels of funding for forest fire fighting. This net decrease occurs primarily as a result of the postponement of some construction projects, as well as the termination of financial assistance and reduced technical support to State forestry agencies.

The productivity of national forest management will be improved through careful control of costs and close attention to benefit-cost relationships. The administration's objective is to produce timber, minerals, recreation, and other products or services at the lowest unit costs. Both market and nonmarket benefits and the costs of resources will be carefully considered.

Planned timber sales from National Forest lands in 1989 are 11.2 billion board feet (BBF). Together with the estimated 25 BBF sold but still uncut at the end of 1988, this level will be adequate to respond to anticipated housing construction needs in 1989 and in subsequent years.

Gross receipts from the harvest of timber are estimated to be approximately $1.0 billion in 1989. Under current law, 25 percent of these receipts are paid to States for schools and roads in the counties of origin.

The administration proposes to reduce budget authority for contributions to State and private forestry programs from $76 million in 1988 to $35 million in 1989. Funding will be retained to provide for pest suppression on Federal and closely associated lands, and for the collection and dissemination of data dealing with national problems. General financial assistance to States for pest suppression, fire protection, and for forestry technical assistance on non-Federal lands is not proposed in 1989.

*Management of Public Lands.*—The Bureau of Land Management (BLM) administers 310 million surface acres of public lands for multiple use, and 370 million acres of federally owned subsur-

face mineral rights. The BLM will continue to emphasize mineral leasing, realty management, data support systems, and renewable resource activities that affect water, range, timber, or wildlife. Hazardous waste assessment will also continue to be emphasized.

*Mining Reclamation and Enforcement.*—A 1989 budget authority request decrease of $47 million from the 1988 level of the abandoned mine reclamation fund reflects maturation of the abandoned mined land reclamation grant program. This decrease balances annual obligations at a rate that can be absorbed by States and sustained each year until program completion in 1992. For 1989, approximately 225 projects to reclaim abandoned mined lands in 22 States will be financed by the $159 million of proposed budget authority.

*Conservation of Agricultural Lands.*—The Federal conservation reserve program, authorized by the Food Security Act of 1985, will continue in 1989. Under this program, the Secretary of Agriculture enters into contracts with owners of erodible lands to remove those lands from active crop production. In return, the landowners receive assistance in establishing appropriate conservation cover on the land, and rental payments for each acre put into reserve status. Savings will result from termination of a number of existing conservation programs. The 1989 budget strengthens the conservation program of this administration by emphasing the conservation reserve program and technical assistance.

***Recreational Resources.***—Overall proposed budget authority for recreation decreases from $1.7 billion in 1988 to $1.4 billion in 1989. However, proposed funding for operation of the national park system is increased. The overall reduction is due to postponing or forgoing various construction and land acquisition projects. Proposed budget authority for Federal land acquisition is reduced from the $232 million appropriated in 1988 to $51 million in 1989. The administration is proposing that discretionary acquisitions for park and refuge purposes be postponed through 1993 except for wetlands to be acquired with revenue from the sale of duck stamps, refuge entrance fee collections, and other dedicated receipts. Grants to States for acquisition and development of outdoor recreation lands, and for the support of State historic preservation staffs are proposed for elimination in 1989. These needs can be met through State, local, and private resources and the positive effect of Federal tax incentives on private investment in historic buildings.

The Department of the Interior is pursuing private market approaches to the supply, rehabilitation, and construction of employee housing in areas, such as parks, where there are problems in existing supply. Homeownership alternatives are included.

The budget fully utilizes entrance fees to national parks and service charges for the recreational use of national parks, forests,

and other Federal recreation facilities as authorized by the Omnibus Budget Reconciliation Act of 1987. Legislation will be proposed to broaden the type of recreation fees to be retained by the Forest Service to augment funding for National Forest system recreation programs. This will increase the total fees available for use by $23 million. For 1989, recreation receipts available to the agency are estimated to be about $32 million.

Total 1989 budget authority of $734 million, an increase of $13 million over 1988, is proposed to operate and maintain the national park system's 341 units and 79 million acres. This includes $52 million to be financed by entrance and user fees collected in 1988.

In addition, legislation will be proposed to charge entrance fees at recreation units administered by the Army Corps of Engineers beginning in 1990. This will increase receipts by $20 million in 1990 and provide funding for the Corps of Engineers' recreation program.

***Other Natural Resources.***—These activities focus on the understanding, conservation, and careful husbandry of the Earth's resources, structure, and environment through research and development and through information dissemination programs. They comprise elements of the Geological Survey (USGS), the Bureau of Mines (BOM), and the National Oceanic and Atmospheric Administration (NOAA).

The USGS 1989 budget authority request totals $425 million and reflects reductions for numerous lower priority program activities.

Budget authority of $128 million is requested for the Bureau of Mines in 1989. No funds have been requested for the Mineral Institutes program. BOM research activities will reflect long-term basic research projects with high potential benefit. The 1989 budget proposal also includes the privatization of Federal helium operations. Current Federal helium activities are indistinguishable from commercial operations and transfer to the private market can efficiently meet future Federal helium needs. All helium operation assets are proposed for sale. However, BOM will retain the crude helium inventory assuring future supplies for Federal agency use.

For the NOAA programs, the 1989 budget authority request of $1,151 million in this subfunction reflects a reduction of $32 million from the 1988 level. Increased funding is included for the procurement of the next generation of polar-orbiting and geostationary weather satellites, doppler weather radars, and commercialization of the Land Remote Sensing Satellite (Landsat) program. Increased funding is also included for an integrated NOAA program in Earth system science that will support research to improve predictions of global climate change. Reductions are proposed for State and industry financial assistance, and for research and service programs. Funding for other life safety, resource man-

agement and development programs, and for atmospheric and oceanic research and services is maintained.

*Offsetting Receipts.*—Offsetting receipts for the entire natural resources and environment function—primarily from user fees, sales of products, and rents and royalties—are expected to increase from $3.0 billion in 1988 to $3.1 billion in 1989. More than half of these collections are rents and royalities.

*Arctic National Wildlife Refuge.*—During 1988, Congress will also consider opening the Arctic National Wildlife refuge for the exploration and development of potentially vast oil reserves. Such development could greatly increase expected offsetting receipts. Congress should move quickly to harness this energy resource in order to enhance United States energy security, yet do so in a manner that ensures that environmental safeguards are carefully maintained. Because these resources belong to the Nation as a whole, to the maximum extent feasible, these receipts must be used to benefit all the people by being returned to the Treasury in order to reduce the deficit.

***Credit Programs.***—The administration will sell Bureau of Reclamation loans with a face value of about $530 million in 1988 (with net proceeds from the sale estimated at $130 million). Four ongoing Bureau loans are funded in 1989. These direct loans are made to local government project sponsors, generally for construction and rehabilitation of irrigation systems and for storage of municipal or industrial water supplies.

**CREDIT PROGRAMS—NATURAL RESOURCES AND ENVIRONMENT**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Water resources and other: | | | | | |
| New obligations | 72 | 49 | 18 | 11 | 2 |
| Change in outstandings | 32 | −304 | 38 | 2 | −10 |
| Outstandings | 574 | 270 | 308 | 309 | 300 |
| **Total, new obligations** | **72** | **49** | **18** | **11** | **2** |

***Tax Expenditures.***—As an incentive to encourage production, certain capital costs associated with exploration and development of nonfuel minerals may be recovered at preferentially rapid rates. In addition, most nonfuel mineral extractors are permitted to use percentage depletion, rather than cost depletion. Percentage depletion is more generous than cost depletion in that total deductions are not limited to the cost of the investment. The estimates for

these two provisions are $40 million and $315 million, respectively, in 1989.

The Tax Reform Act of 1986 eliminated the use of State and local government debt to finance privately owned pollution control facilities and capped the use of such debt to fund waste disposal facilities of private firms. Previously, investment for all of these purposes could be financed at below market interest rates because the interest was excluded from income subject to Federal income tax. The estimated cost for 1989 is $2.2 billion.

Prior to 1987, a special 25 percent tax credit was available for expenditures made to restore certain historic structures. The Tax Reform Act of 1986 reduced the credit to 20 percent. The 1989 cost estimate is $170 million.

Special benefits are provided to the timber industry to encourage production. The gains from the sale of cut timber had been taxed as capital gains. Because of the special capital gains exclusion, the effective capital gains rates were lower than rates on ordinary income before the exclusion was repealed by the Tax Reform Act of 1986. The Act, however, did exempt timber growers from the newly codified rules for capitalizing production and holding costs for all producers of goods beginning in 1987. This tax expenditure will cost an estimated $300 million in 1989. Private forestry is also encouraged because a limited amount of reforestation expenditures are eligible for special tax credits and writeoffs that will cost $210 million in 1989.

Tax expenditures for natural resources and environment total an estimated $3.2 billion in 1989.

# AGRICULTURE

Federal agricultural programs help meet domestic and international trade demands for food and fiber while mitigating the adverse effects of price fluctuations on farmers. To improve U.S. agriculture's competitive position in world markets and strengthen the farm credit system, the administration will act under two major recently enacted laws: the Food Security Act of 1985, as amended (known as the farm bill); and the Agricultural Credit Act of 1987. The farm bill permits a greater market orientation in the Federal Government's farm price support programs. The Farm Credit Act provides the needed authority and Federal assistance for the farm credit system to deal effectively with its financial problems.

In 1988, the administration will prepare new legislation to modify the current domestic sugar program to implement fair treatment for taxpayers, consumers, and farmers. In addition, the administration is proposing to reduce the appropriated limit of the export guarantee loan program by $2 billion. This reduction would bring the program level in line with the actual demand that exists in the market place.

A total of $23.8 billion in budget authority is proposed for this function in 1989, an increase of $1.3 billion from 1988. Total outlays are expected to decrease from $22.4 billion in 1988 to $21.7 billion in 1989. The $620 million reduction is the result of the continuing shift away from direct loans to private loans that are federally guaranteed and the success of the administration's policies aimed at developing more market-oriented price levels and enhancing the United States' competitiveness.

The administration is requesting over $5 billion in budget authority for agricultural credit in 1989 to help ensure that viable but high risk farmers have operating credit available to continue operations. Within this level of credit authority direct Government lending is reduced and guarantees of private loans are increased to provide a total loan level of $4.2 billion.

***Farm Income Stabilization.***—Outlays for farm income stabilization programs are estimated to drop from $20.3 billion in 1988 to $19.8 billion in 1989.

*Commodity Price Support and Related Programs.*—These programs were created to stabilize, support, and protect farm income and prices, and to provide consumers with a dependable supply of agricultural products at affordable prices. Price and income support activities currently constitute the largest portion of Federal Government expenditures in the agricultural sector of the economy and include deficiency payments and loans to farmers.

**NATIONAL NEED: IMPROVED AGRICULTURE**

(Functional code 350; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Farm income stabilization:** | | | | | |
| Commodity Credit Corporation: | | | | | |
| Existing law | 20,115 | 16,344 | 15,658 | 15,947 | 15,455 |
| Proposed legislation | ..... | ..... | 7 | −63 | −126 |
| Proposed credit reform | ..... | ..... | 565 | 346 | 141 |
| Crop insurance: | | | | | |
| Existing law | 345 | 429 | 330 | 354 | 383 |
| Proposed legislation | ..... | ..... | ..... | −99 | −172 |
| Agricultural credit: | | | | | |
| Existing law | 2,933 | 3,615 | 5,795 | 4,153 | 3,352 |
| Proposed credit reform | ..... | ..... | −524 | 66 | 50 |
| Other programs and unallocated overhead | 1 | * | ..... | ..... | ..... |
| Subtotal, Farm income stabilization | 23,394 | 20,388 | 21,832 | 20,704 | 19,084 |
| **Agricultural research and services:** | | | | | |
| Research programs | 902 | 910 | 834 | 823 | 823 |
| Extension programs | 339 | 358 | 300 | 300 | 300 |
| Marketing programs | 138 | 141 | 142 | 141 | 141 |
| Animal and plant health programs | 319 | 336 | 302 | 297 | 268 |
| Economic intelligence | 188 | 204 | 205 | 205 | 205 |
| Other programs and unallocated overhead | 219 | 224 | 240 | 230 | 230 |
| Offsetting receipts | −98 | −103 | −103 | −103 | −103 |
| Subtotal, Agricultural research and services | 2,007 | 2,070 | 1,920 | 1,893 | 1,864 |
| **Total, budget authority** | **25,401** | **22,458** | **23,752** | **22,597** | **20,948** |

*$500 thousand or less.

Deficiency payments are made to farmers based on the difference between target prices that are set by law and the higher of either the market price or loan level. Through these payments, the Government guarantees farmers a certain level of income. Using their crops as collateral, farmers also have access to price-support loans that enable them to hold their crop for later sale. If market prices are below the price-support loan rate determined by law, the producer can default on the loan without penalty, forfeiting the loan collateral as settlement of the loan.

Agricultural price support outlays were $22.5 billion in 1987, down from the record level of $25.8 billion in 1986. Outlays are projected to decline to $17.7 billion in 1988 and $17.1 billion in 1989. The administration's goal of developing more market-oriented agricultural programs that would enhance the United States' competitiveness is working. There has been major improvement in export markets, farm income reached record levels in 1987, and farm debt is projected to decline again for the fifth straight year.

The administration plans to utilize fully the discretion provided in the 1985 farm bill to set price supports closer to market clearing levels. The reduction in artifically high price supports should in-

**NATIONAL NEED: IMPROVED AGRICULTURE**

(Functional code 350; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Farm income stabilization:** | | | | | |
| Commodity Credit Corporation: | | | | | |
| Existing law | 22,454 | 17,707 | 17,149 | 15,951 | 15,455 |
| Proposed legislation | ..... | ..... | 7 | −63 | −126 |
| Proposed credit reform | ..... | ..... | 565 | 346 | 141 |
| Crop insurance: | | | | | |
| Existing law | 454 | 491 | 541 | 547 | 534 |
| Proposed legislation | ..... | ..... | ..... | −98 | −172 |
| Agricultural credit: | | | | | |
| Existing law | 2,564 | 2,124 | 1,999 | 1,281 | 1,110 |
| Proposed credit reform | ..... | ..... | −497 | −392 | −354 |
| Other programs and unallocated overhead | 20 | 12 | ..... | 2 | ..... |
| Subtotal, Farm income stabilization | 25,492 | 20,334 | 19,763 | 17,573 | 16,588 |
| **Agricultural research and services:** | | | | | |
| Research programs | 808 | 885 | 867 | 852 | 840 |
| Extension programs | 319 | 353 | 312 | 294 | 300 |
| Marketing programs | 103 | 134 | 143 | 141 | 141 |
| Animal and plant health programs | 324 | 338 | 306 | 297 | 268 |
| Economic intelligence | 183 | 191 | 204 | 205 | 205 |
| Other programs and unallocated overhead | 225 | 220 | 239 | 231 | 230 |
| Offsetting receipts | −98 | −103 | −103 | −103 | −103 |
| Subtotal, Agricultural research and services | 1,864 | 2,018 | 1,969 | 1,918 | 1,880 |
| **Total, outlays** | **27,356** | **22,352** | **21,732** | **19,491** | **18,468** |

crease U.S. exports, thereby reducing the need for export subsidies. The value of agricultural exports in 1987 was $27.9 billion, while imports totaled $20.6 billion, resulting in a positive agricultural trade balance of $7.3 billion. The importance of agricultural trade to the economic health of the farm sector and the nation as a whole mandates an increased reliance on free markets for farm products.

The current price support program for the sugar industry poses significant problems in the areas of trade policy, foreign policy, and agricultural policy. The administration will seek to make deficit-neutral changes in this counterproductive program to make it more market-oriented and reduce Government interference in trade. The most important aspect of the 1985 farm bill was a move to a more market-oriented agriculture sector. Domestic sugar policy is in direct conflict with this and other policy objectives for the following reasons: the quota system runs counter to a free trade policy; international trade tensions are fostered by reducing the quota; and there is a loss of foreign exchange in countries that are economically weak but vital to U.S. interests.

*Crop Insurance.*—Since 1938, the Federal Crop Insurance Corporation (FCIC) has offered insurance to producers against crop losses

from natural hazards such as excessive rainfall or drought. In 1980, legislation was enacted to develop a market for self-sustaining private crop insurance. Today, all-risk crop insurance is available in more than 3,000 agricultural counties and more than 90 percent is delivered by private companies. The insurance in force is projected to reach $7.6 billion in 1989, an increase of $400 million over the 1988 estimate.

*Agricultural Credit.*—The Nation relies primarily on private credit for agriculture, as in other sectors of the national economy. However, the Farmers Home Administration (FmHA) currently holds about 20 percent of total farm debt outstanding, primarily for family farmers with limited resources. At the end of 1987, outstanding FmHA agricultural credit insurance fund direct loans totaled $27.6 billion. The FmHA has lent over 50 percent of this amount during the last 10 years. In 1987, new direct lending totaled $1.1 billion.

Farm operating and ownership direct and guaranteed loan activity in 1988 is estimated to be $3.8 billion. The 1989 budget proposes $4.0 billion in direct and guaranteed farm operating lending, continuing to shift gradually away from direct Federal lending to Federal guarantees of private loans, as provided for in the farm bill. Disaster loan programs are proposed to be funded at anticipated demand levels, or $100 million in 1989, versus the estimated level of $114 million in 1988. An additional $100 million will be available in 1989 for interest rate buy-downs on guaranteed loans and $100 million will be available for guarantees of farm ownership loans.

***Agricultural Research and Services.***—The proposed funding level for agricultural research and services is $1.9 billion in 1989, a $0.2 billion decrease from the estimated level in 1988.

*Research Programs.*—The proposed 1989 research program includes $834 million of budget authority, a $75 million decrease from the 1988 level due to reduced funding for research, buildings and facilities, and special grants to States. The proposed program level gives priority to genetic and biotechnology research. Research in the areas of water quality, protection of the stratospheric ozone, conservation, food safety, and human nutrition will be emphasized. The 1989 program emphasizes long-term, basic research rather than applied research and product development, which are more appropriately financed by private industry.

*Extension Programs.*—The Federal Extension Service, States, and localities finance the Cooperative Extension System. This system provides social and economic services in agriculture, home economics, community development, and 4-H youth programs. Federal support, which accounts for up to one-third of the resources available to the system, is proposed to decrease from $358 million in

**CREDIT PROGRAMS—AGRICULTURE**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Agricultural credit insurance fund subsidies: | | | | | |
| New obligations | ..... | ..... | 600 | 500 | 400 |
| Change in outstandings | ..... | ..... | 570 | 452 | 299 |
| Outstandings | ..... | ..... | 570 | 1,022 | 1,321 |
| Agricultural credit insurance fund: | | | | | |
| New obligations | 1,493 | 1,137 | ..... | ..... | ..... |
| Change in outstandings | −1,471 | −2,270 | −2,742 | −2,554 | −2,241 |
| Outstandings | 27,600 | 25,329 | 22,587 | 20,033 | 17,792 |
| CCC export subsidies: | | | | | |
| Change in outstandings | ..... | ..... | 19 | 234 | 438 |
| Outstandings | ..... | ..... | 19 | 252 | 690 |
| Commodity price support and related loans: | | | | | |
| New obligations | 16,566 | 15,024 | 10,746 | 10,923 | 10,330 |
| Change in outstandings | −3,031 | −4,184 | −717 | −1,230 | −288 |
| Outstandings | 18,578 | 14,393 | 13,676 | 12,446 | 12,158 |
| Total, direct loans: | | | | | |
| New obligations | 18,060 | 16,161 | 11,346 | 11,423 | 10,730 |
| Change in outstandings | −4,501 | −6,455 | −2,871 | −3,098 | −1,793 |
| Outstandings | 46,177 | 39,722 | 36,852 | 33,754 | 31,960 |
| Guaranteed loans: | | | | | |
| Agricultural credit insurance fund subsidies: | | | | | |
| New commitments | ..... | ..... | 3,600 | 3,675 | 3,750 |
| Change in outstandings | ..... | ..... | 1,615 | 2,969 | 2,398 |
| Outstandings | ..... | ..... | 1,615 | 4,584 | 6,982 |
| Agricultural credit insurance fund: | | | | | |
| New commitments | 1,565 | 2,793 | ..... | ..... | ..... |
| Change in outstandings | 700 | 1,345 | 357 | −757 | −354 |
| Outstandings | 2,488 | 3,834 | 4,191 | 3,433 | 3,079 |
| CCC export subsidies: | | | | | |
| New commitments | ..... | ..... | 3,500 | 3,500 | 3,500 |
| Change in outstandings | ..... | ..... | 3,500 | 2,450 | 1,400 |
| Outstandings | ..... | ..... | 3,500 | 5,950 | 7,350 |
| CCC export guarantee loans: | | | | | |
| New commitments | 2,998 | 5,500 | ..... | ..... | ..... |
| Change in outstandings | 123 | 3,492 | −2,879 | −2,240 | −1,729 |
| Outstandings | 3,732 | 7,224 | 4,346 | 2,106 | 377 |
| Total, guaranteed loans: | | | | | |
| New commitments | 4,564 | 8,293 | 7,100 | 7,175 | 7,250 |
| Change in outstandings | 823 | 4,838 | 2,593 | 2,422 | 1,715 |
| Outstandings | 6,220 | 11,058 | 13,651 | 16,074 | 17,789 |
| **Total, new obligations and new commitments** | **22,623** | **24,454** | **18,446** | **18,598** | **17,980** |

budget authority for 1988 to $300 million in 1989. The administration proposes to reduce 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, and financial management; and by reducing grant assistance for food and nutrition education. These programs can be funded out of the formula grant program, which is proposed to have $228 million in budget authority in 1989.

*Marketing Programs.*—The Federal Government provides unbiased, time-sensitive marketing information on most major agricultural commodities in international, national, and regional segments of the agricultural marketing chain. Marketing transaction data are compiled into market reports that are released to users through radio, television, telephone answering devices, and through printed media. These data aid in the orderly marketing of farm products and services. Most of these sources are offered on a user fee basis.

*Animal and Plant Health.*—The Federal Government carries out a number of programs to prevent the introduction and spread of plant and animal pests and diseases that can cause severe losses in crop yields or livestock. Budget authority in 1989, proposed to be $306 million, includes funds to support the eradication of brucellosis infection in domestic livestock through a Federal-State-industry cooperative program. The goal is to eradicate brucellosis by 1991, after which time the Federal role will be reduced to surveillance only.

***Tax Expenditures.***—Agriculture is promoted by several tax expenditures. Farmers are permitted to deduct the costs of soil and water conservation projects on their land. In addition, the Tax Reform Act of 1986 permits farmers and timber growers to deduct the costs of producing products that have multi-year growing seasons. In contrast, non-agricultural entities are required to capitalize the costs of multi-year production processes. The tax expenditures for these two agricultural deductions are estimated to be $545 million and $5 million, respectively, in 1989.

The 1986 tax legislation repealed the capital gains benefit farmers could derive from the sale of such products as livestock, which had been treated as capital assets. However, farmers were accorded a new tax expenditure that provides for preferential treatment when collateralized loans are settled for less than the principal owed. This preferential treatment will cost $10 million in 1989.

Altogether, the estimated 1989 cost of tax expenditures in support of agriculture is $520 million.

# COMMERCE AND HOUSING CREDIT

The Federal Government needs to ensure a stable supply of credit to all sectors of the economy. Commerce and housing credit programs supplement private sector financing of business and housing by providing assistance for mortgage credit, deposit insurance and other subsidies for business. This function also includes non-credit programs for the advancement of commerce.

The budget proposals reflect the administration's goals of maintaining low-inflation, growth-oriented monetary and fiscal policies, reducing Federal intervention in private markets, and making existing programs more efficient. These policies have brought about the lowest interest rates in nearly a decade. These low rates contributed to over 700,000 new business incorporations last year and the strongest levels of housing starts and home sales since the 1970's. Because of the booming private sector activity in this area, the budget proposes to reduce, terminate, or privatize programs in which the beneficiaries can be better served by the private sector.

The budget proposes $14.8 billion in budget authority in 1989 and $7.9 billion in estimated outlays for commerce and housing credit. Mortgage credit and deposit insurance programs and activities are a major portion of the assistance, with $10.0 billion in proposed budget authority in 1989. In addition, the budget proposes $677 million in direct loan obligations and $66 billion in guaranteed loan commitments in 1989.

***Mortgage Credit and Deposit Insurance.***—In support of both the housing and financial markets, the Federal Government's primary goals are fiscal and monetary policies that result in non-inflationary economic growth and a stable, sound financial system. Additionally, the Government has long provided direct support—in the form of grants, and direct and guaranteed loans—to those areas of the economy that the private sector may not adequately serve.

*Mortgage-Backed Securities.*—The Government National Mortgage Association (GNMA) supports the mortgage market through guarantees of mortgage-backed securities issued by private lenders and backed by mortgages that are insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration. The GNMA guarantee enhances the saleability of these securities in the capital markets. In 1988, guarantees are expected to be issued on $83.4 billion in securities. For 1989, the administration proposes a new commitment limitation of $100 billion. Of that amount, new guarantees are estimated to be issued on $83.6 billion in securities.

The administration is proposing to deregulate the fee GNMA mortgage-backed issuers earn servicing FHA and VA mortgages underlying GNMA's securities. Currently, GNMA sets the servicing

**NATIONAL NEED: COMMERCE AND HOUSING CREDIT**

(Functional code 370; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Mortgage credit and deposit insurance:** | | | | | |
| Mortgage-backed securities (GNMA): | | | | | |
| Proposed credit reform | ..... | ..... | 1,900 | 1,900 | 1,900 |
| Mortgage purchase activities (GNMA) | 1 | 14 | 270 | ..... | ..... |
| Mortgage credit (FHA): | | | | | |
| Existing law | 480 | 825 | 957 | 1,040 | 1,017 |
| Proposed credit reform | ..... | ..... | 903 | 880 | 880 |
| Housing for the elderly or handicapped: | | | | | |
| Existing law | 533 | 584 | 289 | 310 | 327 |
| Proposed credit reform | ..... | ..... | −216 | −231 | −254 |
| Rural housing programs (FmHA): | | | | | |
| Existing law | 2,434 | 6,339 | 3,864 | 2,862 | 3,716 |
| Proposed legislation | ..... | ..... | ..... | ..... | −89 |
| Federal Deposit Insurance Corporation | 1,099 | 903 | 27 | ..... | ..... |
| Federal Savings and Loan Insurance Corporation and other | 1,600 | 3,986 | 2,000 | 1,000 | 750 |
| Subtotal, Mortgage credit and deposit insurance | 6,148 | 12,652 | 9,994 | 7,761 | 8,248 |
| **Postal service:** | | | | | |
| Existing law | 2,944 | 1,699 | 2,764 | 2,731 | 2,807 |
| Proposed legislation | ..... | ..... | −351 | −194 | 11 |
| Subtotal, Postal service | 2,944 | 1,699 | 2,412 | 2,537 | 2,818 |
| **Other advancement of commerce:** | | | | | |
| Small and minority business assistance: | | | | | |
| Existing law | 644 | 515 | 404 | 496 | 547 |
| Proposed credit reform | ..... | ..... | 336 | 280 | 156 |
| Science and technology | 317 | 362 | 378 | 387 | 373 |
| Economic and demographic statistics | 298 | 473 | 704 | 1,529 | 421 |
| International trade and other: | | | | | |
| Existing law | 535 | 562 | 597 | 572 | 570 |
| Proposed legislation | ..... | ..... | −1 | ..... | ..... |
| Subtotal, Other advancement of commerce | 1,792 | 1,912 | 2,419 | 3,265 | 2,066 |
| **Total, budget authority** | **10,885** | **16,262** | **14,825** | **13,562** | **13,133** |

fee paid to issuers at 44 basis points per annum (44/100 of one percent) of the outstanding mortgage amount. This minimum fee was originally established to assure that lenders could profitably service the GNMA mortgage pools. However, the fee may be in excess of that needed to protect the Government's interests and may in fact lead to higher mortgage rates for borrowers. The administration proposes to deregulate the fee, thereby letting the market establish the rate, and to increase minimum capital requirements for issuers to protect the Government against issuers defaulting on their mortgage pools.

*Mortgage Credit.*—The FHA provides mortgage insurance on single-family homes, apartments, manufactured housing, and health care facilities. This insurance protects lenders from loss in

the event of default on loans. The single-family mortgage insurance program (the largest of the FHA programs) is currently available to all qualified applicants regardless of income level. The program has underwriting and downpayment requirements intended to assist low- and moderate-income families who otherwise would not be able to afford to buy a home. However, some families using the FHA program may qualify for private mortgage insurance. The administration will continue to study the extent to which FHA activity duplicates private mortgage insurance activity. As part of this effort, HUD is planning to conduct a study to compare its mortgage insurance premium to the premium private mortgage insurers would have to charge to provide comparable guarantees.

**NATIONAL NEED: COMMERCE AND HOUSING CREDIT**

(Functional code 370; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Mortgage credit and deposit insurance:** | | | | | |
| Mortgage-backed securities (GNMA): | | | | | |
| Existing law | −234 | −100 | −278 | −318 | −369 |
| Proposed credit reform | ..... | ..... | 1,007 | 1,053 | 1,107 |
| Mortgage purchase activities (GNMA) | −481 | 27 | −7 | −4 | −4 |
| Mortgage credit (FHA): | | | | | |
| Existing law | −555 | 281 | 36 | −262 | −535 |
| Proposed credit reform | ..... | ..... | 1,586 | 2,056 | 1,746 |
| Housing for the elderly or handicapped: | | | | | |
| Existing law | 404 | 545 | 530 | 532 | 518 |
| Proposed credit reform | ..... | ..... | ..... | ..... | −60 |
| Rural housing programs (FmHA): | | | | | |
| Existing law | 799 | 3,248 | 1,411 | 1,407 | 1,090 |
| Proposed legislation | ..... | ..... | −89 | ..... | ..... |
| Federal Deposit Insurance Corporation | −1,438 | 2,268 | 502 | −1,016 | −1,067 |
| Federal Savings and Loan Insurance Corporation and other | 4,755 | 2,189 | 951 | 1,120 | 915 |
| National Credit Union Administration | −188 | −253 | −295 | −320 | −326 |
| Subtotal, Mortgage credit and deposit insurance | 3,062 | 8,205 | 5,355 | 4,247 | 3,016 |
| **Postal service:** | | | | | |
| Existing law | 1,593 | 2,223 | 1,183 | 1,591 | 1,663 |
| Proposed legislation | ..... | ..... | −508 | −46 | 11 |
| Subtotal, Postal service | 1,593 | 2,223 | 675 | 1,545 | 1,674 |
| **Other advancement of commerce:** | | | | | |
| Small and minority business assistance: | | | | | |
| Existing law | 342 | 471 | 74 | −26 | 553 |
| Proposed credit reform | ..... | ..... | 173 | 283 | 163 |
| Science and technology | 370 | 411 | 373 | 386 | 379 |
| Economic and demographic statistics | 246 | 480 | 624 | 1,616 | 427 |
| International trade and other: | | | | | |
| Existing law | 569 | 575 | 589 | 561 | 555 |
| Proposed legislation | ..... | ..... | −1 | ..... | ..... |
| Subtotal, Other advancement of commerce | 1,527 | 1,936 | 1,832 | 2,821 | 2,078 |
| **Total, outlays** | **6,182** | **12,364** | **7,862** | **8,613** | **6,768** |

*Housing for the Elderly or Handicapped.*—The section 202 housing program for elderly and handicapped households provides direct loans at subsidized rates to non-profit organizations for the construction of housing for the very-low-income elderly and the handicapped. Projects are also subsidized by the Section 8 rental assistance program in HUD, described in the income security function.

The administration proposes to address the needs of elderly and handicapped households primarily through the rental housing voucher program rather than housing construction programs. Vouchers allow low-income households to shop for their own housing in the existing rental market. For 1989, the budget proposes a section 202 construction program of 7,000 units with $350 million in loan funds. To address the special needs of the mentally handicapped, the budget proposes a 25 percent set-aside of program funds for the handicapped, with special priority given to the mentally handicapped homeless. By emphasizing these special needs, the budget assumes that approximately $50 million in section 202 loan authority will be used to develop projects equipped to assist the mentally handicapped homeless population.

*Rural Housing Programs.*—As discussed in the income security function, the administration proposes to expand the rural voucher program established in the 1987 Housing and Community Development Act, to replace lending from the rural housing insurance fund direct loan program of the Farmers Home Administration (FmHA). As evidenced in metropolitan areas where vouchers are already in use, vouchers increase household choices and permit more efficient use of private market housing. The administration proposes to terminate those traditional lending programs that have not been cost-effective in helping low-income families move to standard housing units.

*Credit and Banking.*—A number of programs enhance the safety and soundness of the banking system and affect its responsiveness to the needs of both savers and borrowers. The *Federal Deposit Insurance Corporation (FDIC)* insures the deposits of all federally chartered and many State-chartered commercial and savings banks. A record number of FDIC-insured banks failed in 1987. A significant portion of the failed banks suffered unsustainable losses caused by weaknesses in the economies of states dependent on the agriculture and oil industries. The net loss incurred by the fund in 1987 was $201 million, resulting in an equity balance of $18.3 billion. Despite continued high rates of bank closing activity projected for 1988 and 1989, the FDIC will have sufficient resources to handle this historically heavy workload. FDIC equity is projected to increase to $19.5 billion by the end of 1989.

## CREDIT PROGRAMS—COMMERCE AND HOUSING CREDIT

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Mortgage-backed securities (GNMA): | | | | | |
| Change in outstandings | 92 | 2 | −28 | −22 | −10 |
| Outstandings | 102 | 104 | 75 | 53 | 44 |
| Mortgage-backed securities subsidies (GNMA): | | | | | |
| Change in outstandings | ..... | ..... | ..... | * | * |
| Outstandings | ..... | ..... | ..... | * | 1 |
| Mortgage insurance (FHA): | | | | | |
| New obligations | ..... | 41 | ..... | ..... | ..... |
| Change in outstandings | 399 | −203 | 42 | 280 | 338 |
| Outstandings | 4,645 | 4,442 | 4,484 | 4,764 | 5,102 |
| Mortgage purchase activity (GNMA): | | | | | |
| Change in outstandings | −427 | −55 | −393 | * | * |
| Outstandings | 457 | 402 | 9 | 9 | 8 |
| FHA fund subsidies: | | | | | |
| New obligations | ..... | ..... | 103 | 168 | 168 |
| Change in outstandings | ..... | ..... | 41 | 107 | 166 |
| Outstandings | ..... | ..... | 41 | 148 | 314 |
| Housing for the elderly or handicapped: | | | | | |
| New obligations | 574 | 566 | 17 | 9 | ..... |
| Change in outstandings | 377 | 505 | 490 | 491 | 391 |
| Outstandings | 6,566 | 7,071 | 7,560 | 8,051 | 8,442 |
| Housing for the elderly or handicapped subsidies: | | | | | |
| New obligations | ..... | ..... | 333 | 350 | 368 |
| Change in outstandings | ..... | ..... | ..... | ..... | 79 |
| Outstandings | ..... | ..... | ..... | ..... | 79 |
| Rural housing (FmHA): | | | | | |
| New obligations | 1,716 | 1,715 | ..... | ..... | ..... |
| Change in outstandings | −3,219 | 301 | −2,434 | −1,196 | −1,228 |
| Outstandings | 26,511 | 26,812 | 24,378 | 23,182 | 21,954 |
| Central liquidity facility (NCUA): | | | | | |
| New obligations | 106 | 127 | 144 | 150 | 150 |
| Change in outstandings | 6 | 25 | 25 | 25 | 25 |
| Outstandings | 112 | 137 | 162 | 187 | 212 |
| Small Business Administration: | | | | | |
| New obligations | 86 | 85 | ..... | ..... | ..... |
| Change in outstandings | −302 | −278 | −910 | −943 | −187 |
| Outstandings | 4,514 | 4,236 | 3,326 | 2,383 | 2,196 |
| FDIC: | | | | | |
| Change in outstandings | −334 | −1 | −216 | −50 | −50 |
| Outstandings | 3,089 | 3,088 | 2,872 | 2,822 | 2,772 |
| FSLIC: | | | | | |
| New obligations | 96 | 100 | 74 | 25 | 25 |
| Change in outstandings | 83 | −12 | −35 | 15 | 15 |
| Outstandings | 1,769 | 1,757 | 1,722 | 1,737 | 1,752 |
| Other: | | | | | |
| New obligations | 3 | 20 | 5 | ..... | ..... |
| Change in outstandings | −21 | 5 | −3 | −7 | −7 |
| Outstandings | 42 | 47 | 44 | 37 | 30 |
| Total, direct loans: | | | | | |
| New obligations | 2,581 | 2,654 | 677 | 702 | 711 |
| Change in outstandings | −3,347 | 290 | −3,422 | −1,301 | −468 |
| Outstandings | 47,806 | 48,097 | 44,674 | 43,374 | 42,906 |
| Guaranteed loans: | | | | | |
| Mortgage-backed securities (GNMA) [1]: | | | | | |
| New commitments | 139,976 | 83,355 | ..... | ..... | ..... |
| Change in outstandings | 67,767 | 32,522 | −22,690 | −36,771 | −35,984 |
| Outstandings | 308,997 | 341,519 | 318,829 | 282,058 | 246,074 |

**CREDIT PROGRAMS—COMMERCE AND HOUSING CREDIT—Continued**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Mortgage-backed securities subsidies (GNMA): | | | | | |
| New commitments | ..... | ..... | 83,609 | 84,462 | 85,409 |
| Change in outstandings | ..... | ..... | 50,422 | 62,128 | 60,893 |
| Outstandings | ..... | ..... | 50,422 | 112,550 | 173,443 |
| Mortgage insurance (FHA): | | | | | |
| New commitments | 79,995 | 59,850 | ..... | ..... | ..... |
| Change in outstandings | 51,897 | 7,685 | −27,174 | −42,048 | −41,153 |
| Outstandings | 275,417 | 283,102 | 255,928 | 213,880 | 172,727 |
| FHA fund subsidies: | | | | | |
| New commitments | ..... | ..... | 61,790 | 63,918 | 66,309 |
| Change in outstandings | ..... | ..... | 34,801 | 51,141 | 51,519 |
| Outstandings | ..... | ..... | 34,801 | 85,942 | 137,460 |
| Rural housing (FmHA): | | | | | |
| Change in outstandings | −5 | −140 | −1 | −2 | −5 |
| Outstandings | 177 | 37 | 35 | 33 | 28 |
| Small Business Administration: | | | | | |
| New commitments | 3,387 | 3,791 | 3,597 | 3,596 | 3,596 |
| Change in outstandings | 586 | 435 | 310 | 205 | 95 |
| Outstandings | 9,291 | 9,726 | 10,036 | 10,241 | 10,336 |
| FSLIC: | | | | | |
| New commitments | 1,260 | 623 | 325 | 100 | 100 |
| Change in outstandings | 1,110 | −367 | 218 | 50 | 50 |
| Outstandings | 4,063 | 3,696 | 3,913 | 3,963 | 4,013 |
| Other: | | | | | |
| New commitments | 142 | 90 | 4 | ..... | ..... |
| Change in outstandings | 54 | 45 | −22 | −20 | −18 |
| Outstandings | 274 | 319 | 297 | 277 | 259 |
| Less guaranteed loans held as direct loans by GNMA[2]: | | | | | |
| Change in outstandings | 427 | 55 | 393 | * | * |
| Outstandings | −457 | −402 | −9 | −9 | −8 |
| Total, guaranteed loans: | | | | | |
| New commitments | 84,785 | 64,354 | 65,715 | 67,614 | 70,005 |
| Change in outstandings | 54,068 | 7,713 | 8,525 | 9,325 | 10,488 |
| Outstandings | 288,765 | 296,478 | 305,002 | 314,328 | 324,816 |
| **Total, new obligations and new commitments** | **87,366** | **67,008** | **66,392** | **68,316** | **70,716** |

* $500,000 or less.

[1] GNMA guarantees securities that are backed by pools of loans previously insured by FHA, VA, or FmHA. These secondary guarantees of loans are not included in the guaranteed loan totals on this table.

[2] When guaranteed loans are acquired by another budget account, they are counted as direct loans in the credit budget. This deduction for GNMA eliminates double counting.

The *Federal Savings and Loan Insurance Corporation* (FSLIC), under the direction of the Federal Home Loan Bank Board, insures deposits of member savings and loan associations and savings banks. While healthy thrifts (holding over 80 percent of industry assets) improved their combined net worth by almost 25 percent in 1987, troubled thrifts as a group experienced heavy losses. Estimated outlays of $2.2 billion in 1988 and $1.0 billion in 1989 reflect the mounting caseload of troubled institutions to be handled by FSLIC. The Competitive Equality Banking Act (CEBA) of 1987 recapitalized the FSLIC fund by creating the Financing Corporation (FICO), a new financing facility (FICO) capitalized from earnings of the

Federal Home Loan Banks. Funds are raised by FICO in the long-term credit markets and invested in FSLIC stock. FSLIC will use the proceeds, in addition to its premium and investment income, to accelerate its efforts to close unprofitable and insolvent institutions.

The CEBA also directed that the special insurance assessment (one-eighth of 1 percent) on deposits of FSLIC insured thrifts be gradually eliminated unless the FHLBB determined that FSLIC's financial conditions would not warrant a reduction. Although the FHLBB has not made a final policy determination to continue the special assessment, the budget projections assume continuation at the current rate. Even with recapitalization and the projected continuation of the special assessment, FSLIC expenditures are anticipated to exceed receipts during the next few years. FSLIC fund equity remains negative through 1989 due to recognition of FSLIC's contingent liability for the eventual closing of many insolvent thrifts.

*The National Credit Union Administration* regulates credit unions, provides liquidity assistance to member credit unions, and insures depositors' accounts. The equity of the National Credit Union share insurance fund climbed from $1.4 billion in 1986 to $1.6 billion at the end of 1987. In 1988 and 1989, insurance fund equity is expected to grow to $1.9 billion and $2.2 billion, respectively. Collections are expected to exceed gross outlays for the insurance fund by $277 million in 1988 and $320 million in 1989.

***Postal Service.***—The U.S. Postal Service (USPS) is an independent federal corporation within the executive branch. There are two components of Postal Service outlays: the subsidy for religious and charitable mailings (the Revenue Forgone Appropriation) and the difference between total USPS receipts (e.g., stamp sales receipts) and expenditures. Total outlays for 1988 are estimated to be $2.2 billion with a drop in 1989 to $0.7 billion. This is largely due to increased postage receipts resulting from a projected 16 percent average rate increase in April 1988.

Consistent with the June 1986 Postal Rate Commission study of subsidized postal mailings, the 1989 budget proposes to eliminate virtually all taxpayer subsidies while shifting the cost of reduced rates for most religious and charitable mailings to commercial mailers. This would reduce the 1989 appropriation $498 million below the 1988 level of $517 million. The budget continues a small appropriation ($19 million) to subsidize free mail for the blind and for overseas voters.

The recently enacted Omnibus Budget Reconciliation Act of 1987 (OBRA) requires the Postal Service to achieve operating cost reductions of $160 million for 1988 and $270 million for 1989. These congressionally-mandated savings represent 0.43 and 0.68 percent

of the total estimated USPS expenditures for 1988 and 1989, respectively. To help the Postal Service achieve these modest operating cost reductions without reducing service, the budget proposes implementation of pilot projects (1) permitting private companies to provide certain postal services directly, and (2) expanding current efforts to contract with the private sector to supply goods and services to the Postal Service at lower cost. Recent experience in implementing the "urgent letter" rule and broadening international mail competition has proved that the Postal Service and private enterprise can coexist profitably in the same markets, better serving the American public with more services and more explicit price information for choosing among these services.

A recent GAO report recommended strengthening the Postal Inspection Service (PIS) by requiring the PIS to submit reports, similar to those prepared by Statutory Inspector Generals, directly to the Postal Board of Governors for action. The budget recommends that the Governors meet this GAO objective by taking direct control over the PIS. Additionally, to strengthen further the Presidentially-appointed Governors, the budget proposes providing them with independent counsel and a small program analysis and evaluation staff. The Postal Service Fund would fully finance the proposed staff increases for the Board of Governors. No taxpayer costs would be incurred.

For several years the administration has sought to require the Postal Service to pay its full share of the costs of retirement and health insurance benefits for Postal retirees. OBRA required the Postal Service to make partial payments in 1988 of $350 million toward retirement costs and $160 million toward annuitant health benefit costs. The Act required another partial payment of $270 million for health benefit costs in 1989. Following up on this policy, the administration will propose legislation requiring the Postal Service to make payments to the civil service retirement fund to cover the full cost of providing cost-of-living adjustments (COLAs) to Postal Service annuitants. The Postal Service will be liable for its annuitant COLA costs in 1989, but its initial payment will be deferred until 1990 when a payment will be made for both 1989 and 1990.

*Other Advancement of Commerce.*—Federal programs attempt to support an environment for fair and equitable business opportunities and increase international competitiveness by providing technical assistance, developing and distributing scientific standards, collecting and disseminating information on the economy and population, administering U.S. trade laws, and providing export promotion assistance to small and medium-sized businesses.

*Small and Minority Business Assistance.*—The administration proposes to continue Federal credit assistance to small and minori-

ty businesses in the form of guaranteed loans rather than direct loans. Guaranteed loans of $3.6 billion are proposed in 1989 for the Small Business Administration (SBA) general business program, small and minority enterprise business investment company programs, and development company programs. An estimated $520 million in direct loans will be made to repurchase defaulted guaranteed loans in 1989. To improve the Federal Government's efforts to assist minority business enterprises, the administration proposes to consolidate the minority business development assistance program, currently in the Department of Commerce, into the minority business assistance programs within the SBA.

As part of the administration's effort to improve Federal credit management, administrative increases in guarantee fees for SBA's programs are proposed, which would result in $7.5 million in receipts. In addition, measures will be proposed to reduce the Federal Government's contingent liability. By increasing both the borrowers' and the lenders' share of default costs, these proposals encourage sounder credit origination decisions and should result in lower default rates. The budget also proposes to sell $1 billion in loans during 1989.

*Other.*—The U.S. Travel and Tourism Administration's (USTTA) international marketing program encourages foreign travel to the United States by providing technical assistance to private, State, and local tourism organizations. In 1989, the administration proposes budget authority of $11 million for USTTA programs. The administration will continue to pursue legislation, introduced last year, to establish a charge of $1 per ticket for international travel to and from the United States, its possessions, and its territories. The charge would be collected through airline and cruise ship carriers, which are the primary beneficiaries of the program, and would be used to fund USTTA programs in 1990 and beyond.

The Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) are responsible for ensuring that the Nation's financial markets are kept efficient and fair. The securities, futures and options markets perform important roles in the economy. The administration proposes to increase budget authority in 1989 for the SEC by 19 percent and the CFTC by 8 percent to permit these agencies to keep pace with major changes in these markets and corresponding increased workloads.

***Tax Expenditures.***—There are numerous tax expenditure programs designed to increase the supply of savings, to encourage homeownership, and to reduce the cost of acquiring or financing the purchase of assets used in commerce. These are listed in the table. Some of the programs, such as the dividend exclusion to encourage stock ownership, expired before 1987; others, such as the depreciation and bank bad debt reserve provisions, have been modi-

**TAX EXPENDITURES FOR COMMERCE AND HOUSING CREDIT**

(Outlay equivalents; in millions of dollars)

| Description | Estimates | | |
|---|---|---|---|
| | 1987 | 1988 | 1989 |
| Commerce and housing credit: | | | |
| Dividend exclusion | 470 | ..... | ..... |
| Exclusion of interest on State and local industrial development bonds | 3,420 | 3,435 | 3,475 |
| Exemption of credit union income | 265 | 240 | 220 |
| Excess bad debt reserves of financial institutions | 575 | 120 | 65 |
| Exclusion of interest on life insurance savings | 7,475 | 7,200 | 7,235 |
| Exemption of RIC expenses from the miscellaneous deductions floor | ..... | 240 | * |
| Deductibility of interest on consumer credit | 11,845 | 6,530 | 3,280 |
| Deductibility of mortgage interest on owner-occupied homes | 34,745 | 33,675 | 32,185 |
| Deductibility of property tax on owner-occupied homes | 10,285 | 10,100 | 10,410 |
| Exclusion of interest on State and local housing bonds for owner-occupied housing | 2,420 | 2,375 | 2,360 |
| Exclusion of interest on State and local debt for rental housing | 1,730 | 1,650 | 1,630 |
| Deferral of income from post-1987 installment sales | ..... | 260 | 670 |
| Capital gains (other than agriculture, timber, iron ore and coal) | 98,180 | 265 | ..... |
| Deferral of capital gains on homes sales | 2,970 | 4,435 | 4,690 |
| Exclusion of capital gains on home sales for persons age 55 and over | 2,935 | 3,730 | 3,910 |
| Carryover basis of capital gains at death | 9,210 | 16,030 | 17,310 |
| Investment credit (other than employee stock ownership plans, rehabilitation of structures, energy property, and reforestation expenditures) | 17,745 | 11,295 | 4,030 |
| Special investment credit carryback rules for steel companies | ..... | 565 | −25 |
| Accelerated depreciation of rental housing | 210 | 290 | 350 |
| Accelerated depreciation of buildings other than rental housing | 260 | 340 | 390 |
| Accelerated depreciation of machinery and equipment | 13,280 | 21,920 | 27,520 |
| Safe harbor leasing rules | 975 | 660 | 535 |
| Amortization of start-up costs | 300 | 245 | 230 |
| Reduced rates on the first $100,000 of corporate income | 6,340 | 4,720 | 4,550 |
| Deductions for special percentage of taxable income for life insurance companies | 480 | ..... | ..... |
| Exception from passive loss rules for $25,000 of rental losses | 580 | 1,580 | 1,255 |
| Total (after interactions), commerce and housing credit [1] | 221,450 | 129,300 | 123,610 |

*$500 thousand or less.

[1] The estimate of total tax expenditures for this function reflects interactive effects among the individual items. Therefore, the estimates cannot simply be added.

fied by the Tax Reform Act of 1986; and still others, such as capital gains and investment tax credit, were repealed. Individuals may deduct miscellaneous expenses only to the extent that they exceed 2 percent of adjusted gross income (AGI). Regulated investment company (RIC), i.e., mutual fund, shareholder expenses are subject to this floor from which they had been exempt for the tax year 1987. Taxpayers are thus again required to include in the taxable income amounts greater than actually received from mutual funds. The administration proposes that the exemption of RIC expenses from the 2 percent miscellaneous deduction floor be made permanent at a cost of $410 million in 1989. Altogether, the estimated 1989 budget cost of these tax subsidies to commerce and housing credit is $123.6 billion, 4.4 percent less than the $129.3 billion total for 1988. A detailed description of these tax expenditure programs

and the way they have been affected by the Tax Reform Act will be found in Special Analysis G.

# TRANSPORTATION

The Federal Government seeks to facilitate a safe, efficient and cost-effective national transportation system that contributes to the national economy, advances interstate commerce, and supports the national defense.

An integrated and efficient national, State, and local transportation network requires the combined and cooperative efforts of the Federal Government, States, localities, and the private sector. Each level of Government should promote and maintain those transportation services and facilities for which it is appropriately responsible, with the Federal Government concentrating its efforts and limited resources on improving the interstate transportation system and on ensuring compliance with needed safety standards. The private sector, when freed of unnecessary governmental restrictions and allowed to compete freely in the transportation market, is an invaluable partner with all levels of Government in the effort to ensure appropriate and cost-effective levels of transportation services at the lowest reasonable cost.

The administration requests $27.0 billion of budget authority in 1989 for national ground, air, and water transportation systems, about $1.1 billion less than for 1988. This funding request will implement the highway and air programs recently authorized in 1987. Obligations for highway, highway safety, and transit programs supported by the highway trust fund are targeted to the level of anticipated user fee receipts over the authorization period, 1987 through 1991. Requested funding for air transportation increases by $0.9 billion, or 13 percent, between 1988 and 1989, with the largest increase associated with the modernization of the air traffic control system.

The administration continues to stress the importance of requiring transportation users to pay the full cost of their transportation benefits. The administration proposes to finance 78 percent of transportation costs by user fees in 1989, compared to 45 percent of these costs funded by user fees in 1981. Subsidizing certain transportation services at the expense of all taxpayers results in a misallocation of society's resources and provides an unfair disadvantage to unsubsidized, but socially and economically useful, transportation services.

***Ground Transportation.***—Proposed budget authority in 1989 is $15.7 billion for highway, highway safety, mass transit, and railroad programs, a $2.6 billion decrease from 1988. The budget continues the administration's commitment to maintaining the quality of the Federal-aid highway system within available user fee resources, promoting highway safety, eliminating general taxpayer subsidies for Amtrak and mass transit, providing equitable distri-

**NATIONAL NEED: EFFICIENT TRANSPORTATION SYSTEMS**

(Functional code 400; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Ground transportation:** | | | | | |
| Highways | 13,581 | 13,806 | 13,701 | 13,850 | 13,850 |
| Highway safety | 298 | 402 | 315 | 317 | 320 |
| Mass transit: | | | | | |
| Existing law | 3,598 | 3,334 | 1,430 | 1,394 | 1,490 |
| Proposed legislation | ..... | ..... | 144 | 94 | −6 |
| Railroads | 720 | 671 | 57 | 56 | 55 |
| Regulation: | | | | | |
| Existing law | 47 | 44 | 44 | 45 | 46 |
| Proposed legislation | ..... | ..... | −13 | −28 | −29 |
| Subtotal, Ground transportation | 18,244 | 18,258 | 15,678 | 15,728 | 15,726 |
| **Air transportation:** | | | | | |
| Airports and airways (FAA) | 4,761 | 6,147 | 6,937 | 7,116 | 7,265 |
| Aeronautical research and technology | 727 | 723 | 872 | 917 | 926 |
| Air carrier subsidies | 30 | 24 | ..... | ..... | ..... |
| Subtotal, Air transportation | 5,518 | 6,895 | 7,809 | 8,033 | 8,191 |
| **Water transportation:** | | | | | |
| Marine safety and transportation | 2,588 | 2,526 | 2,968 | 3,259 | 3,141 |
| Ocean shipping: | | | | | |
| Existing law | 531 | 332 | 163 | 182 | 220 |
| Proposed legislation | ..... | ..... | 206 | 59 | 56 |
| Proposed credit reform | ..... | ..... | * | * | * |
| Reimbursement to Treasury from Panama Canal Commission | ..... | −86 | ..... | ..... | ..... |
| Subtotal, Water transportation | 3,120 | 2,772 | 3,338 | 3,500 | 3,417 |
| **Other transportation** | 115 | 108 | 138 | 138 | 140 |
| **Total, budget authority** | **26,996** | **28,032** | **26,963** | **27,399** | **27,474** |

*$500 thousand or less.

bution of user fee revenues, and requiring State and local cost sharing on all projects.

*Highways.*—The administration proposes to implement the provisions of the Surface Transportation and Uniform Relocation Assistance Act (STURAA) within the level of anticipated user fee receipts deposited in the highway account of the highway trust fund. Proposed budget authority for the Federal Highway Administration is $13.7 billion in 1989. As in previous budgets, the administration proposes to set annual obligations so that spending from the highway account of the highway trust fund does not exceed user fee receipts during the 1987–1991 authorization period. (During the last highway authorization, 1982–86, spending exceeded user fee receipts by $5.1 billion.) Therefore, obligations for the Federal-aid highways program are planned at $12.3 billion in 1989, compared to $13.0 billion projected for 1988. To ensure judicious use of user fee revenue, the administration also plans to require a non-Federal cost sharing of at least 20 percent of project costs for all so-called

**NATIONAL NEED: EFFICIENT TRANSPORTATION SYSTEMS**

(Functional code 400; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Ground transportation:** | | | | | |
| Highways | 12,687 | 13,336 | 13,388 | 12,880 | 12,724 |
| Highway safety | 269 | 302 | 317 | 331 | 332 |
| Mass transit: | | | | | |
| Existing law | 3,351 | 3,589 | 3,104 | 3,272 | 2,848 |
| Proposed legislation | ..... | ..... | 309 | 407 | 379 |
| Railroads | 808 | 527 | 26 | 123 | 88 |
| Regulation: | | | | | |
| Existing law | 42 | 43 | 44 | 45 | 46 |
| Proposed legislation | ..... | ..... | −16 | −28 | −28 |
| Subtotal, Ground transportation | 17,157 | 17,797 | 17,172 | 17,030 | 16,389 |
| **Air transportation:** | | | | | |
| Airports and airways (FAA) | 4,858 | 5,311 | 5,801 | 6,042 | 6,344 |
| Aeronautical research and technology | 635 | 679 | 797 | 893 | 918 |
| Air carrier subsidies | 26 | 24 | 5 | ..... | ..... |
| Subtotal, Air transportation | 5,520 | 6,014 | 6,603 | 6,935 | 7,262 |
| **Water transportation:** | | | | | |
| Marine safety and transportation | 2,575 | 2,775 | 2,961 | 2,901 | 3,074 |
| Ocean shipping: | | | | | |
| Existing law | 886 | 604 | 401 | 432 | 462 |
| Proposed legislation | ..... | ..... | 8 | 2 | −27 |
| Proposed credit reform | ..... | ..... | −5 | −5 | −5 |
| Reimbursement to Treasury from Panama Canal Commission | ..... | −86 | ..... | ..... | ..... |
| Subtotal, Water transportation | 3,461 | 3,293 | 3,365 | 3,330 | 3,504 |
| **Other transportation** | 91 | 133 | 141 | 136 | 137 |
| **Total, outlays** | **26,228** | **27,237** | **27,280** | **27,431** | **27,292** |

"demonstration" and special interest projects, that are not 100 percent federally funded.

*Highway Safety.*—The proposed funding level of $315 million in 1989 for Federal highway safety programs is 2 percent higher than the 1988 level of $308 million (excluding a $94 million reappropriation in 1988). The proposed 1989 funds would maintain current support for Federal vehicle safety research and development and for promulgation and enforcement of Federal safety standards.

The administration continues to support State and local efforts to develop awareness of the benefits of protecting the occupants of motor vehicles. In 1989, $6.4 million in Federal funds would be used to encourage the use of seat belts and passive restraints in vehicles. Particular emphasis will be placed on reducing the level of alcohol-related traffic accidents, which are again on the rise. Approximately $51.3 million, including grant funds of $46.5 million, is planned for alcohol research and to support State drunk-driving abatement programs.

*Mass Transit.*—Total transit ridership in the United States is now at a point slightly below where it was in 1965, accounting for

only 5 percent of passenger-miles traveled by residents of urbanized areas. The current program is also contrary to the administration's view that support of essentially local activities is not an appropriate Federal role, especially when financed from the general fund in excess of user fee receipts.

In an effort to address these trends and to use Federal dollars as wisely as possible, in 1989 the administration will propose legislation to target mass transit funding (except for Washington Metro) to the level of receipts provided by the one cent per gallon of the motor fuel tax dedicated to mass transit. Proposed 1989 mass transit budget authority is $1.4 billion. Most of the funds would be distributed by formula to States and large urban areas. States and localities could use their formula grant funds on public transportation capital projects, provided they make matching contributions of at least 50 percent.

The administration also proposes an immediate end to transit discretionary grant funding. These grants have promoted the construction of local transit systems that often have been too costly and underutilized. For example, in 1973, Detroit estimated that its automated people mover would cost $30 million to build; it actually cost $200 million and attracts no more than 10,000 daily riders, far less than the 71,000 originally projected. In Miami, a $1 billion transit investment carries only one-sixth 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. Funding for these grants comes from the one cent of the fuel tax dedicated to transit. The administration believes it is inequitable to continue subsidizing the projects of less than 20 cities by fuel taxes paid throughout the country. The fuel tax receipts should be distributed more equitably by formula to States and localities.

The administration is also proposing to terminate operating subsidies to large and medium-sized cities, but not small urban and rural areas. Federal operating subsidies, provided in response to the energy crisis to increase transit ridership and decrease fuel consumption, have generally financed inefficiency. Most of the operating subsidies finance increased wages and declining labor productivity in the mass transit industry. Absenteeism in the transit industry is estimated at three times the national average, yet transit operators and mechanics in large publicly operated systems earn an average of 31 to 95 percent more than their counterparts in the private sector.

The administration proposes a $128 million construction grant for the Washington, D.C. Metrorail which will complete construction of 89.5 miles, the Federal commitment made in the 1986 full funding agreement. Through 1989, the Federal Government will

have made available a total of $7.4 billion for the Washington Metro system, far more than what has been provided for any other new subway system in the country.

*Railroads.*—In keeping with the administration's policy of reducing Federal responsibility for rail activities unrelated to safety, proposed budget authority for railroads in 1989 is reduced to $57 million, $614 million less than in 1988. The decrease is attributable to the proposed elimination of subsidies for Amtrak as well as elimination of the Northeast corridor improvement and local rail service assistance programs.

Since 1970, the Federal Government has provided Amtrak with more than $13 billion in direct and indirect subsidies. Despite a virtual monopoly on intercity rail passenger service and a subsidy averaging about $30 per passenger in 1987, Amtrak serves less than 0.5 percent of all intercity travel. The administration is proposing to terminate all Amtrak subsidies in 1989. The President's Privatization Commission is currently studying options for the privatization of Amtrak.

*Regulation.*—The administration will continue its efforts to eliminate unnecessary Federal transportation regulations and to remove nonessential constraints on the competitive operation of the private transportation sector, especially the motor freight transportation industry. Legislation will again be proposed to deregulate completely the motor carrier, household goods freight forwarder, bus and inland water transportation industries, and to abolish the Interstate Commerce Commission (ICC) as an independent agency by October 1, 1988. Although most ICC rail activities would transfer to the Department of Transportation, rail antitrust matters would be policed by the Department of Justice. Handling of consumer protection complaints regarding household goods movers would be administered by the Federal Trade Commission.

***Air Transportation.***—Budget authority of $7.8 billion is requested for air transportation in 1989, an increase of $0.9 billion from the 1988 level. Federal spending for air transportation is for the improvement, operation, and maintenance of the national airspace system, airport grants, and aeronautical research.

*Airports and Airways.*—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.

Budget authority of $6.9 billion is proposed for 1989, a 13 percent increase from that provided in 1988. Tax receipts, primarily from passenger ticket and freight waybill taxes, are estimated to be $3.7 billion in 1989, an increase of 8 percent over estimated 1988 receipts of $3.4 billion.

Most of the requested 1989 funding increase is due to a proposed 44 percent increase in funding for the FAA's program to modernize our Nation's airspace system. In 1989, the administration is requesting $1.6 billion in budget authority to continue the FAA's airspace modernization program; this is $492 million more than the $1.1 billion appropriated in 1988. This increase in funding reflects the administration's continued strong commitment to improving the reliability, capacity, and safety of the current air traffic control system. The funds will be used for a variety of important activities and improvements, including the advanced automation system, surveillance radar, communications equipment, and terminal doppler weather radar systems designed to detect deadly wind shears. In addition, funding will be requested to provide interim support to existing facilities in order to improve the operation and reliability of these facilities while we await final acquisition and implementation of the new equipment.

Proposed obligation limitation for the airport improvement program is $1.2 billion in 1989, slightly less than the $1.3 billion made available for obligation in 1988. A high level priority of the administration will be to direct these funds toward improvements that will enhance national airway system capacity.

The administration also proposes a 9.4 percent increase in funding for FAA operations—from $3.1 billion in 1988 to $3.4 billion in 1989. This funding increase will permit increases in the air traffic controller workforce from 15,900 in 1988 to 16,800 in 1989 and in the safety inspector and security workforce from 3,209 in 1988 to 3,659 in 1989 commensurate with anticipated increases in aviation activity. Substantial increases are also requested for facility maintenance, leased telecommunications, and human resource management, including improvements to the air traffic controller selection and training process.

*Aeronautical Research and Technology.*—The National Aeronautics and Space Administration (NASA) conducts research in aeronautical sciences and operates unique research and testing facilities to help maintain U.S. leadership in aeronautics. In 1989, the budget reflects a strong program of fundamental research, including augmented support for key areas such as advanced propulsion concepts and advanced composite materials. The budget also continues the joint NASA/Department of Defense program of research and advanced technology development in hypersonic flight. The administration requests $872 million in 1989 budget authority for aeronautical research and technology, an increase of 21 percent from 1988.

*Air Carrier Subsidies.*—In conjunction with airline deregulation, the air carrier subsidy program was designed to guarantee essential air services to small communities. Consistent with the termina-

tion of the Civil Aeronautics Board on January 1, 1985 and the airline industry's adaptation to a deregulated environment, the air carrier subsidy program is proposed to end in 1988. This program was originally scheduled to terminate 10 years after deregulation in 1978, but was recently extended. In some communities, subsidies are as high as $500 per passenger, while 72 percent of the subsidized communities serve 10 or fewer passengers per day.

***Water Transportation.***—To meet its Federal responsibility in water transportation, the administration requests $3.3 billion in budget authority for 1989, an increase of $0.6 billion from the 1988 level.

*Marine Safety and Transportation.*—Coast Guard services include search and rescue, maintenance of navigation aids, enforcement of maritime laws, and other activities. The administration will propose a redistribution of 1988 funds within the Department of Transportation to ensure the continuation of critical Coast Guard services, which were cut by Congress in 1988.

The administration's request of $3.0 billion in 1989 budget authority for the Coast Guard represents a significant increase of 17.4 percent over Coast Guard's 1988 appropriation. The majority of these funds will support Coast Guard operations, including search and rescue and law enforcement activities. Funding for the Coast Guard's acquisition, construction, and improvements account, which supports all Coast Guard programs, is also being increased in 1989 by $101 million over the 1988 appropriation of $247 million.

In 1989, drug law enforcement will continue to receive major emphasis with 23 percent of the Coast Guard's operating budget supporting interdiction of drug smuggling. At the same time, Coast Guard's other missions (e.g., search and rescue) will continue at current or increased operating levels. The Coast Guard's search and rescue operations will benefit from replacement short-range recovery helicopters, renovated and modernized vessels, and new patrol boats that will be put into service during 1989. These assets will also provide the Coast Guard with expanded law enforcement and defense preparedness capabilities.

*Ocean Shipping.*—Programs in ocean shipping are administered by the Department of Transportation's Maritime Administration and Saint Lawrence Seaway Development Corporation, the Panama Canal Commission, and the Federal Maritime Commission. Proposed budget authority for ocean shipping in 1989 is $369 million, an increase of $123 million from 1988. The increase reflects additional budget authority associated with the proposed reform of the maritime operating subsidy program, and a reimbursement in 1988 to Treasury from the Panama Canal Commission.

The Maritime Administration has traditionally provided subsidies to assist the U.S. merchant marine and shipbuilding industries in competing with foreign maritime industries.

In 1989 the administration will continue to provide operating subsidies to offset the higher costs of operating U.S.-flag vessels. The 1989 cost to meet the Federal Government's obligations on existing operating subsidy contracts is estimated to be $249 million. The administration is pursuing legislation that would reform the operating subsidy program by expanding carriers' operating flexibility, reducing the cost of subsidy per ship, and allowing additional carriers to participate in the program. In addition, the legislation contains several reforms that would reduce the cost of administering the cargo preference program.

In maritime operations and training, the administration requests funding for technical and policy studies and proposes funding increases for the U.S. Merchant Marine Academy and the National Defense Reserve Fleet in 1989. The administration also proposes that the State maritime schools share federally-supplied training vessels, rather than the Federal Government supplying each school with its own ship. As a condition of Federal assistance, the State maritime schools will have to require their graduates to accept a Naval Reserve commitment.

Consistent with its proposal to appropriate 1989 Ready Reserve Force (RRF) funding to the Maritime Administration, the administration will consult with Congress about changing the functional classification of funding for the RRF from defense-related activities (054) to water transportation (403) in the future.

The administration has proposed legislation to return the Saint Lawrence Seaway Development Corporation to direct financing from toll and other revenues, consistent with its organization and mission. This proposal would result in the Corporation's operation and maintenance being funded from toll revenues, as was the case prior to April 1, 1987.

With regard to the Panama Canal Commission, the 1989 budget reflects the conversion of its financing structure from a special fund to a revolving fund, pursuant to the Omnibus Budget Reconciliation Act of 1987. The revolving fund simplifies the Commission's financial structure and gives it needed operating flexibility, without any increased cost to the U.S. taxpayer.

*Credit Programs.*—The Department of Transportation provides direct loans and guaranteed loans for water and ground transportation projects. The largest loan and guarantee program is part of the Maritime Administration. It guarantees construction mortgage loans to build U.S.-flag vessels in the United States and makes direct loans in the form of advances to operators to avoid defaults on federally guaranteed loans. The administration is proposing no

**CREDIT PROGRAMS—TRANSPORTATION**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Highway programs: | | | | | |
| New obligations | 48 | 45 | 48 | 48 | 48 |
| Change in outstandings | −65 | −18 | −21 | ..... | ..... |
| Outstandings | 143 | 125 | 104 | 104 | 104 |
| Aid to railroads: | | | | | |
| Change in outstandings | −936 | −352 | −151 | −29 | −105 |
| Outstandings | 638 | 285 | 134 | 105 | ..... |
| Aircraft purchase guarantee defaults: | | | | | |
| Change in outstandings | −4 | 12 | * | * | * |
| Outstandings | 41 | 53 | 53 | 53 | 53 |
| MarAd ship financing fund subsidies: | | | | | |
| New obligations | ..... | ..... | 5 | 5 | 5 |
| Change in outstandings | ..... | ..... | 5 | 5 | 5 |
| Outstandings | ..... | ..... | 5 | 10 | 15 |
| MarAd ship financing fund: | | | | | |
| New obligations | 1 | 5 | ..... | ..... | ..... |
| Change in outstandings | 137 | 244 | 91 | 93 | 93 |
| Outstandings | 1,612 | 1,856 | 1,946 | 2,039 | 2,133 |
| Other transportation: | | | | | |
| Outstandings | 11 | 11 | 11 | 11 | 11 |
| Total, direct loans: | | | | | |
| New obligations | 49 | 50 | 53 | 53 | 53 |
| Change in outstandings | −869 | −114 | −76 | 68 | −7 |
| Outstandings | 2,444 | 2,330 | 2,254 | 2,322 | 2,315 |
| Guaranteed loans: | | | | | |
| Mass transit programs: | | | | | |
| Outstandings | 997 | 997 | 997 | 997 | 997 |
| Aircraft purchase: | | | | | |
| Change in outstandings | −77 | −68 | −38 | −21 | −18 |
| Outstandings | 199 | 131 | 93 | 72 | 54 |
| Assistance to ocean shipping: | | | | | |
| Change in outstandings | −716 | −464 | −291 | −276 | −262 |
| Outstandings | 4,279 | 3,815 | 3,524 | 3,248 | 2,986 |
| Other transportation: | | | | | |
| Change in outstandings | −2 | −1 | ..... | ..... | ..... |
| Outstandings | 1 | ..... | ..... | ..... | ..... |
| Total, guaranteed loans: | | | | | |
| Change in outstandings | −796 | −533 | −329 | −297 | −281 |
| Outstandings | 5,476 | 4,943 | 4,614 | 4,317 | 4,037 |
| **Total, new obligations** | **49** | **50** | **53** | **53** | **53** |

* $500,000 or less.

new loan guarantee commitments after 1987. The maritime industry should be encouraged to rely on the private credit market, without Federal intervention, as the source of capital. The administration will continue its policy of not providing loans to private freight railroad companies, in light of the health of the railroad industry. The administration is also proposing the sale of its direct railroad loan portfolio; these direct loans were made to private railroad companies from 1977 to 1985.

***Tax Expenditures.***—In addition to direct Federal funding, tax expenditures provide assistance to shipping concerns and mass transit systems. Prior to 1987, certain companies that operate U.S.-flag vessels were able to defer taxes indefinitely on income invested in construction, repair and modernization of ships. The Tax Reform Act of 1986 limits the deferral to 25 years, which results in a tax expenditure of $120 million in 1989. State and local governments could issue tax-exempt bonds for mass transit vehicles until December 31, 1984, which results in a tax expenditure estimated to be $40 million in 1989. Total tax expenditures for transportation are estimated to be $160 million in 1989.

# COMMUNITY AND REGIONAL DEVELOPMENT

The Nation requires healthy and thriving communities to maintain the economic vitality and general well-being of society. Federal programs for community and regional development supplement State and local government efforts to sustain economic and social growth in urban and rural neighborhoods, communities, and regions. Specific programs assist particular regions, provide disaster relief, and accomplish the major goals of Federal Indian policy. Most of this assistance takes the form of grants, but direct and guaranteed loan programs exist as well.

In 1989 the administration will continue its effort to concentrate Federal resources on national priorities and provide maximum opportunity for State and local governments to meet their own local community and economic 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 who benefit directly. 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) program will be the principal vehicle for Federal support.

The administration is requesting budget authority of $6.2 billion in 1989 for community and regional development. Outlays are estimated to total $5.9 billion in 1989, a reduction of 7 percent from 1988. The lower outlay estimates reflect reduced outlays attributable to lower expected budget authority and increased offsetting receipts in the area of disaster relief and insurance.

***Community Development.***—The principal Federal program in this category is the community development block grant program, which is administered by the Department of Housing and Urban Development (HUD).

*Community Development Block Grants (CDBG).*—The community development block grant program provides Federal support for cities, counties, Indian tribes, and U.S. territories, to help them meet their community and economic development needs. After certain funds are set aside for the Secretary's discretionary fund, which provides grants for Indians, insular areas, technical assistance, and special projects in support of CDBG activities, CDBG funds are allocated by formula to States, large cities, and urban counties. Seventy percent of the funds allocated by formula go to the large city/urban county program. The remaining 30 percent is allocated by formula to the State-administered small cities program; the States receive these funds to distribute to smaller communities and rural areas in their jurisdictions.

**NATIONAL NEED: COMMUNITY AND REGIONAL DEVELOPMENT**

(Functional code 450; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Community development:** | | | | | |
| Community development block grants | 3,000 | 2,880 | 2,480 | 2,625 | 2,625 |
| Urban development action grants | 225 | 216 | −50 | ..... | ..... |
| Rental rehabilitation | 208 | 200 | 150 | 150 | 150 |
| Rental development | 105 | 6 | ..... | ..... | ..... |
| Pennsylvania Avenue Development Corporation | 8 | 6 | 5 | 18 | 5 |
| Other | 273 | 245 | 262 | 245 | 243 |
| Subtotal, Community development | 3,819 | 3,552 | 2,847 | 3,038 | 3,023 |
| **Area and regional development:** | | | | | |
| Rural development: | | | | | |
| Existing law | 1,447 | 4,468 | 2,234 | 2,184 | 1,764 |
| Proposed legislation | ..... | ..... | −51 | −390 | −110 |
| Proposed credit reform | ..... | ..... | −10 | −16 | −19 |
| Economic development assistance | 217 | 205 | 40 | ..... | ..... |
| Indian programs: | | | | | |
| Existing law | 990 | 1,100 | 1,021 | 1,032 | 1,026 |
| Proposed credit reform | ..... | ..... | 14 | 8 | 5 |
| Regional commissions | 108 | 111 | 1 | ..... | ..... |
| Tennessee Valley Authority | 100 | 103 | 76 | 79 | 81 |
| Offsetting receipts | −242 | −251 | −250 | −256 | −258 |
| Subtotal, Area and regional development | 2,620 | 5,736 | 3,073 | 2,641 | 2,490 |
| **Disaster relief and insurance:** | | | | | |
| Small business disaster loans: | | | | | |
| Proposed credit reform | ..... | ..... | 38 | 38 | 38 |
| Other | 210 | 202 | 278 | 287 | 295 |
| Subtotal, Disaster relief and insurance | 210 | 202 | 316 | 324 | 332 |
| **Total, budget authority** | **6,649** | **9,490** | **6,236** | **6,003** | **5,845** |

The administration proposes to establish the CDBG program level at $2.6 billion for 1989, slightly below the 1988 program level of $2.9 billion. The 1989 program level includes $2.5 billion of new budget authority and a transfer of $145 million from the rehabilitation loan fund upon its proposed termination at the end of 1988. Although this will reduce the total resources available for the CDBG program, recently enacted legislation increases the percentage of funds used to benefit persons of low and moderate income from 51 percent to 60 percent.

*Urban Development Action Grants (UDAG).*—The administration proposes to terminate the UDAG program at the end of 1989. No funding is proposed for 1989. This measure is part of the administration's effort to cut back categorical local economic development subsidy programs that distort economic investment choices and impose Federal priorities on State and local governments. These grant programs siphon productive resources from private invest-

**NATIONAL NEED: COMMUNITY AND REGIONAL DEVELOPMENT**

(Functional code 450; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Community development:** | | | | | |
| Community development block grants | 2,991 | 2,980 | 2,959 | 2,915 | 2,796 |
| Urban development action grants | 354 | 400 | 366 | 310 | 168 |
| Rental rehabilitation | 99 | 180 | 238 | 223 | 150 |
| Rental development | 66 | 144 | 109 | 116 | ..... |
| Pennsylvania Avenue Development Corporation | 11 | 9 | 13 | 36 | 9 |
| Other | 157 | 55 | 233 | 180 | 169 |
| Subtotal, Community development | 3,680 | 3,768 | 3,920 | 3,777 | 3,291 |
| **Area and regional development:** | | | | | |
| Rural development: | | | | | |
| Existing law | 300 | 1,181 | 1,128 | 1,316 | 1,183 |
| Proposed legislation | ..... | ..... | −118 | −46 | −42 |
| Proposed credit reform | ..... | ..... | −18 | −111 | −202 |
| Economic development assistance | 341 | 268 | 226 | 144 | 91 |
| Indian programs: | | | | | |
| Existing law | 950 | 1,088 | 1,044 | 1,054 | 1,015 |
| Proposed credit reform | ..... | ..... | 1 | −5 | −6 |
| Regional commissions | 152 | 134 | 116 | 87 | 49 |
| Tennessee Valley Authority | 112 | 85 | 89 | 82 | 81 |
| Other | −14 | −6 | −7 | −7 | −7 |
| Offsetting receipts | −242 | −251 | −250 | −256 | −258 |
| Subtotal, Area and regional development | 1,599 | 2,500 | 2,210 | 2,259 | 1,905 |
| **Disaster relief and insurance:** | | | | | |
| Small business disaster loans: | | | | | |
| Existing law | −362 | −150 | −484 | −269 | −178 |
| Proposed credit reform | ..... | ..... | −90 | −163 | −140 |
| National flood insurance fund | −219 | −107 | −70 | −70 | −67 |
| Other | 352 | 310 | 393 | 347 | 350 |
| Subtotal, Disaster relief and insurance | −229 | 53 | −251 | −155 | −35 |
| **Total, outlays** | **5,051** | **6,321** | **5,879** | **5,880** | **5,161** |

ment projects to Government-subsidized projects that may provide local benefits, but are less efficient for the national economy as a whole. By approving awards to assist successful companies, major hotel chains, and large commercial banks, the UDAG program is misusing government dollars and diverting scarce capital from its best possible use. Cities may, at their discretion, continue to use CDBG resources to assist economic development projects. The $366 million in outlays estimated for this program in 1989 reflects the continued spendout of funds for projects approved in prior years.

The administration continues to support the enterprise zone concept as a more economically efficient approach for assisting structurally depressed local economies. The 1987 housing bill authorized Federal enterprise zones under title VII. The Administration will work with State and local governments to determine the most

effective ways Federal enterprise zones can support and expand business development most efficiently.

*Rental Rehabilitation Grants (RRG).*—In 1983, the administration proposed, and the Congress enacted, a new housing rehabilitation program to support the voucher program in communities with an insufficient supply of standard quality low- and moderate-income housing. The administration is proposing $150 million for the program in 1989 as compared with $200 million in 1988. Outlays in 1989 are estimated to be $238 million. The RRG program seeks to provide financial incentives to building owners to rehabilitate rental property for low-income families. Under current law, rent controls cannot be applied to buildings rehabilitated with RRG funds unless such controls existed prior to 1983. To this extent, Congress has already recognized that this program cannot work effectively where rent controls are in effect. In order to maximize the cost effectiveness of Federal assistance, therefore, the administration proposes to target funds to localities that do not have rent controls. The proposal does not seek to supercede or otherwise waive a local decision to impose rent controls, but merely seeks to avoid Federal expenditures that are unlikely to have the intended effect on low-income housing markets.

*Rental Development Grants.*—In the Housing Urban-Rural Recovery Act of 1983, the Congress created a new rental development grant program to subsidize the construction or substantial rehabilitation of rental housing in low- and moderate-income neighborhoods experiencing a severe shortage of rental housing. The 1987 Housing and Community Development Act calls for termination of this program at the end of 1989. The 1988 Continuing Resolution provided no funding for the program in 1988; the Administration proposes no funding in 1989 as well. It has proven to be a costly subsidy supporting the construction of new rental units at a time of historically high vacancy rates, and, thus, cannot be justified. Furthermore, the program is not well targeted to low-income people—those who are most in need of housing assistance. Outlays in 1989 are estimated to be $109 million from grants awarded in previous years.

*Pennsylvania Avenue Development Corporation (PADC).*—PADC was created in 1972 to develop and implement a plan for the physical rejuvenation of the blocks and public areas of Pennsylvania Avenue between the White House and the Capitol, an area which had experienced economic and physical decline up to that time. Approval of the development plan by the Executive Branch and the Congress in 1975 was followed by plan implementation with 1978 funding. Since then, nearly $100 million in appropriations has been obligated by PADC for land acquisition and extensive improvement of the public areas, including the creation of new

parks and plazas, a Federal investment that has directly contributed to attracting $1 billion in private investment on the project area's blocks. The $5 million in budget authority requested for 1989, combined with projected 1990–1992 budget authority of $27 million, will enable PADC to complete the plan in 1992 and go out of business.

***Area and Regional Development.***—Programs in this category support rural development, development programs of American Indian tribal governments, and multi-State regional development.

*Rural Development.*—The Administration, as part of its Rural Development Initiative, proposes to continue its program of grants, and direct and guaranteed loans through the Farmer's Home Administration. Direct loans and grants will be made to small rural communities to assist in financing water and waste treatment systems. A small portion of direct loans are also made for construction of community health care facilities. Guaranteed loans are made to businesses and industries which establish operations in rural areas with high unemployment rates. The amounts requested for 1989, $75 million in grants, $300 million in direct loans and $96 million in guaranteed loans, are to be targeted to very-low income rural communities.

*Economic Development Assistance.*—The Department of Commerce's Economic Development Administration (EDA) provides public works grants to States and communities, and loan guarantees to businesses. The administration proposes to terminate the EDA in 1989.

EDA programs do not target assistance to those in need, but instead serve narrow and specialized local and regional political interests at the public's expense. Furthermore, there is no evidence that these programs create new jobs nationwide. Rather, they shift jobs between localities. Similarly, the Government does not create net new jobs in the economy by moving productive resources from the private sector to the public sector.

*Indian Programs.*—The three major objectives of Federal Indian policy are to fulfill the trusteeship responsibilities of the Federal Government, to increase self-determination for American Indian tribal governments, and to encourage economic development on Indian reservations.

Budget authority requested for regional development, provided through the Indian programs and Indian trust funds administered by the Bureau of Indian Affairs is $1.1 billion in 1988 and $1.0 billion in 1989. The Department of Housing and Urban Development also provides community development support specifically for Indians through a set-aside in the community development block grant program described above. Total discretionary budget authority requested for special Indian programs Government-wide, includ-

ing programs in other functions such as income security and education, is expected to be $3.1 billion in 1989. Corresponding outlays are estimated to be $3.4 billion. These amounts do not include payments received by Indians from trust funds established for their benefit or from programs serving all qualified U.S. citizens.

*Appalachian Regional Commission (ARC).*—The ARC was established in 1965 to provide economic development assistance to the 13-State Appalachian region. Since 1965, more than $5 billion in Federal funds has supported highway construction and financed community development-related facilities. The administration proposes to terminate ARC in 1989. ARC highway funds unnecessarily duplicate the Department of Transportation's Federal Highway program. ARC development programs target resources to rural districts that are no worse off economically than rural communities in other parts of the country, and therefore not deserving of special injections of Federal resources.

*Tennessee Valley Authority (TVA).*—The administration would terminate direct support for TVA's regional economic and community development programs, which are more appropriately private or State and local government responsibilities. These programs include activities such as technical assistance to cities and towns, promotion of tourism, and the development of commercial resources. To the extent that Federal assistance is needed, it is better allocated through programs administered nationally by other Federal agencies. TVA's basic responsibilities for water resources systems management and fertilizer research continue. Outlays for TVA's activities in this function are estimated at $89 million in 1989, up from $85 million in 1988. The TVA power program, financed through the sale of electricity, is discussed in the energy function.

*Rural Telephone Bank (RTB).*—The RTB, in the Department of Agriculture, provides subsidized direct loans for the construction and operation of rural telephone systems. Total RTB loans outstanding were $1.4 billion at the end of 1987. Most RTB borrowers are financially healthy and the administration proposes that they increase their reliance on private financing through phased privatization of the RTB. The RTB would take the necessary steps to achieve privatization by 1995 including accumulation of reserves to repurchase the $506 million of two percent dividend class A stock that has been purchased by Treasury. Consistent with this approach, the administration proposes that direct loan obligations be maintained at the 1988 enacted level of $177 million annually; that interest rates charged on loans be sufficient to cover borrowing and administrative costs; and other necessary steps be taken to achieve privatization.

***Disaster Relief and Insurance.***—Providing insurance against losses from floods, hurricanes, tornadoes, and other natural disasters is primarily the responsibility of private insurers. State and local governments aid recovery when necessary, and Federal insurance and disaster relief programs are available to supplement State and local resources when those resources are insufficient.

*Small Business Disaster Loans.*—The Small Business Administration (SBA) provides loans to homeowners and businesses for uninsured losses suffered as a result of physical disasters. In order to be eligible for the loans, recipients must be able to demonstrate the financial ability to repay the loans. These loans are currently available to borrowers at an interest rate of 4 percent if credit cannot be obtained elsewhere (i.e., if the borrower is not likely to satisfy commercial credit requirements) and no more than 8 percent if credit can be obtained from private sources. The administration will propose legislation to limit this program to those homeowners and businesses unable to obtain credit elsewhere and to raise the interest rate to a rate comparable to the Treasury rate for existing loans of equal maturity, plus 1 percent. These changes, expected to save $35 million per year, are designed to encourage those homeowners and businesses who can afford to obtain and maintain adequate insurance coverage against disaster-related losses to rely upon those alternatives instead of relying on direct Federal loans at preferential interest rates. The General Accounting Office has found that insurance is a better form of disaster protection than direct Federal loans. The administration also proposes to sell the disaster loan portfolio over a period of 6 years beginning in 1989.

*Disaster Relief.*—The Federal Emergency Management Agency administers this nationwide program, which provides supplemental assistance to individuals and State and local governments in the event of a Presidentially-declared emergency or disaster. In addition, States or Federal agencies may be reimbursed for disaster relief work performed under this authority. Outlays are estimated at $260 million in 1989.

*National Flood Insurance Fund.*—The Federal Emergency Management Agency operates a national program of direct Federal flood insurance at subsidized rates. Since the program began in 1968, losses have amounted to $1.0 billion. The Congress has authorized premium increases that will eliminate this costly subsidy by 1989, thereby recovering clearly allocable costs of flood insurance from beneficiaries of this program. Receipts for this program are estimated to exceed outlays by $70 million in 1989.

## CREDIT PROGRAMS—COMMUNITY AND REGIONAL DEVELOPMENT

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Rural development insurance fund: | | | | | |
| New obligations | 426 | 426 | ..... | ..... | ..... |
| Change in outstandings | −1,796 | −1,044 | −810 | 70 | 14 |
| Outstandings | 6,431 | 5,386 | 4,576 | 4,646 | 4,660 |
| Rural development subsidies: : | | | | | |
| New obligations | ..... | ..... | 300 | 200 | 100 |
| Change in outstandings | ..... | ..... | 12 | 74 | 147 |
| Outstandings | ..... | ..... | 12 | 86 | 233 |
| Rural development loan fund: | | | | | |
| Change in outstandings | −1 | * | 2 | −2 | −2 |
| Outstandings | 33 | 33 | 35 | 33 | 31 |
| Economic development assistance: | | | | | |
| Change in outstandings | −13 | −114 | −47 | −13 | −12 |
| Outstandings | 556 | 441 | 394 | 381 | 370 |
| Disaster loan subsidies: | | | | | |
| New obligations | ..... | ..... | 265 | 265 | 265 |
| Change in outstandings | ..... | ..... | 112 | 205 | 172 |
| Outstandings | ..... | ..... | 112 | 317 | 489 |
| Small business disaster loans: | | | | | |
| New obligations | 208 | 350 | ..... | ..... | ..... |
| Change in outstandings | −503 | −394 | −942 | −754 | −607 |
| Outstandings | 3,719 | 3,325 | 2,383 | 1,629 | 1,022 |
| Rural telephone bank subsidies: | | | | | |
| New obligations | ..... | ..... | 177 | 177 | 177 |
| Change in outstandings | ..... | ..... | 11 | 50 | 85 |
| Outstandings | ..... | ..... | 11 | 60 | 145 |
| Rural telephone bank: | | | | | |
| New obligations | 185 | 177 | ..... | ..... | ..... |
| Change in outstandings | 13 | −145 | 53 | 32 | 9 |
| Outstandings | 1,447 | 1,302 | 1,355 | 1,387 | 1,396 |
| Other: | | | | | |
| New obligations | 71 | 98 | 13 | 13 | 13 |
| Change in outstandings | −95 | −397 | −104 | −668 | −59 |
| Outstandings | 1,631 | 1,234 | 1,130 | 462 | 403 |
| Total, direct loans: | | | | | |
| New obligations | 890 | 1,051 | 755 | 655 | 555 |
| Change in outstandings | −2,396 | −2,095 | −1,713 | −1,008 | −252 |
| Outstandings | 13,817 | 11,722 | 10,009 | 9,001 | 8,749 |
| Guaranteed loans: | | | | | |
| Rural development insurance fund: | | | | | |
| New commitments | 115 | 96 | ..... | ..... | ..... |
| Change in outstandings | −438 | −265 | −189 | −213 | −234 |
| Outstandings | 1,918 | 1,653 | 1,464 | 1,251 | 1,017 |
| Rural development subsidies: | | | | | |
| New commitments | ..... | ..... | 96 | 196 | 296 |
| Change in outstandings | ..... | ..... | 19 | 54 | 101 |
| Outstandings | ..... | ..... | 19 | 73 | 175 |
| Economic development assistance: | | | | | |
| New commitments | ..... | 20 | ..... | ..... | ..... |
| Change in outstandings | −191 | 8 | −24 | −23 | −19 |
| Outstandings | 95 | 103 | 79 | 56 | 37 |
| Small business disaster loans: | | | | | |
| Change in outstandings | −1 | * | * | * | * |
| Outstandings | 2 | 1 | 1 | 1 | * |
| Other: | | | | | |
| New commitments | 69 | 178 | 45 | 45 | 45 |
| Change in outstandings | 89 | 141 | 56 | −14 | −22 |
| Outstandings | 292 | 433 | 489 | 474 | 452 |

**CREDIT PROGRAMS—COMMUNITY AND REGIONAL DEVELOPMENT—Continued**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **Total, new obligations and new commitments** | **1,074** | **1,344** | **896** | **896** | **896** |

* $500,000 or less.

***Tax Expenditures.***—Direct Federal funding for community and regional development is supplemented by several existing tax expenditures. The provision that allowed certain taxpayers to amortize rehabilitation expenditures for low- and moderate-income rental housing over a 5-year period expired at the end of 1986. It has been replaced by a tax credit structured to have a present value equal to 70 percent of construction or rehabilitation costs. The credit is reduced to 30 percent for federally subsidized projects. The 1989 tax expenditure for this provision is $620 million. Development is also assisted by the exclusion of interest on State and local industrial development bonds for airports and docks. The estimate for this provision is $1 billion for 1989. Special tax credits are also available for rehabilitation of older nonresidential buildings. For 1989, the estimated tax expenditure for this program is $150 million. Total tax expenditures for community and regional development for 1989 are estimated to be $1.9 billion.

# EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Federal programs for education, training, employment, and social services are intended to: (1) assist parents, States, and localities in providing education, especially for educationally disadvantaged, low-income, and handicapped persons; (2) assist economically disadvantaged or dislocated workers in gaining job skills and finding permanent, unsubsidized employment opportunities; (3) help employers and employees maintain stable and productive relations; and (4) help provide social services for needy children, families, the elderly, and other persons. Historically, the responsibility for meeting most of these needs has rested with State and local governments and the private sector. Excluding the financing effects of the proposed credit reform legislation, total outlays for this function are estimated to be $34.9 billion for 1989, $1.2 billion above the 1988 level.

## EDUCATION

Funding proposed for education activities in 1989 is intended to provide substantial support at all levels for supplementary education and other assistance for the handicapped and the educationally and economically disadvantaged. Funding also supports national-level research, statistics gathering, and analysis.

Excluding the financing effects of the proposed credit reform legislation, budget authority requested for education programs in 1989 is $20.8 billion, $904 million or 4.5 percent above the level enacted for 1988.

***Elementary, Secondary and Vocational Education.***—The administration requests $9.8 billion in budget authority in 1989 for elementary, secondary, and vocational education programs, $312 million above the level enacted for 1988.

*School Improvement Programs.*—This activity includes a number of programs that provide assistance to States, school districts, and others to use, with varying degrees of Federal oversight, to design and implement new projects, improve drug education activity, upgrade teaching of mathematics and science, and demonstrate new approaches to school improvement. The largest of these programs is the education block grant, for which the administration is proposing budget authority of $540 million in 1989, $62 million above the 1988 level. The administration is seeking $250 million in budget authority for the drug-free schools program in 1989, an increase of $20 million over the level enacted for 1988. The budget includes funds to support demonstrations of alternative teacher certification systems.

## NATIONAL NEED: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

(Functional code 500; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Education:** | | | | | |
| **Elementary, secondary, and vocational education:** | | | | | |
| School improvement programs: | | | | | |
| Existing law | 939 | 1,040 | 30 | 29 | 29 |
| Proposed legislation | ..... | ..... | 1,101 | 1,101 | 1,101 |
| Compensatory education: | | | | | |
| Existing law | 3,952 | 4,337 | ..... | ..... | ..... |
| Proposed legislation | ..... | ..... | 4,566 | 4,566 | 4,566 |
| Education for the handicapped | 1,742 | 1,869 | 1,917 | 1,941 | 2,012 |
| Impact aid | 718 | 708 | 592 | 592 | 592 |
| Vocational and adult education: | | | | | |
| Existing law | 995 | 1,013 | 888 | 888 | 888 |
| Proposed legislation | ..... | ..... | 150 | 170 | 180 |
| Other: | | | | | |
| Existing law | 656 | 541 | 392 | 392 | 392 |
| Proposed legislation | ..... | ..... | 185 | 185 | 185 |
| Subtotal, Elementary, secondary, and vocational education | 9,001 | 9,508 | 9,820 | 9,864 | 9,945 |
| **Higher education:** | | | | | |
| Student financial assistance: | | | | | |
| Existing law | 5,483 | 5,545 | 6,021 | 6,021 | 6,021 |
| Proposed legislation | ..... | ..... | 79 | 79 | 79 |
| Guaranteed student loan program: | | | | | |
| Existing law | 2,717 | 2,565 | 2,740 | 2,635 | 2,388 |
| Proposed legislation | ..... | ..... | −5 | −6 | −20 |
| Proposed credit reform | ..... | ..... | 3,094 | 2,632 | 2,233 |
| Other: | | | | | |
| Existing law | 852 | 902 | 779 | 757 | 754 |
| Proposed legislation | ..... | ..... | 6 | 3 | 3 |
| Subtotal, Higher education | 9,052 | 9,012 | 12,714 | 12,122 | 11,458 |
| **Research and general education aids:** | | | | | |
| Existing law | 1,308 | 1,352 | 1,260 | 1,285 | 1,294 |
| Proposed legislation | ..... | ..... | 76 | 76 | 76 |
| Subtotal, Research and general education aids | 1,308 | 1,352 | 1,336 | 1,361 | 1,370 |
| **Subtotal, Education** | 19,361 | 19,872 | 23,870 | 23,347 | 22,773 |
| **Training, employment, and other labor services:** | | | | | |
| **Training and employment:** | | | | | |
| Block grants to States | 1,840 | 1,809 | 1,809 | 1,809 | 1,809 |
| Summer youth employment | 750 | 718 | 718 | 718 | 718 |
| Assistance to dislocated workers: | | | | | |
| Existing law | 250 | 335 | ..... | ..... | ..... |
| Proposed legislation | ..... | ..... | 948 | 980 | 980 |
| Job Corps | 656 | 716 | 711 | 732 | 751 |
| Older Americans employment | 336 | 331 | 336 | 336 | 336 |
| Work incentive program | 126 | 93 | ..... | ..... | ..... |
| Other training programs | 277 | 298 | 265 | 266 | 267 |
| Federal-State employment service | 990 | 982 | 926 | 948 | 970 |
| Subtotal, Training and employment | 5,226 | 5,282 | 5,713 | 5,790 | 5,832 |
| **Other labor services** | 730 | 778 | 806 | 821 | 839 |

**NATIONAL NEED: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES—Continued**

(Functional code 500; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **Subtotal, Training, employment, and other labor services** | 5,955 | 6,061 | 6,519 | 6,611 | 6,671 |
| **Social services:** | | | | | |
| Social services block grant | 2,700 | 2,700 | 2,700 | 2,700 | 2,700 |
| Community services block grant | 405 | 382 | 310 | 245 | 160 |
| Rehabilitation services | 1,485 | 1,590 | 1,616 | 1,616 | 1,616 |
| Payments to states for foster care and adoption assistance | 1,061 | 811 | 1,075 | 1,035 | 1,094 |
| Human development services | 2,100 | 2,456 | 2,457 | 2,505 | 2,546 |
| Domestic volunteer programs | 156 | 163 | 166 | 170 | 173 |
| Other social services | 24 | 957 | 670 | 769 | 758 |
| Subtotal, Social services | 7,932 | 9,059 | 8,994 | 9,039 | 9,047 |
| **Total, budget authority** | **33,249** | **34,992** | **39,383** | **38,997** | **38,491** |

Under current law, Federal funding is available for magnet schools in desegregating school districts. In general, magnet schools result in less segregation, greater commitment by students and parents, and, thus, better quality schooling. For 1989, the administration is proposing legislation to expand eligibility of school systems for Federal grant funds to implement magnet school strategies. Budget authority of $115 million is proposed for magnet schools in 1989, an increase of $43 million over the 1988 level of $72 million.

The 1989 budget continues the administration's long-standing support for increased parental choice in education. Study after study has found that when parents have a say and are involved in their children's education, the children do better in school. The Congress has taken a beginning step in the Senate version of the pending elementary and secondary education legislation by creating a program to support demonstrations to promote choice in public education. The 1989 Education Department budget includes $5 million that will be requested for the Parental Choice Open Enrollment Demonstration program, upon its enactment. In addition, some States have already begun to experiment with more broadly based programs supporting choice among schools, including private schools. To assist in this effort, the Secretary of Education will develop model legislation for use by State legislatures, at their discretion, to promote the use of vouchers to expand choice to all types of elementary and secondary schools.

## NATIONAL NEED: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

(Functional code 500; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **OUTLAYS** | | | | | |
| **Education:** | | | | | |
| **Elementary, secondary, and vocational education:** | | | | | |
| School improvement programs: | | | | | |
| Existing law | 889 | 733 | 934 | 298 | 50 |
| Proposed legislation | ..... | ..... | 133 | 883 | 1,079 |
| Compensatory education: | | | | | |
| Existing law | 3,210 | 3,841 | 3,810 | 866 | 87 |
| Proposed legislation | ..... | ..... | 548 | 3,653 | 4,475 |
| Education for the handicapped | 1,339 | 1,801 | 1,864 | 1,910 | 1,944 |
| Impact aid | 704 | 756 | 632 | 621 | 606 |
| Vocational and adult education: | | | | | |
| Existing law | 1,231 | 979 | 895 | 916 | 891 |
| Proposed legislation | ..... | ..... | 18 | 122 | 164 |
| Other: | | | | | |
| Existing law | 537 | 505 | 523 | 447 | 412 |
| Proposed legislation | ..... | ..... | 22 | 148 | 182 |
| Subtotal, Elementary, secondary, and vocational education | 7,911 | 8,614 | 9,380 | 9,864 | 9,889 |
| **Higher education:** | | | | | |
| Student financial assistance: | | | | | |
| Existing law | 4,780 | 5,319 | 5,774 | 6,011 | 6,021 |
| Proposed legislation | ..... | ..... | 16 | 77 | 79 |
| Guaranteed student loan program: | | | | | |
| Existing law | 2,548 | 2,630 | 2,743 | 2,631 | 2,407 |
| Proposed legislation | ..... | −2 | −3 | −5 | −17 |
| Proposed credit reform | ..... | ..... | 2,476 | 2,725 | 2,313 |
| Other: | | | | | |
| Existing law | 78 | 518 | 839 | 832 | 746 |
| Proposed legislation | ..... | ..... | −220 | 9 | 6 |
| Subtotal, Higher education | 7,406 | 8,465 | 11,625 | 12,279 | 11,554 |
| **Research and general education aids:** | | | | | |
| Existing law | 1,255 | 1,407 | 1,357 | 1,330 | 1,296 |
| Proposed legislation | ..... | ..... | 30 | 59 | 76 |
| Subtotal, Research and general education aids | 1,255 | 1,407 | 1,388 | 1,388 | 1,372 |
| **Subtotal, Education** | 16,571 | 18,487 | 22,392 | 23,531 | 22,815 |
| **Training, employment, and other labor services:** | | | | | |
| **Training and employment:** | | | | | |
| Block grants to States | 1,854 | 1,890 | 1,893 | 1,810 | 1,810 |
| Summer youth employment | 723 | 724 | 727 | 718 | 718 |
| Assistance to dislocated workers: | | | | | |
| Existing law | 212 | 251 | 292 | 97 | 14 |
| Proposed legislation | ..... | ..... | 29 | 795 | 957 |
| Job Corps | 628 | 641 | 674 | 721 | 760 |
| Older Americans employment | 312 | 329 | 333 | 336 | 336 |
| Work incentive program | 137 | 95 | 6 | ..... | ..... |
| Other training programs | 250 | 283 | 296 | 271 | 267 |
| Federal-State employment service | 968 | 1,008 | 961 | 937 | 959 |
| Subtotal, Training and employment | 5,084 | 5,221 | 5,211 | 5,685 | 5,821 |
| **Other labor services** | 675 | 768 | 808 | 813 | 829 |

**NATIONAL NEED: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES—Continued**

(Functional code 500; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **Subtotal, Training, employment, and other labor services** | 5,759 | 5,989 | 6,018 | 6,497 | 6,650 |
| **Social services:** | | | | | |
| Social services block grant | 2,688 | 2,685 | 2,700 | 2,700 | 2,700 |
| Community services block grant | 361 | 406 | 349 | 263 | 188 |
| Rehabilitation services | 1,405 | 1,585 | 1,600 | 1,615 | 1,616 |
| Payments to states for foster care and adoption assistance | 802 | 996 | 1,014 | 1,034 | 1,074 |
| Human development services | 1,959 | 2,389 | 2,451 | 2,486 | 2,528 |
| Domestic volunteer programs | 159 | 160 | 165 | 168 | 172 |
| Other social services | 21 | 957 | 672 | 769 | 757 |
| Subtotal, Social services | 7,394 | 9,176 | 8,951 | 9,036 | 9,035 |
| **Total, outlays** | **29,724** | **33,652** | **37,362** | **39,065** | **38,500** |

*Compensatory Education for the Disadvantaged.*—Programs in this activity include those currently authorized under Chapter 1 of the Education Consolidation and Improvement Act, plus two small discretionary grant programs for migrant education. The Chapter 1 programs include the major Federal support for remedial education services for the educationally disadvantaged. For 1989, the administration is proposing $4.6 billion in budget authority, an increase of $238 million over the 1988 enacted level for Chapter 1 programs. Legislation is pending in Congress for reauthorization of these programs. No funding is requested in 1989 for the two small, duplicative migrant education programs.

*Education for the Handicapped.*—The administration is requesting $1.9 billion in budget authority for the education of handicapped children in 1989, an increase of $48 million over the 1988 enacted level for these programs.

*Impact Aid.*—The Government compensates school districts whose enrollments and available revenues are deemed to have been adversely affected by Federal activities, such as the presence of a military base. The administration proposes aid only for those school districts that provide services to children who live on Federal property and whose parents work on Federal property—so-called "a" children. A 2 percent increase in funding over the enacted 1988 level is being requested for these districts in 1989. The administration requests no funds in 1989 for school districts with children who either live on Federal property or whose parents work on Federal property—so-called "b" children. This change in the impact aid program would ensure that funds go only to those districts in which federally connected children pose a demonstrable burden.

*Vocational and Adult Education.*—The administration requests total 1989 funding for vocational education equal to the 1988 enacted level of $888 million. Funds would be reallocated in 1989 from lower priority activities to State grants. Legislation to improve accountability in the State grant program will also be proposed. The administration is requesting budget authority of $150 million for adult education, $26 million more than the 1988 enacted level. Funds are proposed to be used in accord with legislation now pending in Congress. Adult education programs are a key part of the administration's efforts to combat adult illiteracy. They help States and localities improve or expand their adult education programs. The request includes $2 million for Federal research and data collection activities in 1989. The budget includes additional increases in adult education budget authority each year for a total proposed level of $200 million by 1993.

*Other Elementary and Secondary Education.*—The administration is requesting increased budget authority in 1989 for bilingual, immigrant, and refugee education. The bilinqual request is based on legislation pending in Congress that takes another step toward elimination of inappropriate statutory restrictions on school flexibility to use bilingual education funds for whatever teaching methods work best for children. In addition, funding is requested for both the Interior and Education Departments' Indian education programs, for an elementary and a secondary school for deaf children operated by Gallaudet University, and for the American Printing House for the Blind.

***Higher Education.***—Excluding the financing effects of the proposed credit reform legislation, the administration requests $9.6 billion in budget authority for higher education in 1989, $608 million above the 1988 enacted level of $9.0 billion.

*Student Financial Assistance and Guaranteed Student Loans.*—The budget continues the Federal Government's longstanding commitment to ensuring access to higher education for lower income persons. Under the budget proposals, total aid available to students under the programs in these accounts would be higher than ever before. Budget authority for student financial assistance for 1989 is requested at $6.1 billion, an increase of $555 million or 10 percent over the 1988 enacted level. Budget authority for guaranteed student loans is requested at $2.7 billion, excluding the financing effects of the proposed credit reform legislation. Major proposals include:

- Expansion of the recently begun income contingent loan program from $4.3 million in 1988 to $50 million in 1989. Under this program, borrowing is less burdensome because repayments are adjusted annually to fit within the income the student earns after leaving school.

- Budget authority of over $5 billion in 1989 for the Pell grant program for low-income students. Within that total, the administration will propose legislation to (a) suspend, on a temporary basis, the requirement that parents contribute a part of the value of non-liquid assets (e.g., home equity) to the cost of education, which adds $266 million to program costs; and (b) limit eligibility for aid to those with a high school diploma or equivalent, which saves $187 million.
- A broad range of regulatory and administrative initiatives designed to address the mushrooming cost of student loan defaults, estimated at over $1.6 billion in 1988. The initiatives include proposed legislation to share the cost of financing defaults with lenders and guarantee agencies. Increased risk-sharing will provide greater incentives to lenders and agencies to prevent defaults and increase debt collection. Regulatory proposals will seek to enlist the aid of schools in limiting defaults and hold them accountable for unreasonably high default rates.
- Legislation to foster incentives for improved educational quality and institutional accountability in the work-study and supplemental educational opportunity grant programs. Funding would be linked to institutions meeting performance objectives.
- No funds in 1989 for new capital grants to schools for Perkins loans (formerly National direct student loans) or for State student incentive grants, funded in total at $258 million in 1988. The Perkins program provides unnecessarily high loan subsidies and is not as cost-effective as the income contingent loan program. The State student incentive grant program has long since fulfilled its objective of stimulating State need-based aid programs.
- Reforming education credit programs, which is part of the administration's proposed Government-wide credit reform initiative. The budget authority and outlays shown as proposed credit reform reflect the estimated subsidies implicit in the Federal loan programs and do not affect the volume of loans guaranteed. The administration's proposed credit reform initiative is discussed in Part 6b of this volume.

In 1988, Congress appropriated $4.26 billion for the Pell grant program for the 1988–89 school year. This amount is $259 million less than is estimated to be needed to fund the program fully under the requirements of the authorizing statute and the $2,200 maximum grant imposed by the appropriations act. In this situation, the law requires a "linear reduction" of awards: 206,000 students will lose awards and 1.2 million will have their awards reduced significantly. To prevent these effects and eliminate the $259 mil-

lion shortfall, two steps are proposed. First, $160 million in otherwise unneeded prior-year funds will be added to the appropriated amount. Second, in place of the linear reduction, the administration proposes appropriations language to allow the Secretary to reduce all awards by a fixed amount, now estimated to be $31. To avoid severe program disruption, the alternative language must be enacted or assured of enactment by April 30, 1988.

*Other Aid to Higher Education.*—For the two programs for historically black colleges and universities, budget authority of $80 million is requested for 1989, a 10 percent increase over the 1988 level. No funding is sought in 1989 for a few small, low-priority programs or for those that duplicate other programs or are no longer necessary. Funds requested in 1989 for the operations of Gallaudet University and the National Technical Institute for the Deaf are increased to 2 percent above the 1988 enacted level; increased funding is also requested for their endowment programs. Increased funding in 1989 is requested for Howard University, including a substantial increase for endowment matching grants (proposed for later transmittal upon reauthorization of the endowment program) to help Howard move more rapidly toward reduced dependency on Federal funds.

*Loan Asset Sales.*—The budget reflects the continuation of Education Department sales of college housing and higher education facilities loan assets. About $483 million of college housing and higher education facilities loans are planned for sale in 1989, with proceeds estimated at about $230 million.

***Research and General Education Aids.***—The administration proposes to increase budget authority in 1989 for Education Department research and statistics to $81 million, $13 million over the 1988 enacted level. Funding is sought for selected library programs along with legislative improvements. Funding is proposed at the 1988 level for the National Endowments for the Arts and for the Humanities and the Institute of Museum Services. The administration is proposing that funding for the Corporation for Public Broadcasting (which receives 2-year advance appropriations) should be held at the 1988 level, which is sufficient to meet programming and capital requirements while providing incentives for development of non-Federal support.

***Tax Expenditures.***—A variety of exclusions, exemptions, and deductions provide assistance for education. Student loans are subsidized through the exclusion of interest on State and local student loan bonds. Students receive additional benefits because scholarship and fellowship awards are not subject to tax to the extent that they pay for tuition, books, and related fees. These two tax expenditures are estimated at $390 million and $685 million, respectively,

**CREDIT PROGRAMS—EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Guaranteed student loans: | | | | | |
| Change in outstandings | 615 | 603 | 531 | 319 | 43 |
| Outstandings | 4,792 | 5,394 | 5,925 | 6,244 | 6,287 |
| Student financial assistance: | | | | | |
| Change in outstandings | −4,615 | −17 | −19 | −18 | −12 |
| Outstandings | 657 | 639 | 620 | 602 | 590 |
| College housing and other: | | | | | |
| New obligations | 60 | 62 | ..... | ..... | ..... |
| Change in outstandings | −1,165 | −706 | −459 | 59 | 12 |
| Outstandings | 1,463 | 758 | 298 | 357 | 369 |
| SLMA obligations: | | | | | |
| Change in outstandings | −30 | −30 | ..... | −30 | −30 |
| Outstandings | 4,940 | 4,910 | 4,910 | 4,880 | 4,850 |
| Total, direct loans: | | | | | |
| New obligations | 60 | 62 | ..... | ..... | ..... |
| Change in outstandings | −5,195 | −150 | 52 | 330 | 13 |
| Outstandings | 11,852 | 11,701 | 11,753 | 12,083 | 12,095 |
| Guaranteed loans: | | | | | |
| Guaranteed student loans: | | | | | |
| New commitments | 9,730 | 9,576 | 10,039 | 10,521 | 11,027 |
| Change in outstandings | 2,585 | 1,190 | 1,049 | 860 | 813 |
| Outstandings | 40,067 | 41,256 | 42,306 | 43,166 | 43,979 |
| **Total, new obligations and new commitments** | **9,790** | **9,639** | **10,039** | **10,521** | **11,027** |

in 1989. Other assistance is provided through a special tax exemption available to parents of students age 19 or over who do not claim an exemption on their own tax return and by the deductibility of charitable contributions for education. Tax expenditures for these items are estimated at $450 million and $1.6 billion, respectively, in 1989. The exclusion of interest on State and local debt for private nonprofit educational facilities results in a tax expenditure estimated at $315 million in 1989. Current tax expenditures for education are estimated to total $2.8 billion in 1989.

A legislative proposal will be submitted to create a college savings bond program to help lower- and middle-income families save for the rising cost of a college education. Tax expenditures in 1989 would be $10 million.

## TRAINING, EMPLOYMENT, AND OTHER LABOR SERVICES

Federal training and employment programs are designed to improve individuals' abilities to obtain and retain jobs and to facili-

tate the operation of the labor market by ensuring the development of a labor force that has the skills and flexibility required to meet the needs of a rapidly changing economy over the next decade. Those who have difficulty getting and keeping jobs may receive skill training or information on the location of suitable jobs and how to seek them. Other labor services include the compilation of labor statistics and the regulation of employer-employee relations. In 1989, outlays for these activities are expected to be $6.0 billion, an increase of $29 million over the estimate for 1988.

***Training and Employment.***—The major Federal activities for training and employment are financed through grants to States for training those having greatest difficulties in the job market; helping experienced workers displaced from their jobs find new employment; providing subsidized jobs, remediation, and training for youth in the summer; and operating the Employment Service. In addition, the Federal Government contracts for the operation of other job training programs, including the Job Corps. Under the Job Training Partnership Act (JTPA), States have major control over the use of amounts granted them. In each State and locality, the private sector is heavily involved in planning and carrying out the programs. The primary JTPA program is a block grant that provides States and localities program discretion within broad Federal guidelines. To provide lead time for adequate planning, the budget authority enacted for a fiscal year for JTPA and the Employment Service finances a 12-month program year beginning on July 1 of that year.

*Block Grants to States.*—Under JTPA, each State designs its program in close cooperation with private sector employers to meet the needs of its population and the opportunities in its job market. These programs are intended to prepare low-income and unskilled youth and adults for entry into the labor force and to provide job training to those who are in special need of such training in order to obtain productive employment. Activities are designed in conjunction with the Employment Service, educational institutions, and other service providers to prepare individuals for jobs in the area. Although few restrictions are placed on the States and localities, JTPA requires that 70 percent of the grant amount must be used for training and 90 percent of the participants must be economically disadvantaged. At least 40 percent of the resources must be spent for youth, and welfare recipients must be served on an equitable basis. Estimated outlays of $1.9 billion in 1989 reflect the budget authority proposed to serve over 1 million people in both program years 1988 and 1989.

*Summer Youth Employment.*—Under the summer youth employment program, grants are made to States in the spring of each year to subsidize minimum-wage public sector jobs during the following

summer for youth between the ages of 14 and 21. The 1988 budget authority provides jobs in the summer of 1989 and the 1989 budget authority provides jobs in the summer of 1990. While the program usually has been successful in providing summer jobs for youth, there is no evidence that simply providing such jobs has benefitted those low-income youth with the fewest skills and most at risk of not finding a productive role in the economy, nor is it clear that using these resources only for jobs is the most effective use of tax dollars. Under current law, local areas have limited flexibility to use these resources in new and innovative programs mixing jobs and longer term comprehensive training. The administration, therefore, proposes amending the current summer jobs program.

Legislation will be proposed to change the JTPA by amending the existing summer youth employment program to allow States and local areas to establish a comprehensive program of services for low-income youth. This change would enable States and localities to operate a year-round program of remedial education, basic skills training, and related support; a subsidized summer jobs program as they do now; or a mixture of both programs. The mix of services between training and jobs will be up to States and local areas. This proposal is intended to allow local areas to put together the best combination of services for their jurisdiction to help youth who suffer from illiteracy, lack job skills, and are the most seriously at risk of failing to participate fully in our society. Budget authority of $718 million in 1989 is proposed for this program, the same level as enacted for 1988.

*Assistance to Dislocated Workers.*—Two programs have been available to help workers whose jobs have disappeared because of changes in the economy. Trade adjustment assistance (TAA) provides unemployment benefit payments for a period beyond that available from unemployment insurance. It also pays for retraining workers whose skills are obsolete or for the cost of searching for and moving to jobs in new locations. This aid is available only to workers who are determined to have been displaced from their jobs by increased imports. Experience under the program has demonstrated that the additional weeks of unemployment benefits encourage workers to delay efforts to seek new opportunities in the hope that somehow their old jobs will reappear. Congress provided $48 million for retraining and relocation assistance and resources to finance $138 million in benefits under TAA in 1988.

JTPA authorizes the second readjustment program, providing grants to States to help dislocated workers find new occupations that use their skills, get training in new skills for which there is a demand, or meet the costs of looking for jobs or moving to new locations where they have found long-term jobs. JTPA provides for 75 percent of amounts appropriated for this program to be distrib-

uted to States by formula and for 25 percent to be granted to States at the discretion of the Secretary of Labor based on applications describing special needs. An appropriation of $287 million was enacted to be distributed in this manner in 1988.

These separate worker assistance programs have not operated efficiently to help workers adjust. In addition, the separate TAA program targeting one group of unemployed workers raises serious questions about equity of treatment. The administration proposes to replace these two programs with an entirely new program. This new Worker Readjustment Program (WRAP) would be available to all dislocated workers, whether they are unemployed due to increased imports, have been permanently laid off, have lost their farms, or are long-term unemployment insurance recipients. Services such as counseling, job search assistance, basic education, and job skill training would be provided in a two-tiered approach, with services leading to quick adjustment being provided first. States would apply to the Secretary of Labor for grants and would be responsible for the program and linking it to the unemployment insurance system. The private industry councils set up under JTPA would have oversight responsibilities at the local level. These changes would allow States and local areas to use a variety of new approaches to encourage workers to recognize when their old jobs are gone and to provide them the help they need to move on more quickly to new careers.

The budget requests that the $287 million appropriated in 1988 for dislocated worker assistance under JTPA be made available for transition purposes in addition to the normal program of assistance until WRAP is fully implemented. No separate resources are requested for serving new enrollees in the TAA program in 1989. These workers would be served by the new program during 1989. Existing TAA recipients would continue to receive their benefits and complete their training.

Total budget authority proposed for 1989 to serve dislocated workers is $980 million, of which $32 million is for residual TAA benefits classified in the income security function. About 700,000 workers are expected to enroll in the new program each year when it is fully operational. The new approach would provide readjustment services faster than has been possible under the current programs.

*Job Corps.*—The Job Corps provides disadvantaged youth remedial education and job skills training in 106 residential centers that also provide meals, room, recreation, medical care, and living and readjustment allowances. Because the Job Corps continues to be the most costly domestic job training program financed by the Federal Government, the program is constantly seeking ways to help keep program costs under control and improve program effi-

ciency while maintaining service levels. For 1989, some savings would be achieved through implementation of the results of several pilot and demonstration projects that tested ways to reduce costs or improve positive outcomes. The 1989 budget authority request of $711 million would be sufficient to support 40,500 training slots, the same level as in previous years.

*Older Americans Employment.*—Part-time public service employment for older workers is provided under Title V of the Older Americans Act through contracts with seven national service organizations and the U.S. Forest Service and through grants to States. Budget authority of $336 million is requested for 1989, $5 million more than provided in 1988. Some 65,700 job opportunities would be provided for older workers in 1989. Outlays are estimated to be $333 million in 1989.

*Work Incentive Program.*—This separate categorical program has for years provided job services, training, and public service employment to recipients of aid to families with dependent children (AFDC). Although its aim is to help curb welfare dependency, it has not proved successful or cost-effective. Other programs, such as JTPA, provide services to AFDC families in a program better designed to train adults and youth in the skills needed for private sector jobs. The Congress appropriated $93 million in 1988 for the work incentive (WIN) program. The administration is requesting no new budget authority for WIN in 1989, seeking to phase out the program in favor of a new work and training program described in the income security function.

*Other Training Programs.*—Outlays of $296 million are estimated in 1989 for other national training programs, including research and demonstration projects and special programs for veterans, native Americans, and migrant and seasonal farm workers.

*Federal-State Employment Services.*—Grants are made for State employment service agencies under a formula based on each State's share of the civilian labor force and of unemployed individuals. These grants support the total cost of job search and placement services to job seekers and of recruitment and special technical services for employers. Certain employment services designed to meet national needs are financed with grants under specific agreements with the State agencies. These national activities include special services to veterans, collection of general purpose labor market statistics, and determinations of labor needs under immigration laws. The consultative process with all interested groups started in 1988 on the role, structure, and responsibility for administering the State employment service and unemployment insurance programs will continue in 1989.

Beginning in 1989, States would receive special grants under the proposed new program of assistance for dislocated workers de-

scribed earlier. States would be able to use these resources to provide adjustment services tailored to the needs of dislocated workers in their jurisdiction.

***Tax Expenditures.***—Training and employment is subsidized through a diverse group of tax expenditures. The Economic Recovery Tax Act of 1981 (ERTA) expanded the credit for child and dependent care and created a special exclusion for employer payments for child care. These provisions for child and dependent care, designed to provide work incentives for families with children, are estimated to cost $5.3 billion and $155 million, respectively, in 1989.

The targeted jobs tax credit, intended to provide incentives for employers to hire disadvantaged individuals from certain target groups and recipients of certain welfare payments, will be allowed to expire on December 31, 1988. The preponderence of evidence shows that this tax credit is a windfall to employers and subsidizes hiring that would have occurred in the absence of the tax. Special tax credits for employee stock ownership plans (ESOPs), designed to encourage employee ownership of their employer's stock, were allowed to expire at the end of 1986. The tax expenditures for these provisions are estimated at $275 million and $195 million, respectively, in 1989. Total tax expenditures for training and employment are estimated to be $6.8 billion in 1989.

## SOCIAL SERVICES

The Federal Government makes grants to States and to local public and private institutions to defray the cost of social services. Beneficiaries are low-income persons, the elderly, the disabled, children, youth, and Native Americans. Federal outlays for social services are expected to be $9.2 billion in 1988 and $9.0 billion in 1989.

*Social Services Block Grant.*—Block grant funding of social services gives States discretion to determine which social services will be offered and who will be eligible to receive them. Child day care, foster care, child protective services, preparation and delivery of meals, and legal services are some examples of social services offered by the States. Block grant funds may also be used by State and local governments for administrative costs and are distributed among the States on the basis of population. States may transfer up to 10 percent of their social services block grant allotment to other block grants that support health services, health promotion and disease prevention, and low-income home energy assistance.

Budget authority of $2.7 billion is requested for the social services block grant in 1989, the same level as enacted for 1988.

*Community Services Block Grant.*—The administration proposes to begin phasing out Federal funding for the community services

block grant (CSBG). The administration is requesting $310 million in 1989 budget authority, $72 million less than the 1988 level. Community 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 funding will provide these agencies time to solicit funding from other sources.

*Rehabilitation Services.*—A 2 percent increase in budget authority over the 1988 level is proposed for four vocational rehabilitation State formula grant programs in 1989. Most other activities are proposed to be funded in 1989 at their 1988 enacted levels.

*Foster Care and Adoption Assistance.*—In 1989, budget authority of $1.1 billion is requested for foster care and adoption assistance. Funds support State programs to reunite children with their families or, when this is not possible, to place them promptly in adoptive homes.

*Human Development Services.*—In 1989, budget authority of $2.5 billion is requested to support social services for children, victims of family violence, the elderly, persons with developmental disabilities, and Native Americans.

*Domestic Volunteer Programs.*—The ACTION agency operates programs to help citizens age 60 and older provide various social services, pays stipends and other support costs of the volunteers in service to America program (VISTA), and provides small grants to stimulate other volunteer services. In 1989, the foster grandparents program will support approximately 27,000 older volunteers to work with about 68,500 children with special needs. The senior companions program will provide support for approximately 10,000 volunteers to work with 32,000 older people confined to their homes. The retired senior volunteer program (RSVP) will support about 417,000 part-time volunteers in 1989 who work on a great variety of community needs. Funds requested for the VISTA program will provide 2,600 volunteer service years in 1989, compared to 2,500 volunteer service years in 1988.

*Other Social Services.*—Funding is provided for certain administrative functions of the Education Department and for the interim assistance to States for legalization programs of the Department of Health and Human Services.

***Tax Expenditures.***—The provision of social services by a wide variety of private charitable and religious institutions is encouraged by the tax deductibility of contributions to those institutions. The tax expenditure estimate for charitable contributions, other than to educational and health institutions, is $10.3 billion in 1989. Parsonage housing allowances are excluded from ministers' taxable incomes. This allows them to accept lower cash remuneration from their congregations. The tax expenditure for parsonage allowances is estimated at $200 million in 1989. The adoption of children with

special needs was encouraged by a limited itemized deduction for expenses incurred. Effective January 1, 1987, the Tax Reform Act of 1986 repealed this deduction and explicitly replaced it with a direct expenditure program. For social services, tax expenditures are estimated to total $10.5 billion in 1989.

Total tax expenditures for education, training, employment, and social services are estimated at $20.1 billion in 1989.

# HEALTH

The Federal Government helps to meet the Nation's health needs by financing and providing health care services, promoting disease prevention, and supporting research, training, and consumer and occupational health and safety. Since 1960, Americans' per capita spending on health care has increased rapidly—more than twice the rate of inflation. Americans now spend 10.9 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. This spending is growing even faster than medical spending generally and will more than double within a decade unless present trends are reversed.

***Health Care Services.***—Four-fifths of Federal outlays for health in this function are devoted to financing or providing health care services directly to individuals. Federal outlays for health care services, excluding medicare, military, and veterans medical programs, are estimated to increase from $36.3 billion in 1988 to $38.6 billion in 1989.

*Medicaid Grants.*—Under current law, the Federal Government is expected to finance 56 percent of the cost of the joint State-Federal medicaid program; the State and local share is projected to be $25.7 billion, with the Federal share at $32.7 billion in 1989, a spending increase of 7 percent over 1988. The medicaid program will finance health care for 25 million Americans. Steep growth in the cost of medical care, and expanded eligibility and coverage will contribute to rapidly rising Federal outlays, projected to increase by an average of 10 percent per year in the period between 1989 and 1993.

Consistent with the Bipartisan Budget Agreement, medicaid legislative savings are not being proposed for 1989. Medicaid outlays will be affected by a medicare Part B proposal beginning in 1990, and by changes in regulatory and administrative policies beginning in 1989.

*Federal Employees Health Benefits (FEHB).*—The FEHB program is the world's largest multiple-choice employee health program, the cost of which is shared by the Government and its employees. The President's budget implements changes legislated in 1987 that require the Postal Service to make payments toward the Government's share of health insurance premiums for Postal Service retirees. Federal outlays in 1989 for Federal employees health benefits are estimated to be $1.9 billion.

*Other Health Care Services.*—Budget authority of $1.3 billion is requested for health block grants in 1989, $0.2 billion more than the 1988 level. This increase reflects proposed legislation for a family planning block grant to give States greater latitude in deliv-

**NATIONAL NEED: HEALTH**

(Functional code 550; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Health care services:** | | | | | |
| Medicaid grants: | | | | | |
| Existing law | 27,612 | 30,657 | 32,733 | 35,815 | 39,032 |
| Proposed legislation | ..... | ..... | ..... | 20 | 50 |
| Federal employees' health benefits | 1,459 | 1,789 | 2,374 | 2,733 | 3,696 |
| Other health care services: | | | | | |
| Existing law | 3,814 | 4,156 | 4,129 | 4,109 | 4,155 |
| Proposed credit reform | ..... | ..... | —* | —* | —* |
| Subtotal, Health care services | 32,886 | 36,601 | 39,235 | 42,676 | 46,932 |
| **Health research:** | | | | | |
| National Institutes of Health research | 5,894 | 6,368 | 6,233 | 6,351 | 6,450 |
| Other research programs | 766 | 689 | 1,620 | 1,678 | 1,722 |
| Subtotal, Health research | 6,660 | 7,057 | 7,853 | 8,029 | 8,172 |
| **Education and training of health care work force:** | | | | | |
| Research training | 289 | 299 | 302 | 306 | 311 |
| Clinical training: | | | | | |
| Existing law | 202 | 209 | 43 | 59 | 49 |
| Proposed legislation | ..... | ..... | —3 | ..... | ..... |
| Proposed credit reform | ..... | ..... | 17 | 10 | 10 |
| Other | 39 | 41 | 35 | 32 | 29 |
| Subtotal, Education and training of health care work force | 530 | 548 | 394 | 408 | 399 |
| **Consumer and occupational health and safety:** | | | | | |
| Consumer safety | 858 | 902 | 907 | 907 | 906 |
| Occupational safety and health | 392 | 405 | 420 | 427 | 436 |
| Subtotal, Consumer and occupational health and safety | 1,250 | 1,308 | 1,327 | 1,334 | 1,342 |
| **Total, budget authority** | **41,325** | **45,514** | **48,810** | **52,447** | **56,845** |

*$500 thousand or less.

ering voluntary family planning services. Block grants allow States flexibility in coordinating and improving the effectiveness of services for their citizens. Under such grants, States are able to streamline program administration and devote more resources to services, because unnecessary Federal regulatory, legal, and reporting requirements previously imposed on grantees no longer apply.

Budget authority of $987 million is requested for the Indian Health Service (IHS) for fiscal year 1989. In addition, the IHS will collect an estimated $74 million in third-party reimbursements for health services provided to American Indians and Alaska Natives. In 1989, the IHS will increase its support for tribal health administration as it advances toward its ten-year goal of entrusting 75 percent of IHS hospitals and clinics to Indian organizations. The IHS will continue to gather health status data and other informa-

**NATIONAL NEED: HEALTH**

(Functional code 550; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **OUTLAYS** | | | | | |
| **Health care services:** | | | | | |
| Medicaid grants: | | | | | |
| Existing law | 27,435 | 30,664 | 32,733 | 35,815 | 39,032 |
| Proposed legislation | ..... | ..... | ..... | 20 | 50 |
| Federal employees' health benefits | 1,799 | 1,835 | 1,914 | 2,843 | 3,260 |
| Other health care services: | | | | | |
| Existing law | 3,382 | 3,811 | 3,991 | 4,140 | 4,149 |
| Proposed credit reform | ..... | ..... | —* | —* | —* |
| Subtotal, Health care services | 32,616 | 36,309 | 38,637 | 42,817 | 46,491 |
| **Health research:** | | | | | |
| National Institutes of Health research | 4,971 | 5,682 | 6,214 | 6,336 | 6,442 |
| Other research programs | 628 | 795 | 1,155 | 1,464 | 1,699 |
| Subtotal, Health research | 5,599 | 6,477 | 7,369 | 7,800 | 8,140 |
| **Education and training of health care work force:** | | | | | |
| Research training | 251 | 218 | 253 | 297 | 306 |
| Clinical training: | | | | | |
| Existing law | 250 | 156 | 162 | 95 | 64 |
| Proposed legislation | ..... | ..... | —4 | —2 | 2 |
| Proposed credit reform | ..... | ..... | 18 | 10 | 10 |
| Other | 56 | 41 | 36 | 32 | 30 |
| Subtotal, Education and training of health care work force | 556 | 415 | 465 | 432 | 412 |
| **Consumer and occupational health and safety:** | | | | | |
| Consumer safety | 827 | 879 | 891 | 897 | 900 |
| Occupational safety and health | 370 | 398 | 409 | 417 | 432 |
| Subtotal, Consumer and occupational health and safety | 1,197 | 1,278 | 1,300 | 1,314 | 1,332 |
| **Total, outlays** | **39,968** | **44,479** | **47,771** | **52,363** | **56,375** |

*$500 thousand or less.

tion necessary to efficiently and equitably distribute resources among its service areas.

Budget authority of $584 million is requested for drug abuse treatment, research, prevention, and deterrence programs in the Public Health Service (PHS), an 18 percent increase above 1988. These funds will support the President's initiative to combat drug abuse.

For 1989, $24 million in budget authority is requested for the direct Federal subsidy for the care of District of Columbia residents at Saint Elizabeths Hospital. This represents the eighth year of a 10-year phasedown of this subsidy. On October 1, 1987, ownership of Saint Elizabeths Hospital was transferred to the District of Columbia. An additional transition subsidy is also requested as part of the Federal payment to the District of Columbia govern-

ment. This payment is classified in the general government function.

***Health Research.***—In 1989, the Federal Government will provide an estimated 85 percent of the Nation's expenditures on basic health-related research, with the bulk of Federal support channeled through the National Institutes of Health (NIH). Budget authority of $7.9 billion is requested for Department of Health and Human Services' health research in 1989, $0.8 billion more than the 1988 level. The 1989 request represents a 5.1 percent increase above the 1988 appropriations, excluding funding for Acquired Immune Deficiency Syndrome (AIDS) research. This level should permit 20,600 to 21,000 new and continuing research grant awards. Complementing the NIH effort, funding requested for the Alcohol, Drug Abuse, and Mental Health Administration would support between 1,650 and 1,725 research project grants.

Addressing the Acquired Immune Deficiency Syndrome epidemic is the highest public health priority of the administration. Supplementing State and local programs, the Federal effort encompasses health education and risk prevention as well as research on the causes of and potential treatments for AIDS. Budget authority of $1.3 billion is requested for AIDS research and education in 1989, an increase of $369 million, or almost 40 percent, above the 1988 enacted level. Recognizing the continuing congressional interest in consolidated AIDS funding, all 1989 PHS AIDS funds will be requested under a single heading in the Office of the Assistant Secretary for Health to improve coordination. Transfer authority is proposed to expedite mid-year adjustments to AIDS spending plans within 1989 aggregate levels for newly identified research and education opportunities.

***Education and Training of the Health Care Workforce.***—In 1989, $394 million in budget authority is requested for these programs, compared to $548 million appropriated in 1988. Between 1965, when Federal subsidies for health professions training began, and 1986, the supply of physicians per capita grew by 54 percent, and surpluses are projected for most health care disciplines in the 1990's. Since the supply of health care professionals is now adequate, direct Federal subsidies for most clinical health professions training are no longer essential. For this reason, the administration proposes to eliminate the Federal subsidies for most health professions in 1989. Federal emphasis will be on training in family medicine and geriatric health care through consolidated grants to States and other entities.

In 1989, an estimated 17,600 students in health professions training programs—medical and allied health professionals—will be supported by $176 million in guaranteed loan commitments under

**CREDIT PROGRAMS—HEALTH**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Health resources, education, and facilities: | | | | | |
| New obligations | 1 | 1 | * | * | * |
| Change in outstandings | −57 | −32 | −131 | 33 | 31 |
| Outstandings | 716 | 684 | 553 | 587 | 617 |
| Total, direct loans: | | | | | |
| New obligations | 1 | 1 | * | * | * |
| Change in outstandings | −57 | −32 | −131 | 33 | 31 |
| Outstandings | 716 | 684 | 553 | 587 | 617 |
| Guaranteed loans: | | | | | |
| Health profession graduate student loans: | | | | | |
| New commitments | 221 | 350 | 77 | ..... | ..... |
| Change in outstandings | 199 | 319 | 35 | −39 | −40 |
| Outstandings | 1,305 | 1,623 | 1,659 | 1,620 | 1,580 |
| Health education assistance loan subsidies: | | | | | |
| New commitments | ..... | ..... | 100 | 100 | 100 |
| Change in outstandings | ..... | ..... | 100 | 100 | 100 |
| Outstandings | ..... | ..... | 100 | 200 | 300 |
| Health resources, education, and facilities: | | | | | |
| Change in outstandings | −86 | −107 | −103 | −116 | −128 |
| Outstandings | 836 | 729 | 626 | 510 | 383 |
| Total, guaranteed loans: | | | | | |
| New commitments | 221 | 350 | 177 | 100 | 100 |
| Change in outstandings | 113 | 212 | 32 | −55 | −68 |
| Outstandings | 2,140 | 2,353 | 2,384 | 2,330 | 2,263 |
| **Total, new obligations and new commitments** | **222** | **351** | **177** | **100** | **100** |

* $500,000 or less.

the health education assistance loan program. An additional 44,760 nursing and health professions students will continue to receive assistance through revolving fund loans. Direct support will continue for about 12,100 students pursuing careers in health-related research. Research training is projected to have outlays of $253 million in 1989.

***Consumer and Occupational Health and Safety.***—Budget authority of $1.3 billion in 1989 is requested to protect consumers from unsafe and defective products and to protect workers from occupational hazards.

*Consumer Safety.*—Budget authority for consumer safety activities is proposed to be $907 million in 1989. This funding would support research, consumer education, and the development of both voluntary and regulatory measures to protect consumers from unreasonable risks. Inspections would be continued to ensure the safety and efficacy of drugs, medical devices, and foods.

*Occupational Safety and Health.*—The budget includes $420 million in budget authority to improve occupational safety and health in 1989. The Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA) in the Department of Labor issue and enforce standards to eliminate workplace hazards causing injury, illness, or death. During 1988 and 1989, both OSHA and MSHA will continue efforts to revise or eliminate standards that burden employers without enhancing protection of workers. Resources will be focused on those activities most likely to ensure safe and healthful working conditions. Cooperative and voluntary efforts of employers and employees to increase workplace safety and health will be encouraged. All mine inspections required by the Mine Safety and Health Act in 1988 and 1989 are expected to be accomplished.

***Tax Expenditures.***—Federal tax laws help finance health insurance by allowing employees to exclude from their taxable income the insurance premiums paid by their employers. The estimated tax expenditure for this provision is $34.8 billion for 1989. Individuals also are permitted to itemize as deductions certain expenses for health care. In 1989, the estimate for this health-related tax expenditure is $2.2 billion. In addition, health-related charitable contributions result in a tax expenditure estimated at $1.4 billion for 1989, and the exclusion of interest on State and local hospital bonds results in an estimated 1989 tax expenditure of $2.9 billion. Estimated tax expenditures for existing health provisions total $41.3 billion in 1989.

***Related Programs.***—The Federal Government supports health-related expenditures that are reported in other functions. Among the most important are medicare, discussed in the next function, and medical care for veterans and military personnel, discussed in both the veterans benefits and services and national defense functions. Agency contributions to Federal employees health benefits are described under health care services but are included in individual agency budgets in virtually all functions.

# MEDICARE

The Federal Government contributes to the health of aged and disabled Americans through medicare. In 1989, medicare will provide health insurance for an estimated 33 million persons who are aged, disabled, or suffer from end-stage renal (i.e., kidney) disease. In addition, the administration supports the enactment of catastrophic health insurance legislation consistent with the principles embodied in the Senate-passed Medicare Catastrophic Protection Act (H.R. 2470).

Medicare consists of two parts under current law. Hospital insurance (Part A), funded primarily by social security payroll taxes, pays for care provided by hospitals, skilled nursing facilities, home health agencies, and hospices. Supplementary medical insurance (Part B), the optional part of medicare, pays for physician services, hospital outpatient and laboratory services, treatment for end-stage renal disease, and durable medical equipment. Enrollees pay about 25 percent (or $24.80 per month per enrollee in calendar year 1988) of Part B costs through premiums. A $26 billion subsidy from general revenue, an average of $67 per month per enrollee, completes the program financing for 1988.

Under current law, medicare outlays are expected to increase 11 percent annually, an increase of $55 billion from 1988 to 1993. Medicare's spending on physician services, one of the fastest growing parts of the budget, is expected to increase 12 percent annually over the 5-year period.

The Bipartisan Budget Agreement established specific deficit reduction targets for medicare—$2.0 billion in 1988 and $3.5 billion in 1989. The administration estimates that the reductions achieved through the enactment of the Omnibus Budget Reconciliation Act of 1987 (OBRA) fall $1.2 billion short of the 2-year savings agreed to. The 1989 budget proposes further reductions in 1989 of $980 million in Part A and nearly $240 in Part B to implement the agreement.

Even with the administration's savings proposals, medicare outlays are projected to increase from $79 billion in 1988 to $128 billion in 1993. This increase significantly exceeds general inflation and the increase in the beneficiary population. In the budget, spending per medicare beneficiary would increase from $2,500 in 1988 to $3,700 in 1993.

***Hospital Insurance (HI).***—OBRA included several changes to hospital spending. In 1988, the annual update in average hospital payments under the prospective payment system (PPS) was increased from 2.7 percent to 3.0 percent for rural hospitals, reduced from 2.7 percent to 1.5 percent for urban hospitals in large metropolitan areas (over one million people) and reduced from 2.7 per-

**NATIONAL NEED: MEDICARE**

(Functional code 570; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Medicare:** | | | | | |
| Hospital insurance (HI): | | | | | |
| Existing law | 62,735 | 67,858 | 72,794 | 78,560 | 84,422 |
| Proposed legislation | ..... | ..... | 1,660 | 2,302 | 2,642 |
| Supplementary medical insurance (SMI): | | | | | |
| Existing law | 27,797 | 34,871 | 42,855 | 46,952 | 53,457 |
| Proposed legislation | ..... | ..... | −285 | −624 | −725 |
| Medicare premiums and collections: | | | | | |
| Existing law | −6,520 | −8,800 | −10,563 | −11,425 | −12,102 |
| Proposed legislation | ..... | ..... | 87 | −355 | −1,213 |
| Interfund transactions | −14 | ..... | ..... | ..... | ..... |
| **Total, budget authority** | **83,998** | **93,928** | **106,548** | **115,410** | **126,481** |
| **OUTLAYS** | | | | | |
| **Medicare:** | | | | | |
| Hospital insurance (HI): | | | | | |
| Existing law | 50,803 | 52,484 | 55,782 | 61,985 | 67,989 |
| Proposed legislation | ..... | ..... | −980 | −1,231 | −1,521 |
| Supplementary medical insurance (SMI): | | | | | |
| Existing law | 30,837 | 35,173 | 40,026 | 45,298 | 51,535 |
| Proposed legislation | ..... | ..... | −337 | −617 | −727 |
| Medicare premiums and collections: | | | | | |
| Existing law | −6,520 | −8,800 | −10,563 | −11,425 | −12,102 |
| Proposed legislation | ..... | ..... | 87 | −355 | −1,213 |
| Interfund transactions | ..... | ..... | ..... | ..... | ..... |
| **Total, outlays** | **75,120** | **78,857** | **84,015** | **93,655** | **103,961** |

cent to 1.0 percent for urban hospitals in small metropolitan areas. In 1989, the update factors will be set at market-basket (hospital cost) inflation, minus 1.5 percent for rural hospitals, 2.0 percent for urban hospitals in large metropolitan areas and 2.5 percent for other urban hospitals.

OBRA made changes to hospital payments including reducing payments for hospital capital costs and slowing payments of some hospital bills. The Act increased the disproportionate share PPS adjustment for certain hospitals and expanded eligibility to additional hospitals. To offset these costs, the payment adjustment for indirect medical education (IME) costs to teaching hospitals was reduced from 8.1 percent to about 7.7 percent.

To implement the Bipartisan Budget Agreement, the budget proposes to reduce further indirect medical education payments and limit graduate medical education payments. The indirect medical education adjustment would be reduced from 7.7 percent to 4.05 percent—the best estimate of the added costs teaching hospitals historically incurred.

***Supplementary Medical Insurance (SMI).***—OBRA included a series of reforms that limits payments for physician and diagnostic

clinical laboratory services, for durable medical equipment, and to hospital outpatient departments for radiology. The Act also expanded medicare's mental health benefit. The bulk of the savings were achieved by:

- freezing payments for most physicians at calendar year 1987 levels;
- reducing the annual payment update;
- reducing payments for new physicians; and
- reducing payments for specific overpriced procedures.

In total, the Act reduced growth in physician spending about $330 million in 1988 and $700 million in 1989. Two provisions of the Act increase beneficiary cost-sharing: a one-year extension of the current law 25 percent of program cost Part B premium, and an extension of beneficiary cost sharing to ambulatory surgical center and outpatient department physician services. To implement fully the Bipartisan Budget Agreement, the budget proposes to limit payments for durable medical equipment, reduce payments for radiology and anesthesiology services, and to close a loophole in payments for home dialysis treatment for end-stage renal disease.

The administration aims to begin reducing excessive growth in physician spending by intensifying screening of physician claims by program contractors, and by pursuing a variety of physician payment reform options including research on procedures definitions, payment system options, and physician services volume and intensity issues. In addition to taking these actions to address program cost increases, the administration is also proposing to set permanently the Part B premium at 25 percent of program costs effective in 1990.

***Catastrophic Health Insurance (CHI).***—The administration remains committed to the enactment of legislation providing affordable, acute-care catastrophic illness protection and outpatient prescription drug coverage for our Nation's elderly and disabled. Such legislation must be deficit neutral, with benefits paid from newly created trust funds, which are soundly and fully financed from beneficiary premiums.

The Senate-passed version of H.R. 2470, the Medicare Catastrophic Protection Act, is consistent with the administration's principles for an acceptable catastrophic health insurance bill. The administration's continued support for the Senate-passed bill assumes modifications in effective dates, necessary because of the delay in conference action.

# INCOME SECURITY

Federal programs in the income security function help meet the needs of individuals by insuring against loss of income resulting from retirement, disability, death, or unemployment of a wage earner, and by assisting the truly needy who are unable to provide for themselves. The income security function includes retirement and disability programs for Federal civilian and military personnel, railroad employees, and coal miners. Retirement and disability benefits are financed by a combination of employer and employee contributions and direct Federal payments. This function also includes unemployment compensation programs and a wide range of housing, food, and cash assistance programs. Outlays for these programs are estimated at $130 billion in 1988 and $136 billion in 1989.

***General Retirement and Disability Insurance (Excluding Social Security).***—This subfunction includes programs that provide retirement and disability benefits for railroad workers and coal miners.

*Railroad Retirement.*—The Railroad Retirement Board (RRB) will administer retirement and disability benefits to an estimated 895,000 former railroad employees, their dependents, and survivors in 1989. RRB payments include benefits equivalent to social security retirement and disability benefits, as well as rail industry pensions and federally subsidized windfall payments. Benefits are financed through railroad employee payroll deductions and railroad employer contributions, payments from social security trust funds, and direct subsidies from taxpayers. Estimated 1989 outlays of $4.3 billion include $330 million for the Federal windfall subsidy component, which represents an annual subsidy of more than $1,000 per active railroad employee.

The budget proposes to restore rail industry pensions, the amounts above social security equivalent levels, to the private sector. Rail pensions are the only private industry pensions embedded in Federal law subsidized by taxpayers and administered by a Federal agency. Privatization of rail pensions would: (1) fully cover the rail sector under social security, (2) free rail labor and management to bargain collectively for new benefit levels and mechanisms for a new funding arrangement, and (3) require sound financing of pensions for new rail workers by placing rail pensions under the Employee Retirement Income Security Act (ERISA). Rail unemployment insurance (UI) would merge with the Federal/State UI system as part of the privatization initiative.

## NATIONAL NEED: PROVIDING INCOME SECURITY

(Functional code 600; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **General retirement and disability insurance (excluding social security):** | | | | | |
| Railroad retirement | 4,627 | 4,734 | 4,354 | 4,259 | 4,136 |
| Special benefits for disabled coal miners | 1,136 | 1,584 | 1,558 | 1,530 | 1,498 |
| Other | 75 | 80 | 87 | 94 | 100 |
| Subtotal, General retirement and disability insurance (excluding social security) | 5,838 | 6,397 | 5,999 | 5,882 | 5,734 |
| **Federal employee retirement and disability:** | | | | | |
| Civilian retirement and disability programs: | | | | | |
| Existing law | 44,145 | 46,528 | 48,770 | 50,864 | 53,042 |
| Proposed legislation | ..... | ..... | 4 | 545 | 668 |
| Military retirement | 31,919 | 33,563 | 35,060 | 36,916 | 39,142 |
| Federal employees workers' compensation (FECA) | 226 | 205 | 253 | 279 | 301 |
| Subtotal, Federal employee retirement and disability | 76,290 | 80,296 | 84,087 | 88,603 | 93,154 |
| **Unemployment compensation:** | | | | | |
| Existing law | 24,037 | 24,479 | 24,110 | 22,740 | 21,915 |
| Proposed legislation | ..... | ..... | −102 | −92 | −94 |
| Subtotal, Unemployment compensation | 24,037 | 24,479 | 24,008 | 22,648 | 21,821 |
| **Housing assistance:** | | | | | |
| Subsidized housing | 6,903 | 7,368 | 6,533 | 6,682 | 15,340 |
| Rural housing voucher program | ..... | ..... | 382 | 382 | 382 |
| Public housing operating subsidies | 1,350 | 1,450 | 1,518 | 1,522 | 1,579 |
| Low-rent public housing loans | 1,300 | 1,436 | 956 | 716 | 270 |
| Other housing assistance: | | | | | |
| Existing law | 311 | 229 | 189 | 184 | 183 |
| Proposed credit reform | ..... | ..... | * | * | * |
| Subtotal, Housing assistance | 9,864 | 10,483 | 9,578 | 9,486 | 17,753 |
| **Food and nutrition assistance:** | | | | | |
| Food stamps and aid to Puerto Rico | 12,646 | 13,518 | 13,428 | 13,559 | 13,935 |
| Child nutrition and other programs | 6,922 | 7,132 | 7,330 | 7,810 | 8,269 |
| Subtotal, Food and nutrition assistance | 19,568 | 20,650 | 20,758 | 21,369 | 22,205 |
| **Other income security:** | | | | | |
| Supplemental security income (SSI) | 10,797 | 12,571 | 12,474 | 12,300 | 14,078 |
| Family support payments: | | | | | |
| Existing law | 10,461 | 11,125 | 10,355 | 10,574 | 10,905 |
| Proposed legislation | ..... | ..... | 368 | 183 | −5 |
| Earned income tax credit (EITC) | 1,410 | 2,893 | 3,897 | 3,901 | 3,895 |
| Refugee assistance | 340 | 347 | 279 | 279 | 279 |
| Other | 2,078 | 1,720 | 1,386 | 1,385 | 1,386 |
| Subtotal, Other income security | 25,086 | 28,656 | 28,759 | 28,623 | 30,538 |
| **Total, budget authority** | **160,682** | **170,962** | **173,188** | **176,611** | **191,205** |

*$500 thousand or less.

specified medical criteria are entitled to monthly cash payments and medical benefits. Cash payments are also made to their dependents and survivors. The basic monthly cash payment is based on the GS-2 Federal salary level. Total outlays are estimated to be $1.6 billion in 1989. Beneficiaries receive payments from either general revenues or the black lung disability trust fund. The black lung disability trust fund, which is financed by a fee on coal production, is projected to have a deficit of $3.1 billion at the end of 1989. The excise tax paid by coal operators is insufficient to cover the cost of medical and income replacement benefits for miners disabled by the black lung disease for which these operators are legally responsible. This is true even though the Government has assumed full responsibility for paying income benefits to two-thirds of those disabled by black lung disease. Legislation passed in 1988 will retain the current excise taxes beyond their previously proposed expiration date in order to slowly restore the trust fund to solvency by the year 2014.

*Pension Benefit Guaranty Corporation (PBGC).*—This Government corporation insures payment of pension benefits promised to workers by their private employers that sponsor defined benefit pension plans. When a bankrupt or financially distressed employer can no longer support a pension plan, the PBGC takes over the plan and pays monthly retirement benefits up to a legal maximum. PBGC may also lend money to an insolvent multi-employer plan to prevent termination, thereby forestalling the need for the government to take over the plan. The Corporation's revenues include variable rate premiums charged to sponsors of single employer plans and flat rate premiums charged to sponsors of multi-employer plans, earnings on investments, and collections from sponsors that terminate plans. Premiums were increased and a variable rate structure started in 1988 for single employer pension plans.

***Federal Employee Retirement and Disability.***—Of the several employee retirement and disability programs in the legislative, judicial, and executive branches of the Federal Government, the largest are civil service retirement and disability and military retirement.

*Special Benefits for Disabled Coal Miners.*—Miners who suffer from chronic dust disease of the lungs—black lung—and who meet

## NATIONAL NEED: PROVIDING INCOME SECURITY

(Functional code 600; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **OUTLAYS** | | | | | |
| **General retirement and disability insurance (excluding social security):** | | | | | |
| Railroad retirement | 3,963 | 3,889 | 4,005 | 4,116 | 4,228 |
| Special benefits for disabled coal miners | 1,602 | 1,502 | 1,619 | 1,534 | 1,502 |
| Pension Benefit Guaranty Corporation | −72 | −571 | −504 | −518 | −532 |
| Other | 72 | 74 | 81 | 88 | 94 |
| Subtotal, General retirement and disability insurance (excluding social security) | 5,565 | 4,894 | 5,200 | 5,220 | 5,292 |
| **Federal employee retirement and disability:** | | | | | |
| Civilian retirement and disability programs | 26,161 | 27,552 | 29,532 | 32,106 | 33,226 |
| Military retirement | 18,080 | 19,128 | 20,324 | 21,522 | 22,723 |
| Federal employees workers' compensation (FECA) | 206 | 205 | 253 | 279 | 301 |
| Federal employees life insurance fund: | | | | | |
| Existing law | −702 | −722 | −769 | −808 | −816 |
| Proposed legislation | ..... | ..... | 18 | 23 | 29 |
| Subtotal, Federal employee retirement and disability | 43,745 | 46,163 | 49,357 | 53,123 | 55,463 |
| **Unemployment compensation:** | | | | | |
| Existing law | 17,080 | 15,764 | 16,477 | 16,551 | 17,126 |
| Proposed legislation | ..... | ..... | −102 | −92 | −94 |
| Subtotal, Unemployment compensation | 17,080 | 15,764 | 16,375 | 16,459 | 17,032 |
| **Housing assistance:** | | | | | |
| Subsidized housing | 9,786 | 10,630 | 12,069 | 13,283 | 13,718 |
| Rural housing voucher program | 14 | 19 | 24 | 79 | 150 |
| Public housing operating subsidies | 1,388 | 1,486 | 1,515 | 1,520 | 1,548 |
| Low-rent public housing loans | 1,356 | 1,492 | 1,022 | 784 | 344 |
| Other housing assistance: | | | | | |
| Existing law | 112 | 208 | 218 | 182 | 174 |
| Proposed credit reform | ..... | ..... | ..... | −* | −* |
| Subtotal, Housing assistance | 12,656 | 13,833 | 14,847 | 15,848 | 15,934 |
| **Food and nutrition assistance:** | | | | | |
| Food stamps and aid to Puerto Rico | 12,407 | 13,426 | 13,412 | 13,554 | 13,928 |
| Child nutrition and other programs | 6,533 | 7,103 | 7,354 | 7,760 | 8,193 |
| Subtotal, Food and nutrition assistance | 18,940 | 20,530 | 20,765 | 21,314 | 22,121 |
| **Other income security:** | | | | | |
| Supplemental security income (SSI) | 10,909 | 12,636 | 12,474 | 12,300 | 14,078 |
| Family support payments: | | | | | |
| Existing law | 10,540 | 10,785 | 10,772 | 10,574 | 10,905 |
| Proposed legislation | ..... | ..... | 168 | 147 | 50 |
| Earned income tax credit (EITC) | 1,410 | 2,893 | 3,897 | 3,901 | 3,895 |
| Refugee assistance | 387 | 305 | 295 | 284 | 279 |
| Other | 2,017 | 1,757 | 1,421 | 1,397 | 1,386 |
| Subtotal, Other income security | 25,264 | 28,376 | 29,028 | 28,603 | 30,593 |
| **Total, outlays** | **123,250** | **129,560** | **135,573** | **140,567** | **146,436** |

*$500 thousand or less.

*Civilian Retirement and Disability Programs.*—Nearly all of the Federal Government's civilian employees are covered by either the civil service retirement system (CSRS) or the Federal employees' retirement system (FERS). Under existing law, approximately 2.1 million retirees and survivors will receive payments in 1989 totalling an estimated $29.3 billion in outlays for these two retirement systems. Benefits are paid to former employees who meet eligibility requirements based on age and length of service and to their survivors. Currently, full retirement benefits can begin at age 55 for employees with 30 years of service under the CSRS; however, under the new FERS, that retirement age will gradually increase to age 57. Benefit levels under CSRS and FERS are based on the employee's three highest salary years. CSRS benefit levels are indexed to the Consumer Price Index (CPI), while FERS benefit levels are indexed to a modified CPI.

The FERS retirement plan consists of social security, a basic retirement benefit, and a thrift savings plan. Currently, there are approximately 600,000 active employees covered by FERS, and that number will grow rapidly each year, since all new employees entering the federal government must now join FERS. The number of annuitants under FERS is very small, because few FERS participants currently meet retirement eligibility requirements. It is expected that the number of FERS annuitants will grow to approximately 15,000 through 1995.

Part of the new retirement system (FERS), the thrift savings fund, is a tax-deferred, voluntary savings plan to which FERS employees may contribute up to 10 percent of their salary and receive matching government contributions of up to 5 percent of their salary. Employees covered by CSRS may also contribute up to 5 percent of their salary to the thrift plan and receive tax deferral benefits, but they receive no matching contributions.

Funds invested in the thrift savings fund are no longer included in the budget because these funds belong to the investors and are administered by the Government in a purely fiduciary capacity. A more detailed explanation of this change is in Part 6e.

Consistent with the administration's efforts to scale back overly-generous features of the civilian retirement program, the Omnibus Budget Reconciliation Act of 1987 included a provision to change the payment of the lump-sum annuity to Federal employees who retire between January 3, 1988 and December 31, 1989. The payment is now limited to 60 percent in the first year of retirement, with the remaining 40 percent plus interest paid out in the second year of retirement.

The administration has sought for several years to have the U.S. Postal Service pay its full share of costs for Postal retirees. The administration will propose legislation that, beginning in 1990, re-

quires the Postal Service to make an annual cost-of-living adjustment payment for all Postal annuitants, including survivors. The proposal is discussed in greater detail in the section on commerce and housing credit function.

*Military Retirement.*—Approximately 1.6 million military retirees and survivors will receive an estimated $20.3 billion in outlays under existing law in 1989. Normal retirement eligibility is attained at 20 years of service. The initial benefit is 2.5 percent of final basic pay for each year of service. For personnel entering after September 1980, the average of the member's highest 3 years of basic pay will be used, as specified by current law, instead of final basic pay. Benefits are indexed to the CPI. Under legislation enacted in 1986, persons entering the military after August 1, 1986 will be subject to a reduction in their initial annuity for retirement with less than 30 years of service. Their initial annuity at 20 years will be reduced to 40 percent of the average of the member's highest 3 years of basic pay, with the annuity rising 3.5 percentage points for each additional year of service to the full 75 percent for retirement at 30 years. These reduced annuities will be restored to their former levels when the retiree reaches age 62. This new class of beneficiaries will also receive a COLA equal to the CPI minus 1 percent for life, subject to a one-time restoral of purchasing power at age 62. Disability retirees and survivor benefits will not be affected by the reduction in initial annuities, but will be subject to the revised COLA formula. The budget provides for full cost-of-living adjustments for military retirees in 1989. Also, military personnel will continue to make contributions to and be eligible for social security.

*Federal Employees Workers' Compensation.*—The Department of Labor provides tax-free cash and medical benefits to Federal employees or their survivors for job-related injuries, illnesses, or deaths. About 50,000 workers with long-term disabilities, or their survivors, will receive monthly payments in 1988 and 1989.

***Unemployment Compensation.***—About 97 percent of wage and salaried employment in the United States is covered by unemployment compensation programs, which pay benefits to individuals who are temporarily out of work and are searching for jobs. Based on the economic assumptions described in Part 3, an average of 1.9 million workers per week will receive unemployment benefits during 1988 and 2.0 million workers in 1989. Outlays are estimated to increase from $15.8 billion in 1988 to $16.4 billion in 1989, as weekly benefit amounts also rise.

Regular benefits, usually paid for up to 26 weeks, are financed by a State tax on employers and vary according to benefit levels set by each State. Extended unemployment benefits, which increase by 50 percent the number of weeks an unemployed worker can receive

unemployment compensation, are payable in States with high rates of unemployment among covered individuals, as defined by statute. The total number of weeks of regular and extended benefits may not exceed 39. Extended benefits are financed in equal portions by State and Federal taxes on employers.

Benefits paid to former Federal civilian and military employees are financed by the Federal agency that employed them. Additional benefits are available to workers in specific circumstances, such as former Conrail employees. As part of the proposed changeover to a comprehensive dislocated worker assistance program, weekly benefits provided under the trade adjustment assistance program for workers affected by imports would be eliminated for new claimants beginning in 1989. Discussed in the education, training, employment, and social services function, the new program would be tied closely to the unemployment compensation program and would provide workers who have become unemployed because of imports or other causes with special help in finding new work. Under the proposed legislation, workers collecting trade adjustment assistance benefits at the end of 1988 would remain eligible to collect benefits in 1989.

***Housing Assistance.***—The Federal Government provides housing subsidies for low-income families and individuals through several programs administered by the Department of Housing and Urban Development (HUD) and the Department of Agriculture (USDA). Eligibility for HUD assistance generally is limited to households with annual incomes below 50 percent of median income in each community. Housing programs administered by the Agriculture Department's Farmers Home Administration (FmHA) serve households with incomes up to 80 percent of the median income, although this would change under the 1989 budget proposals.

The number of households receiving housing assistance through FmHA and HUD has increased substantially since 1980, when there were 4.2 million households receiving such help. By the end of 1987, the number had grown to 5.6 million. At the end of 1989, the number of assisted households will be an estimated 5.8 million. The 5.8 million households (4.4 million are HUD-assisted; 1.4 million are USDA-assisted) reflect an increase of more than 1.6 million households since 1980.

Under HUD's public and Indian housing program, the oldest form of federally subsidized housing, buildings are owned and maintained by local housing authorities. These units originally were built on the premise that the Federal Government would construct housing units to be owned locally and maintained and operated through tenant rents. This proved infeasible in the mid- to late-1960's, when Congress limited tenant rent payments. To help local housing authorities meet the resulting shortfalls, the Federal

**CREDIT PROGRAMS—INCOME SECURITY**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Low-rent public housing: | | | | | |
| Change in outstandings | −37 | −39 | −42 | −44 | −47 |
| Outstandings | 2,074 | 2,035 | 1,993 | 1,949 | 1,901 |
| Nonprofit sponsor assistance: | | | | | |
| New obligations | 1 | 1 | | | |
| Change in outstandings | * | * | * | * | * |
| Outstandings | 2 | 2 | 2 | 1 | 1 |
| Nonprofit sponsor assistance subsidies: | | | | | |
| New obligations | | | 1 | 1 | 1 |
| Change in outstandings | | | | * | * |
| Outstandings | | | | * | 1 |
| Other: | | | | | |
| New obligations | 2 | 1 | 2 | 2 | 2 |
| Change in outstandings | * | * | * | * | * |
| Outstandings | 2 | 3 | 3 | 3 | 3 |
| Total, direct loans: | | | | | |
| New obligations | 3 | 2 | 2 | 3 | 3 |
| Change in outstandings | −37 | −39 | −41 | −44 | −47 |
| Outstandings | 2,078 | 2,039 | 1,998 | 1,953 | 1,906 |
| Guaranteed loans: | | | | | |
| Low-rent public housing: | | | | | |
| Change in outstandings | −249 | −275 | −300 | −325 | −350 |
| Outstandings | 6,252 | 5,977 | 5,677 | 5,352 | 5,002 |
| **Total, new obligations** | **3** | **2** | **2** | **2** | **2** |

* $500,000 or less.

Government created additional funding for capital repair (modernization) and operating subsidies (the difference between operating costs and tenant rental contributions).

FmHA's housing programs rely on other subsidy approaches. In contrast to HUD's subsidized housing programs that focus on low-income renters, 60 percent of the households assisted under FmHA since 1980 have been homeowners. Under the Section 502 program, very low-interest mortgages are provided to households to encourage their owning homes; in many cases, these families would not be considered very low income. FmHA also provides rural renters with assistance by giving developers low-interest loans to build projects and by adding rental subsidies for some of the poorer tenants.

Housing assistance, in the form of housing vouchers, is the key to the administration's housing policy. At present, only HUD has an active voucher program; the 1987 Housing and Community Development Act (HCDA), however, authorized a voucher program in 1988 and 1989 for areas served by FmHA. Housing vouchers, which are targeted to very low-income households, provide tenants with more housing choice, including the opportunity to live in

better neighborhoods with access to available jobs and higher quality schools. They also cost less—about one-half of the cost of housing programs that involve additional kinds of subsidies. Finally, housing vouchers make more policy sense because the primary housing deficiency in metropolitan and rural areas is not a physical shortage of adequate units nor a failure of housing market financial institutions, but rather an income deficiency among poor families. This is a problem most efficiently addressed with vouchers.

The 1989 budget proposes to add 135,500 more subsidized households to those currently being served: 127,500 would be given vouchers to use in the private rental market; another 8,000 are subsidies for construction of new units for Indian (1,000) and elderly or handicapped households (7,000). Of the 127,500 vouchers, 100,000 will be funded through and administered by HUD. Between 20 and 25 percent of these vouchers will be issued to families living in non-metropolitan areas.

The budget proposes no new units under the existing FmHA programs that subsidize homeownership or construction of apartment buildings. Instead, 27,500 vouchers would be funded through FmHA and given to low-income families living in rural areas.

This amount includes 7,500 vouchers authorized in HCDA as well as a request for an appropriation for an additional 20,000. The proposed 1989 subsidized housing program requires an appropriation of $6.5 billion in HUD budget authority and $382 billion in FmHA budget authority. (The gross HUD budget authority request is actually $6.9 billion; the $6.5 billion figure nets out rescissions of prior-year budget authority.)

The administration will continue its commitment to the existing stock of public housing. The budget includes $1 billion in budget authority for modernizing public housing and $1.5 billion of operating subsidies for the almost 1.4 million public and Indian housing units. Finally, $4.2 billion will be forgiven on public and Indian housing development and modernization construction loans, pursuant to 1986 legislation that forgave outstanding direct loans.

Building on the experiences and successes of HUD's homeownership demonstration, and consistent with relevant provisions of HCDA, the administration proposes to further expand homeownership among residents of the Nation's public housing. New initiatives will emphasize sale to tenant management corporations and other nonprofit organizations, as well as to individual tenants.

The administration proposes to pursue a similar course with FHA-acquired properties, adding a significant new facet to HUD's multifamily property disposition activities. Under the proposal, nonprofit sponsors and other competent housing providers would be able to negotiate with HUD a sale price low enough to assure

not only affordability by low-income households, but proper management and maintenance over the longer term as well.

Because these initiatives are targeted to prospective buyers who cannot accommodate private market terms and conditions but who nonetheless have a wide range in financial capacity and housing need, the administration hopes to be able to maintain a high degree of flexibility in structuring the terms of each sale. The proposal also recognizes that some sales may require deep Federal subsidies. Such subsidies will, however, be factored into the sale price; no on-going Federal subsidy after sale will be considered.

In addition to offering public housing tenants home ownership opportunities, the administration proposes to provide tenants in public housing with more housing choices by offering them vouchers so that they could continue living in public housing or else find private rental units. Likewise, households receiving vouchers who are currently not residing in public housing could use their vouchers to live in public housing. Public housing and its tenants would, therefore, be more integrated into a community's overall housing market.

Another proposal is designed to give local housing authorities (PHAs) more flexibility in setting rents for public housing tenants and to curtail the escalating costs of public housing operating subsidies. This reform would allow HUD to waive the requirement that public housing tenants pay 30 percent of their adjusted income for rent if PHAs agree to forego future operating subsidies. It is anticipated that only PHAs currently collecting enough rent to cover most or all of its operating expenses will take advantage of this proposal. These PHAs will be able to establish frozen or flexible flat rents and charge more or less for a given unit depending on the condition and location of the unit. As in the private market, public housing families will be able to pay more or less for housing, depending on its condition and location, without automatic rent increases when income their increases.

Another administration proposal would allow States to finance vouchers and increase the number of families receiving housing assistance. Under this proposal, to be tested through a HUD demonstration, States would cover 100 percent of voucher subsidy costs, while HUD would cover 100 percent of the administrative fee costs. States could administer their vouchers directly, or pass them on to PHAs in their jurisdiction. This proposal is designed to amplify and encourage States' involvement in low-income housing delivery by eliminating the costs of program start-up or on-going administrative costs.

Finally, HUD's budget will contain two proposals regarding the homeless. The policy approach emphasizes transitional and permanent housing for the homeless, rather than emergency shelter. The

budget proposes to fund the supportive housing demonstration for the homeless at $75 million in 1989 with all funds going to transitional housing (i.e., where the homeless may live for up to 18 months). In addition, the Section 202/8 program that provides new housing for the elderly and the handicapped will place special emphasis on addressing the needs of the mentally ill homeless. The budget assumes that approximately $50 million in new loan authority will be utilized for projects serving this population.

***Food and Nutrition Assistance.***—Low- and middle-income families and individuals receive food and nutrition assistance through a number of federal programs.

*Food Stamps and Aid to Puerto Rico.*—Food stamps help lower-income families maintain a nutritious diet. Eligible households receive monthly allotments of stamps based on income and household size to finance food purchases. Benefits are entirely federally funded; administrative costs are shared by the states and the Federal Government. Benefits are adjusted each year for changes in the cost-of-living, with the next adjustment scheduled for October 1988. During 1989, 18.8 million people will receive food stamps each month, with associated Federal outlays of $12.5 billion under current law. Outlays for nutrition assistance for Puerto Rico are estimated to be $907 million in 1989.

For the aid to families with dependent children (AFDC) and medicaid programs, the States are held liable for the full dollar value of their erroneous payments above a 3 percent tolerance level. For the food stamp program, States are held liable for only a fraction of erroneous payments above 5 percent. As a result, States will repay the Federal government *less than one-tenth* of the approximately $900 million in food stamps they issue erroneously each year. Throughout 1989, USDA will continue efforts to collect outstanding State error liabilities; the budget assumes USDA will collect $162 million from the States during the year.

States operate employment and training (E&T) programs for able-bodied food stamp recipients. Each State's E&T program must include one or more components, including job search, job search training, workfare, work experience/training, and/or other programs if approved by the Secretary of Agriculture. To encourage States to run the best E&T programs, the administration plans to make a standard amount available for each food stamp recipient enrolled in State programs. As States serve more food stamp recipients, Federal E&T funds flowing to the States would increase. States would have complete flexibility to allocate total funds to place hard to serve individuals in intensive E&T components, while placing the job-ready in inexpensive job search programs.

*Child Nutrition and Other Programs.*—The child nutrition programs subsidize institutions for meals served to students in schools,

child care facilities, and other institutions. Schools get cash and commodity subsidies for meals served to *all* students, regardless of income level. In 1988, schools and other institutions will get $4.8 billion in cash and commodities to subsidize meals served to students. Of that amount, $750 million will subsidize institutions for meals served to students from households with income levels above 185 percent of the poverty level.

The administration proposes to maintain current child nutrition payments in 1989. Administration initiatives will focus on improving program integrity, and ensuring efficient and effective use of Federal meal subsidies.

Low income women, infants, and children get monthly food supplements from the supplemental feeding programs: the special supplemental food program for women, infants, and children (WIC) and the commodity supplemental food program (CSFP). WIC provides monthly food assistance and nutrition education to over 3 million low income women, infants, and children determined to be at nutritional risk. WIC is designed to lessen health problems associated with inadequate diets during the critical early stages of child development, especially pre-natal. Federal funding for WIC has expanded rapidly in recent years, more than doubling since 1980. The administration's 1989 request of $1.9 billion in budget authority for the supplemental feeding programs is $71 million above the 1988 level, and would continue to support over 3 million participants monthly.

*Related Food Assistance Programs in Other Functions.*—The Commodity Credit Corporation (CCC) donates surplus food, such as cheese, butter, and nonfat dry milk, for distribution to food banks, charitable institutions, and schools. Acquired as part of the agricultural price support programs, CCC commodities valued at $682 million are expected to be donated in 1989.

***Other Income Security.***—A number of other income security programs assist the poor. Estimated Federal outlays for these programs are $29 billion in 1989.

*Supplemental Security Income (SSI).*—This program will make cash payments to an estimated four million needy aged, blind, or disabled persons in 1989. Benefits are to be automatically increased in January 1989 by the same percentage as social security benefits. Some States also finance supplements to the basic Federal grant, which may be administered by the Federal Government at no charge to the States. The administration proposes no changes to this program.

*Family Support Payments to States.*—Aid to families with dependent children (AFDC) helps State and local governments finance cash assistance to needy families. States administer the AFDC program, determining guidelines for eligibility and the level

of benefits within broad Federal rules. Including Emergency Assistance, families will receive about $17.4 billion in 1989. The Federal Government reimburses States for, on average, slightly more than half of the benefit costs. Including incentive payments to States, child support enforcement (CSE) finances, on average, about 90 percent of State and local administrative expenses for establishing paternity and collecting support from legally liable absent parents. These collections offset some State and Federal AFDC costs. Under current law, Federal grants to States for AFDC and CSE are estimated to be $10.8 billion in both 1988 and 1989. About 3.8 million families are expected to receive AFDC benefits in 1989. Child support collections on behalf of about 0.9 million of these families are also anticipated.

*Welfare Reform.*—The administration continues to support the AFDC Employment and Training Reorganization Act of 1987 (H.R. 3200 and S. 1655). This legislation will reform AFDC work and training programs, strengthen the Federal-State child support enforcement system and provide broad flexibilty to States to carefully test innovative alternatives to current programs that support low-income families and individuals.

Under the comprehensive employment and training program, teenage recipients would be encouraged to remain in or return to school; and older recipients would participate in a variety of employment and training activities designed to improve their employment status. Participation standards phased in over nine years would ensure that the majority of welfare families have the opportunity to achieve self-sufficiency. The unsuccessful work incentive (WIN) program classified in the education, training, employment and social services function would no longer be funded. In addition to the employment and training reforms in AFDC, the budget also proposes that minor mothers be required to live in their parents' home in order to be eligible for AFDC.

Changes in child support enforcement would require States to establish mandatory child support guidelines and employers to automatically withhold from wages court ordered amounts to be paid as child support, to help ensure that children receive adequate and timely support from parents who are absent from the home. In addition, States would be required to improve their procedures for paternity establishment and for interstate enforcement of child support.

Under the proposed demonstration activity, States could receive waivers in a range of current programs for the low-income population to test new ways of helping families and individuals achieve financial independence. Demonstrations under these waivers could cost no more each year than the programs being modified, would

be designed to permit sound evaluation and could not adversely affect those in need.

These reforms would cost an estimated $168 million in Federal outlays in 1989.

*Earned Income Tax Credit (EITC).*—Wage earners with children are eligible for tax credits if they earn less than $17,000 beginning in 1988. When the credit exceeds a wage earner's income tax liability, the Treasury Department makes a cash payment. Credits can be received as additions to paychecks or as a lump sum at the end of the year. Total 1989 outlays for these payments are estimated to be $3.9 billion. When the credit does not exceed the wage earner's tax liability, no direct Treasury payment is made and the credit is considered a tax expenditure rather than an outlay. In 1989, the EITC tax expenditure is estimated to be $1.9 billion.

*Refugee Assistance.*—The Federal Government fully subsidizes States for initial costs associated with refugee and entrant resettlement, including preventive health activities, cash and medical assistance, employment, and English language training. Estimated 1989 outlays are $295 million. Assistance is intended to help refugees become self-sufficient as soon as possible after they arrive in the United States. Aid to refugees while they are overseas is discussed in the international affairs function.

*Low-Income Home Energy Assistance.*—The Department of Health and Human Services gives States block grants to help pay the fuel bills of low-income families. States can make direct cash payments to eligible families, payments to fuel vendors, or payments to public housing building operators. The States may also finance weatherization of homes for some low-income families. For 1989, the administration requests low-income home energy assistance budget authority of $1.2 billion, in recognition of the hundreds of millions of dollars in oil overcharge settlements available to States for these purposes. Related programs for low-income home weatherization and energy conservation for schools and hospitals are financed by the Department of Energy, and are discussed in the energy function.

***Tax Expenditures.***—Federal tax laws encourage provision for retirement income by excluding from employee taxable income their employer's contributions to pension plans and by allowing individuals to exclude their own contributions to individual retirement accounts (IRAs) and Keogh accounts. The maximum IRA contribution is limited to $2,000 annually. Individuals, however, are allowed to make it a tax deductible contribution only if (1) they and their spouse, in the case of joint returns, are not active participants in an employer-maintained retirement plan, or (2) their adjusted gross income is below a specified amount. Those individuals who do not meet either restriction may still make nondeductible contributions

and defer taxes on the earnings until the funds are withdrawn. Married taxpayers whose spouses have no earnings may invest in a spousal IRA as well. The total invested in both accounts may not exceed $2,250, with no more than $2,000 in any single account. The deductibility of contributions and the deferrral of taxes on the earnings result in tax expenditures.

**TAX EXPENDITURES FOR INCOME SECURITY**

(Outlay equivalents; in millions of dollars)

| Description | Estimates | | |
|---|---|---|---|
| | 1987 | 1988 | 1989 |
| Net exclusion of pension contribution earnings: | | | |
| Employer plans | 64,120 | 56,150 | 58,670 |
| Individual Retirement Accounts (IRAs) | 19,345 | 11,995 | 12,015 |
| Keogh plans | 3,780 | 2,125 | 1,535 |
| Exclusion of other employee benefits: | | | |
| Premiums on group term life insurance | 2,425 | 2,395 | 2,550 |
| Premiums on accident and disability insurance | 160 | 160 | 165 |
| Income of trust to finance supplementary unemployment benefits | 30 | 30 | 30 |
| Additional exemption for elderly | 1,205 | ..... | ..... |
| Additional deduction for the elderly | 1,630 | 1,535 | 1,155 |
| Additional exemption for the blind | 15 | ..... | ..... |
| Additional deduction for the blind | 10 | 15 | 15 |
| Tax credit for the elderly and disabled | 205 | 225 | 240 |
| Exclusion of military disability pensions | 115 | 105 | 105 |
| Exclusion of railroad retirement system benefits | 400 | 380 | 365 |
| Exclusion of special benefits for disabled coal miners | 135 | 115 | 110 |
| Exclusion of workmen's compensation benefits | 2,740 | 2,660 | 2,600 |
| Exclusion of untaxed unemployment insurance benefits | 690 | ..... | ..... |
| Deductability of casualty losses | 285 | 265 | 265 |
| Exclusion of public assistance benefits | 530 | 390 | 350 |
| Earned income credit [1] | 590 | 1,090 | 1,850 |
| Total (after interactions) income security [2] | 96,440 | 78,040 | 80,380 |

[1] The figures in the table indicate the tax subsidies provided by the earned income tax credit. The effect on outlays is: 1987, $1,410 million; 1988, $2,895 million; and 1989, $3,895 million.

[2] The estimate of total tax expenditures for this function reflects interactive effects among the individual items. Therefore, the estimates cannot simply be added.

Many tax expenditures related to income security programs result from Government benefits not being included in the taxable income of recipients. For example, workers' compensation benefits, and other income security assistance for the needy are excluded from taxable income. Part of unemployment compensation benefits paid prior to January 1, 1987, were not taxed. In contrast, Federal employee retirement benefits are subject to tax and therefore, are not tax expenditures. The largest tax expenditure item in this function is the net exclusion of pension contributions and earnings, including contributions to IRAs and similar pension plans.

# SOCIAL SECURITY

The Federal Government contributes to the income security of aged and disabled Americans through social security, which is comprised of old-age and survivors insurance (OASI) and disability insurance (DI) programs. Social security represents about one-fifth of estimated total Federal outlays in 1989 and provides benefits to one in every six Americans.

The administration proposes no changes in social security benefits. Social security affects most Americans, either through benefits received or through payroll taxes deducted from earnings. In almost all cases, beneficiaries paid into the system during their working years to help support these programs. The average benefit for a retired worker and spouse will be about $10,500 in 1988, an increase of nearly $3,700 over the 1981 level. Outlays for the combined OASDI programs are estimated to increase from $220.5 billion in 1988 to $234.5 billion in 1989, primarily because of benefit increases tied to the consumer price index and increases in the number of beneficiaries.

This function is composed not only of the two off-budget social security expenditure accounts, but also of a number of intragovernmental transactions (i.e., payments from accounts within the government to other accounts within the government). The principal intragovernmental transactions are the payments from the general fund to the social security trust funds, which in 1989 amount to an estimated $6.3 billion of Federal fund outlays and trust fund offsetting collections.

***Tax Expenditures.***—The exclusion from income tax of a portion of social security benefits, including those for dependents and survivors, results in a 1989 estimated tax expenditure of $17.5 billion. Up to one-half of social security benefits are, however, subject to tax. This provision affects single taxpayers whose incomes exceed $25,000, and married taxpayers who file jointly and have incomes exceeding $32,000. The threshold for married taxpayers filing separately is zero.

## NATIONAL NEED: SOCIAL SECURITY

(Functional code 650; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Social security:** | | | | | |
| Old-age and survivors insurance (OASI) | 206,870 | 234,246 | 254,844 | 278,490 | 301,743 |
| Disability insurance (DI) | 20,052 | 22,244 | 24,064 | 28,272 | 31,547 |
| Interfund transactions | 1 | * | ..... | ..... | ..... |
| **Total, budget authority** | **226,922** | **256,490** | **278,908** | **306,762** | **333,290** |
| On-budget | (4,930) | (5,022) | (5,572) | (5,432) | (4,251) |
| Off-budget | (221,992) | (251,468) | (273,336) | (301,330) | (329,039) |
| **OUTLAYS** | | | | | |
| **Social security:** | | | | | |
| Old-age and survivors insurance (OASI) | 186,124 | 197,528 | 210,615 | 224,332 | 238,062 |
| Disability insurance (DI) | 21,227 | 22,189 | 23,155 | 24,155 | 25,348 |
| Interfund transactions | 1 | ..... | ..... | ..... | ..... |
| **Total, outlays** | **207,353** | **219,717** | **233,769** | **248,487** | **263,410** |
| On-budget | (4,930) | (5,022) | (5,572) | (5,432) | (4,251) |
| Off-budget | (202,422) | (214,695) | (228,197) | (243,055) | (259,159) |

*$500 thousand or less.

# VETERANS BENEFITS AND SERVICES

Federal benefits and services for veterans and their survivors recognize the sacrifices that wartime and peacetime veterans made in military service. Benefits compensate for presumed loss of earnings resulting from service-related disabilities, provide medical care for physical and psychological disabilities, and assist returning veterans to prepare themselves for reentry into civilian life. In addition, veterans benefits provide financial assistance to needy veterans of wartime service and their survivors. Outlays for veterans benefits and services are estimated at $27.7 billion in 1988 and $29.6 billion in 1989.

The budget continues current administration policy in Veterans Administration (VA) medical care: to sustain quality care, and maintain medical care at no charge to veterans with service-connected disabilities and to other veterans with low and moderate incomes, with a copayment for higher income veterans. The administration also proposes to ensure full and timely increases in veterans compensation benefits by indexing the cost-of-living adjustment (COLA) to the annual change in the Consumer Price Index (CPI). The administration also supports legislation to make the VA a cabinet agency. This will provide veterans continued access to decision making at the highest levels of government and give them the recognition that they deserve.

***Income Security for Veterans.***—In addition to Federal income security programs for the general population, such as social security and unemployment insurance, several VA programs help certain veterans and their survivors maintain their income when the veteran is disabled, aged, or deceased. Outlays for this purpose are estimated to increase from $14.9 billion in 1988 to $15.7 billion in 1989.

*Service-Connected Compensation.*—Veterans with disabilities resulting from military service receive monthly compensation payments scaled to the degree of disability. The payment is made regardless of the veteran's income or age. The amount depends on the average reduction in earnings capacity that is presumed for different individuals with the same degree of disability. Survivors of veterans who die from service-connected injuries also receive payments in the form of death and indemnity compensation. In January 1988, benefits were increased by 4.2 percent.

The administration is proposing legislation to link the veterans compensation COLA to the annual change in the CPI. This legislation would ensure that veterans with service-connected disabilities and survivors of veterans who died from service-connected conditions would receive full and timely adjustments to their benefits, protecting them from the erosion of their benefits and the uncer-

tainties of an annually legislated COLA. For 1989, this adjustment is expected to be 4.2 percent. Allowances provided to compensate beneficiaries for dependents and clothing would be indexed similarly.

The number of veterans and survivors of deceased veterans receiving compensation benefits is expected to decline from 2.6 million in 1986 to 2.5 million by 1989. However, because of the proposed cost-of-living adjustment, outlays for compensation benefits are estimated to increase from $10.4 billion in 1988 to $11.0 billion in 1989.

*Non-Service-Connected Pensions.*—Pensions are provided to low-income wartime-service veterans—combat and non-combat veterans alike—who are 65 or older, or who have become permanently and totally disabled subsequent to their military service. Survivors of wartime-service veterans also may qualify for pension benefits based on financial need. A 4.2 percent cost-of-living increase became effective with the January 1988 payments. The next cost-of-living increase, effective with the January 1989 payments, is also estimated to be 4.2 percent.

Although the number of veterans aged 65 and over is expected to double during the 1980's, the number of pension recipients is expected to decline from 1.22 million in 1988 to 1.16 million in 1989, because veterans over age 65 increasingly have higher incomes. Outlays for veterans pensions are estimated to be $3.8 billion in 1988 and $3.9 billion in 1989.

*Burial and Other Benefits.*—Families of deceased veterans who received pension or compensation benefits and who are to be buried in private cemeteries may receive burial benefits to assist in defraying funeral expenses of the veteran. Legislation will be proposed, to take effect in 1990, that would similarly target existing allowances that apply toward the purchase of burial plots to families of these same veterans. Outlays in 1989 are estimated to be $141 million.

*Insurance Programs.*—Life insurance programs that assist veterans and their survivors will continue to provide in excess of $200 billion of coverage to nearly eight million veterans and active duty personnel in 1989. Policy loans, in which veterans borrow against their policy equity, are expected to increase slightly from $57.4 million in 1988 to $62.9 million in 1989. Capitalized interest from policy loans is expected to decrease from $53.5 million to $49.7 million.

***Veterans Education, Training, and Rehabilitation.***—Several Federal programs support job training and finance education for the general population including veterans, and several programs are run by the Department of Labor exclusively for veterans. In addition, four VA programs—the Vietnam-era GI bill, the post-Vietnam era education program, the all-volunteer force educational assist-

## NATIONAL NEED: PROVIDING VETERANS BENEFITS AND SERVICES

(Functional code 700; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Income security for veterans:** | | | | | |
| Service-connected compensation: | | | | | |
| Existing law | 10,505 | 10,352 | 10,749 | 10,616 | 10,478 |
| Proposed legislation | ..... | ..... | 361 | 786 | 1,189 |
| Non-service-connected pensions | 3,794 | 3,841 | 3,865 | 3,883 | 3,901 |
| Burial and other benefits: | | | | | |
| Existing law | 123 | 142 | 145 | 149 | 152 |
| Proposed legislation | ..... | ..... | −4 | −41 | −43 |
| National service life insurance trust fund | 1,391 | 1,421 | 1,426 | 1,416 | 1,393 |
| All other insurance programs: | | | | | |
| Existing law | 22 | 30 | 23 | 27 | 26 |
| Proposed legislation | ..... | ..... | 4 | 4 | 5 |
| Insurance program receipts | −444 | −434 | −420 | −406 | −392 |
| Subtotal, Income security for veterans | 15,392 | 15,352 | 16,149 | 16,434 | 16,708 |
| **Veterans education, training, and rehabilitation:** | | | | | |
| Readjustment benefits (GI Bill and related programs) | 763 | 626 | 598 | 456 | 493 |
| Post-Vietnam era education | ..... | ..... | ..... | ..... | ..... |
| All-volunteer force educational assistance trust fund | −170 | −169 | −166 | −168 | −174 |
| Veterans jobs program | 30 | ..... | ..... | ..... | ..... |
| Other: | | | | | |
| Proposed credit reform | ..... | ..... | * | * | * |
| Subtotal, Veterans education, training, and rehabilitation | 623 | 457 | 432 | 289 | 320 |
| **Veterans housing:** | | | | | |
| Loan guaranty revolving fund: | | | | | |
| Existing law | 100 | 756 | 658 | 582 | 649 |
| Proposed credit reform | ..... | ..... | 1,091 | 1,242 | 907 |
| Direct loan revolving fund: | | | | | |
| Proposed credit reform | ..... | ..... | * | * | * |
| Subtotal, Veterans housing | 100 | 756 | 1,749 | 1,824 | 1,556 |
| **Other veterans benefits and services:** | | | | | |
| Cemeteries, administration of veterans benefits, and other | 792 | 797 | 803 | 807 | 803 |
| Non-VA support programs | 78 | 68 | 76 | 73 | 57 |
| Subtotal, Other veterans benefits and services | 870 | 865 | 878 | 880 | 861 |
| **Hospital and medical care for veterans:** | | | | | |
| Medical care and hospital services: | | | | | |
| Existing law | 9,728 | 10,120 | 10,328 | 10,692 | 10,946 |
| Proposed legislation | ..... | ..... | 24 | 25 | 26 |
| Construction | 531 | 563 | 543 | 748 | 769 |
| Medical administration, research, and other | 255 | 240 | 253 | 252 | 252 |
| Third-party reimbursement | −33 | −113 | −138 | −144 | −152 |
| Subtotal, Hospital and medical care for veterans | 10,481 | 10,810 | 11,009 | 11,572 | 11,841 |
| **Total, budget authority** | **27,466** | **28,239** | **30,217** | **30,999** | **31,285** |

*$500 thousand or less.

## NATIONAL NEED: PROVIDING VETERANS BENEFITS AND SERVICES

(Functional code 700; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **OUTLAYS** | | | | | |
| **Income security for veterans:** | | | | | |
| Service-connected compensation: | | | | | |
| Existing law | 10,500 | 10,366 | 10,671 | 10,596 | 10,459 |
| Proposed legislation | ..... | ..... | 325 | 750 | 1,153 |
| Non-service-connected pensions | 3,793 | 3,836 | 3,864 | 3,882 | 3,899 |
| Burial and other benefits: | | | | | |
| Existing law | 131 | 142 | 145 | 149 | 152 |
| Proposed legislation | ..... | ..... | −4 | −41 | −43 |
| National service life insurance trust fund | 1,034 | 1,077 | 1,132 | 1,266 | 1,313 |
| All other insurance programs: | | | | | |
| Existing law | −52 | −44 | −41 | −7 | 9 |
| Proposed legislation | ..... | ..... | 4 | 4 | 5 |
| Insurance program receipts | −444 | −434 | −420 | −406 | −392 |
| Subtotal, Income security for veterans | 14,962 | 14,943 | 15,675 | 16,192 | 16,556 |
| **Veterans education, training, and rehabilitation:** | | | | | |
| Readjustment benefits (GI Bill and related programs) | 776 | 654 | 606 | 468 | 495 |
| Post-Vietnam era education | 51 | 59 | 89 | 84 | 75 |
| All-volunteer force educational assistance trust fund | −401 | −309 | −222 | −161 | −128 |
| Veterans jobs program | 38 | 32 | 5 | ..... | ..... |
| Other: | | | | | |
| Existing law | −10 | −8 | −6 | −5 | −4 |
| Proposed legislation | ..... | ..... | −* | −* | ..... |
| Proposed credit reform | ..... | ..... | −* | * | * |
| Subtotal, Veterans education, training, and rehabilitation | 454 | 428 | 472 | 386 | 439 |
| **Veterans housing:** | | | | | |
| Loan guaranty revolving fund: | | | | | |
| Existing law | 382 | 568 | 683 | 651 | 643 |
| Proposed credit reform | ..... | ..... | 881 | 1,256 | 921 |
| Direct loan revolving fund: | | | | | |
| Existing law | −33 | −67 | −27 | −3 | −2 |
| Proposed credit reform | ..... | ..... | −1 | −1 | −* |
| Other (HUD participation sales trust fund) | −19 | 153 | ..... | ..... | ..... |
| Subtotal, Veterans housing | 330 | 654 | 1,536 | 1,904 | 1,562 |
| **Other veterans benefits and services:** | | | | | |
| Cemeteries, administration of veterans benefits, and other | 715 | 825 | 799 | 790 | 788 |
| Non-VA support programs: | | | | | |
| Existing law | 54 | 71 | 80 | 84 | 74 |
| Proposed legislation | ..... | ..... | −1 | −1 | −1 |
| Subtotal, Other veterans benefits and services | 769 | 896 | 877 | 874 | 860 |
| **Hospital and medical care for veterans:** | | | | | |
| Medical care and hospital services: | | | | | |
| Existing law | 9,500 | 10,083 | 10,296 | 10,557 | 10,809 |
| Proposed legislation | ..... | ..... | 24 | 25 | 26 |
| Construction | 563 | 604 | 580 | 709 | 697 |
| Medical administration, research, and other | 236 | 253 | 250 | 249 | 249 |
| Third-party reimbursement | −33 | −113 | −138 | −144 | −152 |
| Subtotal, Hospital and medical care for veterans | 10,266 | 10,828 | 11,012 | 11,396 | 11,630 |
| **Total, outlays** | **26,782** | **27,748** | **29,573** | **30,751** | **31,047** |

*$500 thousand or less.

ance program (the Montgomery GI bill), and the Vocational Rehabilitation program—provide education, training, and rehabilitation benefits to veterans and military personnel who meet specific eligibility criteria. Outlays for the readjustment benefits programs are estimated to decline from $654 million in 1988 to $606 million in 1989, because of a continued decline in the number of eligible beneficiaries.

*Vietnam-era GI Bill.*—The Vietnam-era GI bill provides education benefits—payments for college courses as well as for vocational and on-the-job training to veterans and active duty military personnel who served, at least in part, between February 1, 1955 and December 31, 1976. This program assists beneficiaries in making the transition from military to civilian life by helping them finance the education they might otherwise have received during the time they were in military service. These benefits are also available to active duty personnel and to spouses and children of veterans who were totally disabled in military service or died of service-connected conditions.

More than 80 percent of all eligible Vietnam era veterans who live in the United States or Puerto Rico have used GI bill benefits. In 1989, GI bill trainees (veterans, survivors and dependents) participating in the program are expected to total 200,000, compared with 240,550 in 1988. The number of GI bill trainees, including dependents, will continue to fall as the number of eligible veterans and military personnel becomes smaller.

*Post-Vietnam Era Education.*—Individuals who entered military service after 1976 and before July 1985 are eligible for the post-Vietnam era educational assistance program, which allows them to set aside $25 to $100 from their monthly pay to finance future education. These funds are matched by the Government on a two-for-one basis and are returned to the beneficiary as education payments after discharge from the military. The VA administers this program, but it is funded by the Department of Defense (DOD). Enrollment in this program was closed as of March 1987.

*The Montgomery GI Bill.*—This program was originally established as a test program with more generous benefits than the post-Vietnam era program in order to aid armed forces recruitment. The program was made permanent in 1987. Servicepersons electing to enter the program have their pay reduced by $100 a month during their first year of military service. Upon discharge, they receive basic education benefits equivalent to an eight-to-one match of their pay reduction. The VA administers the program and pays the costs of the basic benefits. DOD may provide additional benefits to aid in the recruitment of certain specialties and critical skills. Nearly 41,500 veterans and servicepersons are expected to use benefits under this program in 1989.

The Montgomery GI bill also provides education benefits to reservists. DOD pays these benefits, and the VA administers the program. In 1989, 202,800 reservists are expected to use benefits under this program.

***Veterans Housing.***—In addition to mortgage assistance available to veterans through the Federal Housing Administration (FHA) insurance program, VA-guaranteed and direct loan programs are expected to assist 232,600 veterans in obtaining mortgages in 1989. Guaranteed loan commitments for mortgage loans in 1989 are estimated to be $18 billion.

The administration will continue to seek enactment of its proposal to permit negotiated interest rates on VA-guaranteed mortgages. By allowing negotiated rates, veterans will have maximum flexibility to structure the financing of their home purchases to best meet their needs. The administration will also seek to continue the executive branch's discretion to sell loan assets without recourse to the Government after 1989 when the current authority expires. This will reduce the Loan Guaranty Revolving Fund's exposure to future default costs and promote improved credit management practices.

The budget authority and outlays shown as proposed credit reform reflect the estimated subsidies implicit in Federal loan programs. The administration's proposed credit reform initiative is discussed in Part 6b of this volume.

***Other Veterans Benefits and Services.***—Veterans benefits are provided through a network of 59 regional offices located throughout the Nation. The administration proposes that the VA continue to modernize its operations to improve the cost-effectiveness, accuracy, and timeliness of service delivery to veterans.

The budget includes several other initiatives to improve the management of delivering veteran's benefits. These include making greater use of contractor support to perform services that private business can provide more efficiently, and investments in automated data processing equipment which continue to yield productivity savings in the form of smaller administrative staff.

Management of the national cemetery system—for burial of eligible veterans, active duty military personnel, and their dependents—is also included in this subfunction. Over 100 national cemeteries are open throughout the Nation. The policy goal of providing one large national cemetery per Federal region has now been attained. In 1989, funding is requested to expand the Calverton National Cemetery.

Additional funding is requested to revitalize the State cemetery grant program to assist at least ten states in establishing, improving or expanding state-operated veterans cemeteries.

**CREDIT PROGRAMS—VETERANS BENEFITS AND SERVICES**

(In millions of dollars)

| | Actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| Direct loans: | | | | | |
| Income security: | | | | | |
| New obligations | ..... | ..... | 962 | 714 | 608 |
| Change in outstandings | * | ..... | 957 | 704 | 601 |
| Outstandings | * | * | 957 | 1,661 | 2,263 |
| Education: | | | | | |
| New obligations | 1 | 1 | ..... | ..... | ..... |
| Change in outstandings | −6 | −6 | −5 | −3 | −3 |
| Outstandings | 40 | 35 | 30 | 27 | 24 |
| Housing: | | | | | |
| New obligations | 1,010 | 1,063 | 16 | 7 | 5 |
| Change in outstandings | −11 | −342 | −318 | −194 | −169 |
| Outstandings | 1,302 | 960 | 642 | 448 | 279 |
| Total, direct loans: | | | | | |
| New obligations | 1,010 | 1,064 | 978 | 721 | 613 |
| Change in outstandings | −17 | −347 | 634 | 507 | 429 |
| Outstandings | 1,342 | 995 | 1,629 | 2,136 | 2,565 |
| Guaranteed loans: | | | | | |
| Housing: | | | | | |
| New commitments | 34,900 | 18,287 | ..... | ..... | ..... |
| Change in outstandings | 3,757 | 675 | −13,780 | −12,547 | −10,244 |
| Outstandings | 146,319 | 146,994 | 133,214 | 120,668 | 110,424 |
| Loan guarantee subsidies: | | | | | |
| New commitments | ..... | ..... | 17,940 | 17,033 | 15,973 |
| Change in outstandings | ..... | ..... | 16,743 | 14,804 | 11,464 |
| Outstandings | ..... | ..... | 16,743 | 31,547 | 43,012 |
| Total, guaranteed loans: | | | | | |
| New commitments | 34,900 | 18,287 | 17,940 | 17,033 | 15,973 |
| Change in outstandings | 3,757 | 675 | 2,963 | 2,258 | 1,221 |
| Outstandings | 146,319 | 146,994 | 149,957 | 152,215 | 153,436 |
| **Total, new obligations and new commitments** | **35,910** | **19,351** | **18,918** | **17,754** | **16,586** |

* $500,000 or less.

Outlays for other veterans benefits and services are estimated to be $896 million in 1988 and $877 million in 1989.

***Hospital and Medical Care for Veterans.***—The VA provides medical services, including hospital, outpatient and nursing home care, to veterans by operating a nationwide medical care system. In 1989, this system will provide support for an estimated 23.1 million outpatient visits and treat 1.1 million inpatients and 90,359 nursing home patients in VA and community facilities and state veterans' homes.

This program is carried out in 172 hospitals, 236 outpatient clinics, 127 nursing homes, 27 domiciliary facilities, 188 vet centers and, in some situations, in other Federal facilities and the private sector. Outlays for medical programs are estimated to rise from $10.8 billion in 1988 to $11.0 billion in 1989.

*Medical Care and Hospital Services.*—VA's primary health mission is to treat veterans who were injured during military service for their service-connected disabilities. Currently, most of the system's users are either veterans with service-connected disabilities or needy veterans. Adequate medical care for America's disabled and needy veterans is one of the Nation's highest priorities. The administration's proposal for VA medical care provides ample resources to meet this objective.

In addition to maintaining the VA medical care system, the budget provides for additional recruitment and retention incentives for VA nurses and other scarce VA health care professionals. The administration also requests increased funding for community and state nursing home programs, funds for a VA residency program in geriatrics, additional resources for the VA's quality assurance efforts, and additional funds for automation investments intended to make the delivery of medical care more efficient. As a result of improvements in medical service delivery, as well as recent staffing experience, slightly fewer staff members will be required to treat the same number of patients.

Legislation will be proposed to increase, by an average of 24.5 percent, the per diem rate paid to States for the care of veterans in State-operated nursing homes, domiciliaries, and hospitals for veterans. These rates were last adjusted in 1983. Legislation will also be proposed to permit the VA to provide financial support for nursing degree-related coursework taken by eligible VA nurses.

Budget authority of $10.4 billion is requested for medical care and hospital services in 1989, an increase of $232 million over 1988.

*Construction of Hospital and Extended Care Facilities.*— New budget authority of $543 million is requested for VA medical construction in 1989.

The administration proposes to maintain and upgrade the full network of medical facilities throughout the Nation and expand capabilities and bed space. Rather than defer maintenance, renovation, and modification of older facilities, funding is provided to maintain and upgrade the physical system. Budget authority of $368 million is requested in 1989 to support 14 major projects and other maintenance, safety correction, and design activities. An additional $133 million is requested for minor construction projects and construction of parking facilities.

The administration proposes to continue the average rate of construction over the last 10 years, replacing or modernizing two large hospitals each year. In 1989, construction funds are proposed for two large hospital projects in Atlanta, Georgia, and Pittsburgh, Pennsylvania. The Atlanta project also includes construction of a parking garage. The administration also proposes to design replacement hospitals in Indianapolis, Indiana and Newington, Connecti-

cut. Funding in 1989 is also requested for large clinical addition projects in Beckley, West Virginia; Nashville, Tennessee; Perry Point, Maryland; and San Antonio, Texas.

Budget authority of $42 million is requested for 1989 for grants to States for the construction or repair of State nursing homes for the care of aging veterans. This is $1.7 million above the 1988 level and will enable VA to support 14 grants in 6 States. A total of 37 States are participating in the State nursing home program.

***Tax Expenditures.***—In addition to direct Federal funding, a number of tax expenditures provide assistance to veterans. All cash benefits administered by VA (disability compensation, pension, and GI bill benefits) are excluded from taxable income. The estimated tax expenditures for these exclusions in 1989 are $1.4 billion, $75 million, and $60 million, respectively. Veterans are aided in obtaining housing through veterans bonds issued by State and local governments, the interest on which is not subject to tax. In 1989, the tax expenditure estimate for this provision is $350 million. Total tax expenditures for veterans are estimated to be $1.9 billion for 1989.

***Related Programs.***—In addition to the assistance provided specifically for veterans by the VA, many veterans receive assistance from other income security, health, housing credit, education, training, employment, and social service programs supported by the Federal Government and available to the general population, as well as preference for Federal jobs. Some of these programs have components specifically intended to assist veterans.

# ADMINISTRATION OF JUSTICE

A fundamental responsibility of the Federal Government is to provide for the safety of its people and for the peaceful and fair resolution of disputes. Federal expenditures for the administration of justice are intended to protect persons and property through enforcement of Federal laws, provide Federal courts to resolve disputes, defend the public interest in criminal and civil proceedings, and operate detention and correctional facilities for those charged with or convicted of violating Federal law. The proposed budget authority for 1989 for this function is $10.3 billion, a $1.1 billion increase from the 1988 level.

***Federal Law Enforcement Activities.***—As in the past, over half of the total Federal resources for the administration of justice is dedicated to law enforcement. Proposed budget authority of $5.3 billion in 1989, $256 million above the 1988 level, will maintain and increase resources dedicated to foreign counterintelligence, drug enforcement, immigration activities, and computer and communications upgrades.

*Criminal Investigations.*—Budget authority requested for criminal investigations for 1989 is $2.0 billion, an increase of 8 percent over the 1988 level. The Justice Department carries out criminal investigations through the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA). The FBI and DEA frequently work together with other Federal agencies in 13 regional task forces on organized crime drug enforcement and have concurrent jurisdiction to combat drug trafficking. The administration is requesting funding for over 170 new domestic and foreign positions for the DEA, as well as funding to improve DEA's technical equipment capabilities.

The FBI enforces a broad range of criminal statutes, works with other Federal agencies as well as State and local authorities, and assists States and localities through training, dissemination of information, and other activities. Additional funding is being requested in 1989 to increase the FBI's foreign counterintelligence activities. The FBI will also intensify its investigative efforts against organized criminal groups, white-collar crime, terrorist activity, and public corruption.

## NATIONAL NEED: ADMINISTRATION OF JUSTICE

(Functional code 750; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Federal law enforcement activities:** | | | | | |
| Criminal investigations (DEA, FBI, and OCDE) | 1,788 | 1,883 | 2,041 | 2,061 | 2,055 |
| Alcohol, tobacco, and firearms investigation (ATF) | 198 | 218 | 219 | 222 | 225 |
| Border enforcement activities (Customs and INS) | 1,977 | 2,162 | 2,229 | 2,244 | 2,220 |
| Customs user fee: | | | | | |
| Existing law | ..... | −680 | −707 | −736 | −765 |
| Proposed legislation | ..... | 680 | 707 | 736 | 765 |
| Protection activities (Secret Service) | 351 | 382 | 370 | 361 | 372 |
| Other enforcement | 411 | 427 | 469 | 474 | 479 |
| Subtotal, Federal law enforcement activities | 4,726 | 5,072 | 5,328 | 5,363 | 5,351 |
| **Federal litigative and judicial activities:** | | | | | |
| Civil and criminal prosecution and representation | 1,082 | 1,195 | 1,414 | 1,425 | 1,443 |
| Federal judicial activities | 1,292 | 1,369 | 1,751 | 1,821 | 1,892 |
| Representation of indigents in civil cases | 306 | 306 | 250 | 250 | 250 |
| Subtotal, Federal litigative and judicial activities | 2,680 | 2,869 | 3,416 | 3,496 | 3,585 |
| **Federal correctional activities:** | | | | | |
| Existing law | 867 | 921 | 1,370 | 1,366 | 1,437 |
| Proposed legislation | ..... | ..... | 20 | ..... | ..... |
| Subtotal, Federal correctional activities | 867 | 921 | 1,390 | 1,366 | 1,437 |
| **Criminal justice assistance** | 502 | 324 | 173 | 175 | 182 |
| **Total, budget authority** | **8,775** | **9,186** | **10,307** | **10,399** | **10,555** |
| **OUTLAYS** | | | | | |
| **Federal law enforcement activities:** | | | | | |
| Criminal investigations (DEA, FBI, and OCDE) | 1,633 | 1,786 | 1,969 | 2,043 | 2,052 |
| Alcohol, tobacco, and firearms investigation (ATF) | 179 | 217 | 218 | 222 | 225 |
| Border enforcement activities (Customs and INS) | 1,616 | 2,099 | 2,186 | 2,235 | 2,217 |
| Customs user fee: | | | | | |
| Existing law | ..... | −680 | −707 | −736 | −765 |
| Proposed legislation | ..... | 680 | 707 | 736 | 765 |
| Protection activities (Secret Service) | 312 | 404 | 368 | 360 | 367 |
| Other enforcement | 365 | 447 | 465 | 471 | 475 |
| Subtotal, Federal law enforcement activities | 4,105 | 4,953 | 5,207 | 5,331 | 5,336 |
| **Federal litigative and judicial activities:** | | | | | |
| Civil and criminal prosecution and representation | 977 | 1,116 | 1,313 | 1,413 | 1,440 |
| Federal judicial activities | 1,196 | 1,397 | 1,710 | 1,769 | 1,838 |
| Representation of indigents in civil cases | 309 | 296 | 257 | 250 | 250 |
| Subtotal, Federal litigative and judicial activities | 2,482 | 2,809 | 3,280 | 3,431 | 3,528 |
| **Federal correctional activities:** | | | | | |
| Existing law | 711 | 842 | 1,092 | 1,349 | 1,493 |

**NATIONAL NEED: ADMINISTRATION OF JUSTICE—Continued**

(Functional code 750; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Proposed legislation | | | 20 | | |
| Subtotal, Federal correctional activities | 711 | 842 | 1,112 | 1,349 | 1,493 |
| **Criminal justice assistance** | 250 | 366 | 295 | 223 | 189 |
| **Total, outlays** | **7,548** | **8,970** | **9,894** | **10,334** | **10,546** |

*Border Enforcement Activities.*—Budget authority of $2.2 billion for 1989 is proposed for border enforcement activities—an increase of $67 million over 1988. The Immigration and Naturalization Service (INS) and the United States Customs Service are responsible for border enforcement activities. The INS administers laws related to the admission, exclusion, deportation, and naturalization of aliens. In 1989, the INS will be in its third year of expanded responsibilities under the Immigration Reform and Control Act of 1986. Resources are requested to administer legalization and agricultural worker programs, enforce employer sanctions, and deter further illegal immigration. Funding to activate two new alien detention facilities is also requested.

The United States Customs Service assesses and collects duties, excise taxes, fees and penalties on imported merchandise; combats the illegal entry of narcotics and other goods into the United States; and processes persons, carriers, cargo and mail into and out of the United States. Budget authority of $1.2 billion is proposed for 1989.

Congress recently enacted legislation that requires user fees that fully cover the costs of Customs' commercial merchandise processing. However, the structure of the current fee violates provisions of the General Agreement on Tariffs and Trade (GATT). GATT recently ruled that the ad valorem structure of the merchandise processing fee was not indicative of the cost of processing individual entries. The administration is proposing legislation to make the merchandise processing fee consistent with the GATT requirements so that the fees collected correspond to the costs incurred in processing individual transactions. Additionally, the proposal would record the fee collections as budget receipts in order to conform to appropriate budget concepts. This presentation is discussed in more detail in Part 4 of this volume.

***Federal Litigative and Judicial Activities.***—The Department of Justice prosecutes all of the Federal Government's criminal cases and litigates most of its civil cases.

*Civil and Criminal Prosecution and Representation.*—Budget authority for civil and criminal prosecution and representation is proposed to be $1.4 billion in 1989, $219 million higher than in 1988.

The Government's responsibilities in this area include:

- prosecuting offenders under organized crime and drug statutes;
- defending against the tens of thousands of civil suits filed annually against the Government and its officials; and
- continuing litigative efforts to combat fraud, waste, and abuse, as well as recover billions of dollars in delinquent debt owed the Government.

*Federal Judicial Activities.*—By law, budget requests from the judiciary are included in the budget without change by the executive branch. The U.S. Courts have proposed budget authority of $1.8 billion in 1989 for judicial branch activities in this function, a $382 million increase over the 1988 level.

*Representation of Indigents in Civil Cases.*—The Legal Services Corporation is a private, non-profit organization that funds State and local agencies providing free civil legal assistance to the poor. The administration supports action to assure that grantees are involved in cases for individual clients rather than broader "law reform" activities.

The administration proposes $250 million for the Corporation in 1989, a modest reduction from the 1988 level. States and private attorneys can more than make up the difference. State and local bar associations have developed programs to provide free assistance to indigent clients, and these efforts are expected to continue to grow, consistent with private attorneys' ethical obligations to provide such free services. The administration will request changes to ensure that funds more effectively serve poor persons with legal problems.

***Federal Correctional Activities.***—The Federal Government is responsible for the care and custody of prisoners charged with or convicted of violating Federal laws. In response to the continuing growth of the Federal prisoner population, the administration proposes acquiring ten new facilities, seven of which will be owned by the Federal Government, and three of which will be leased from other entities. This expansion, the largest proposed by this administration, will meet the demand of tougher law enforcement and longer sentencing created by a number of recent initiatives, including passage of both the Anti-Drug Abuse Act and the U.S. Sentencing Commission Guidelines. In addition, the administration proposes two pilot projects, one focusing on prison industries and the other on minimum security prison management, to explore the role of the private sector in Federal corrections. Budget authority re-

quested for the expansion, renovation and operation of the prison system in 1989 is $1.4 billion, a 51 percent increase above the enacted 1988 level.

***Criminal Justice Assistance.***—Criminal justice assistance is intended to provide financial, technical, and emergency assistance to States and local units of government to reduce crime and juvenile delinquency as well as establish programs to collect and disseminate accurate and comprehensive justice statistics. Financial and technical assistance is provided to States through a number of specific programs, including one for missing and exploited children and another designed to aid victims of crime. Budget authority requested for these programs in 1989 is $173 million, a decrease of $151 million below 1988.

Although the Congress has continued to fund the juvenile justice and delinquency prevention programs, the administration is requesting their termination because their primary objective—the separation of juvenile from adult offenders—has largely been accomplished. The administration also proposes to end funding for the State and local assistance program, since the States can better afford to pay for these programs than can the Federal Government and because the States and localities benefit directly from them. No funding is proposed for either the Mariel Cuban or regional information sharing system grant programs. Deposits of criminal fines and penalties into the crime victims fund are estimated to be $85 million for 1989. All of these funds will be made available for victim compensation and assistance programs at the Federal, State and local levels. The missing and exploited children program is proposed to continue at the 1988 level of $4 million.

***Related Programs.***—A number of programs classified in other functions support the administration of justice. Over 100 agencies and regulatory commissions perform some type of law enforcement activity. About 30 Federal agencies, including the Departments of Agriculture and Labor, the Environmental Protection Agency, and most independent regulatory commissions have some litigation authority independent of the Department of Justice.

# GENERAL GOVERNMENT

The general government function encompasses the central management activities for both the executive and legislative branches of the Federal Government. This function focuses primarily on Federal finances, tax collection, personnel management, and property control. A goal of this administration is to provide these basic services in a business-like and efficient manner.

The four central management agencies—the Office of Management and Budget, the Office of Personnel Management, the General Services Administration, and the Department of the Treasury—are working with other agencies on a variety of management reform initiatives. These management improvements include improving financial systems, simplifying procurement procedures, increasing reliance on the private sector, and improving cash management and debt collection practices.

Budget authority proposed for general government activities for 1989 is $9.9 billion, an increase of $835 million from 1988. Major goals in this function include broadening efforts to identify and collect unpaid taxes, improving services to taxpayers, and improving productivity in the Federal Government.

***Legislative Functions.***—By law, the budget request submitted by the legislative branch is included in the budget without change. For 1989, $1.8 billion in budget authority is proposed for the legislative branch activities in this function. This includes funds for the operation of Congress, the General Accounting Office, the Congressional Research Service, and related legislative branch activities. Portions of these activities are also included in other budget functions. A complete listing of all legislative branch accounts appears in Part 6f of this volume.

***Executive Direction and Management.***—Budget authority of $136 million is proposed for the Executive Office of the President and related activities in 1989. This office assists the President in the discharge of his budgetary, management, policy development, and other executive responsibilities.

***Central Fiscal Operations.***—The mission of central fiscal operations is to collect taxes, make payments on behalf of the Government, administer the public debt, maintain accountability for Federal funds, administer the Federal Financing Bank, and carry out certain other financial operations of the Federal Government. For 1989, $5.7 billion of budget authority is requested, an increase of $290 million from 1988.

*Collection of Taxes.*—The administration is requesting $5.3 billion in budget authority for the Internal Revenue Service (IRS) in

**NATIONAL NEED: GENERAL GOVERNMENT**

(Functional code 800; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Legislative functions** | 1,572 | 1,599 | 1,786 | 1,825 | 1,814 |
| **Executive direction and management** | 115 | 125 | 136 | 129 | 131 |
| **Central fiscal operations:** | | | | | |
| Collection of taxes | 4,445 | 5,059 | 5,300 | 5,576 | 5,643 |
| Other fiscal operations: | | | | | |
| Existing law | 352 | 340 | 383 | 410 | 418 |
| Proposed legislation | ..... | ..... | 2 | ..... | ..... |
| Proposed credit reform | ..... | ..... | 4 | 6 | 6 |
| Subtotal, Central fiscal operations | 4,797 | 5,399 | 5,689 | 5,993 | 6,067 |
| **General property and records management:** | | | | | |
| Property receipts | −78 | −285 | −287 | −289 | −316 |
| Records management | 102 | 116 | 118 | 117 | 120 |
| Other | 357 | 281 | 314 | 316 | 321 |
| Subtotal, General property and records management | 380 | 113 | 145 | 145 | 124 |
| **Central personnel management:** | | | | | |
| Existing law | 141 | 145 | 150 | 151 | 152 |
| Proposed legislation | ..... | ..... | ..... | ..... | ..... |
| Subtotal, Central personnel management | 141 | 145 | 150 | 151 | 152 |
| **General purpose fiscal assistance:** | | | | | |
| Payments and loans to the District of Columbia | 287 | 520 | 493 | 464 | 458 |
| Payments to States and counties from Forest Service receipts: | | | | | |
| Existing law | 213 | 314 | 306 | 307 | 316 |
| Proposed legislation | ..... | ..... | ..... | −259 | −266 |
| Payments to States from receipts under the Mineral Leasing Act | 375 | 412 | 439 | 422 | 463 |
| Payments to States and counties from Federal land management activities | 13 | 162 | 90 | 55 | 55 |
| Payments in lieu of taxes | 105 | 105 | 105 | 105 | 150 |
| Payments to territories and Puerto Rico | 176 | 175 | 178 | 184 | 188 |
| Other | 199 | 213 | 213 | 214 | 214 |
| Subtotal, General purpose fiscal assistance | 1,369 | 1,902 | 1,825 | 1,492 | 1,577 |
| **Other general government:** | | | | | |
| Compacts of free association | 395 | 325 | 179 | 193 | 176 |
| Territories | 146 | 120 | 74 | 71 | 71 |
| Treasury claims | 361 | 328 | 313 | 301 | 301 |
| Other | 84 | 87 | 83 | 72 | 74 |
| Subtotal, Other general government | 985 | 860 | 650 | 637 | 623 |
| **Deductions for offsetting receipts** | −623 | −1,098 | −500 | −500 | −500 |
| **Total, budget authority** | **8,736** | **9,045** | **9,880** | **9,871** | **9,988** |

1989. No new revenue initiatives are proposed. The 1989 request includes funding for the 1988 revenue initiatives in accordance

with the Bipartisan Budget Agreement. Total IRS direct enforcement activities, including all revenue initiatives, will result in sufficient revenue to meet the targets in that agreement.

*Other Fiscal Operations.*—The 1989 budget provides almost full reimbursement ($76 million) from the Bureau of the Public Debt to the Federal Reserve Banks (FRBs) for fiscal agent services, an increase of $27 million over 1988 enacted levels. (In future years, budget planning estimates adopt a policy of full reimbursement.) The 1989 budget also includes $10 million in user fees to be paid by commercial investors who use FRB book-entry services. These fees will be used to pay some of the FRB reimbursements. The budget provides the full amount of the funds needed to reimburse private agents for issuing and redeeming savings bonds ($50 million).

***General Property and Records Management.***—The General Services Administration (GSA) is the Government's builder, landlord, wholesaler, and retailer. Its services support the activities of other Federal agencies. GSA is also responsible for disposing of properties no longer needed by the Government. The administration is proposing an initiative to improve property management Government-wide. Planned disposal of surplus properties in 1989 is estimated to generate $225 million in collections.

The cost of operating the National Archives and Records Administration, which is responsible for the recordkeeping activites of the Federal Government, is also included in this subfunction.

***Central Personnel Management.***—Personnel management functions are carried out by the Office of Personnel Management, the Federal Labor Relations Authority, and the Merit Systems Protection Board. Outlays for these activities are estimated to be $134 million in 1989, a decrease of $11 million from 1988.

***General Purpose Fiscal Assistance.***—Outlays in this subfunction provide financial aid to State and local governments. This assistance can generally be used for State or local services, construction, debt retirement, and other purposes of general government. In prior budgets, general purpose fiscal assistance was a separate major function because of the magnitude of general revenue sharing. The general revenue sharing program has now expired and, as a result, the remaining activities are no longer of sufficient magnitude to warrant being a separate function. They are now included in the general government function as a new subfunction. Programs in this subfunction include payments to the District of Columbia, grants from Forest Service and Interior Department rents and royalties receipts, payments in lieu of taxes, and payments to territories and Puerto Rico. Outlays for these programs are estimated to increase by $24 million from 1988 to 1989.

## NATIONAL NEED: GENERAL GOVERNMENT

(Functional code 800; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **OUTLAYS** | | | | | |
| **Legislative functions** | 1,444 | 1,574 | 1,755 | 1,843 | 1,857 |
| **Executive direction and management** | 110 | 123 | 133 | 131 | 132 |
| **Central fiscal operations:** | | | | | |
| Collection of taxes | 4,162 | 5,061 | 5,255 | 5,528 | 5,628 |
| Other fiscal operations: | | | | | |
| Existing law | −244 | 243 | 184 | 621 | 280 |
| Proposed legislation | ..... | ..... | −* | ..... | ..... |
| Proposed credit reform | ..... | ..... | 4 | 6 | 6 |
| Subtotal, Central fiscal operations | 3,918 | 5,304 | 5,443 | 6,155 | 5,913 |
| **General property and records management:** | | | | | |
| Federal buildings fund | −84 | −133 | −55 | 212 | 155 |
| Property receipts | −78 | −285 | −287 | −289 | −316 |
| Records management | 96 | 113 | 117 | 115 | 117 |
| Other | 211 | 281 | 291 | 311 | 316 |
| Subtotal, General property and records management | 146 | −24 | 66 | 348 | 271 |
| **Central personnel management:** | | | | | |
| Existing law | 143 | 145 | 134 | 150 | 151 |
| Proposed legislation | ..... | ..... | ..... | ..... | ..... |
| Subtotal, Central personnel management | 143 | 145 | 134 | 150 | 151 |
| **General purpose fiscal assistance:** | | | | | |
| Payments and loans to the District of Columbia | 267 | 523 | 495 | 480 | 458 |
| Payments to States and counties from Forest Service receipts: | | | | | |
| Existing law | 303 | 289 | 308 | 307 | 313 |
| Proposed legislation | ..... | ..... | ..... | −259 | −266 |
| Payments to States from receipts under the Mineral Leasing Act | 375 | 412 | 439 | 422 | 463 |
| Payments to States and counties from Federal land management activities | 89 | 86 | 90 | 55 | 55 |
| Payments in lieu of taxes | 105 | 105 | 105 | 105 | 150 |
| Payments to territories and Puerto Rico | 168 | 175 | 178 | 184 | 188 |
| Other | 312 | 214 | 213 | 214 | 214 |
| Subtotal, General purpose fiscal assistance | 1,621 | 1,804 | 1,828 | 1,507 | 1,574 |
| **Other general government:** | | | | | |
| Compacts of free association | 296 | 325 | 179 | 193 | 176 |
| Territories | 93 | 127 | 92 | 71 | 71 |
| Treasury claims | 361 | 328 | 313 | 301 | 301 |
| Other | 60 | 189 | 47 | 36 | 58 |
| Subtotal, Other general government | 810 | 969 | 632 | 601 | 606 |
| **Deductions for offsetting receipts** | −623 | −1,098 | −500 | −500 | −500 |
| **Total, outlays** | **7,569** | **8,796** | **9,492** | **10,235** | **10,005** |

*$500 thousand or less.

**CREDIT PROGRAMS—GENERAL GOVERNMENT**

(In millions of dollars)

| | Actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Direct loans: | | | | | |
| Loans to DC: | | | | | |
| Change in outstandings | −293 | −30 | −31 | −33 | −35 |
| Outstandings | 715 | 685 | 654 | 621 | 586 |
| General Services Administration (GSA): | | | | | |
| Change in outstandings | −7 | −8 | −9 | −11 | −12 |
| Outstandings | 395 | 387 | 378 | 367 | 355 |
| Administration of territories: | | | | | |
| Change in outstandings | −2 | −2 | −2 | −2 | −2 |
| Outstandings | 60 | 59 | 57 | 55 | 53 |
| Total, direct loans: | | | | | |
| Change in outstandings | −302 | −39 | −43 | −46 | −49 |
| Outstandings | 1,171 | 1,131 | 1,089 | 1,043 | 994 |
| Guaranteed loans: | | | | | |
| General Services Administration (GSA): | | | | | |
| Change in outstandings | −15 | −14 | −26 | −28 | −30 |
| Outstandings | 565 | 551 | 525 | 497 | 467 |

*Payments and Loans to the District of Columbia.*—The District of Columbia's operating budget is financed in part by an annual reimbursement for the net cost of hosting the Federal Government. The administration requests $493 million in budget authority for the District of Columbia in 1989, net of loan repayments from the District. Of the total amount, $431 million is for the Federal payment to the District for general purposes and $52 million is for the annual Federal contribution to the retirement funds for the District's police officers, firefighters, teachers, and judges. The remaining funds are for St. Elizabeths Hospital and the construction of a new District prison facility.

To promote efficiency and accountability in the use of water and sewer services, the administration is proposing that the District of Columbia treat Federal establishments of all three branches of Government like private customers. In lieu of a lump-sum appropriation to the District for water and sewer services, Federal establishments will be billed separately and will make payments directly to the city.

The administration will propose legislation to have the District cover its full share of the costs of retirement for District retirees and their survivors. This change would begin to eliminate the Federal subsidy for such benefits currently provided to the District government. This proposal is discussed in greater detail in Part 4 of this volume.

*Shared Revenues.*—Some jurisdictions receive payments from the Federal Government based on a percentage of Federal receipts generated from timber sales, mineral leases, grazing permits, and

other activities on Federal property. Under current law, 50 percent of receipts under the Mineral Leasing Act are shared with the State of origin. Twenty-five percent of the receipts from the National Forests, and 50 percent of the receipts from the Oregon and California grant lands are shared with the counties of origin. Sharing is on a gross basis before any costs of obtaining these receipts are deducted.

Payments to States and counties from Forest Service receipts, payments to States from receipts under the Mineral Leasing Act, and payments to States and counties from Federal land management activities are offset against, and deducted from, the formula amounts of payments in lieu of taxes for the following year.

*Payments in lieu of taxes.*—The Federal Government provides fees based on a formula to local governments for some Federal lands located within their jurisdictions. The administration proposes to continue this program at a level of $105 million in outlays for 1989. The Federal Government provides special assistance to help finance the local governments of Puerto Rico, Guam, and the Virgin Islands. These payments comprise annual advance payments of certain income tax withholding and excise tax collections for Guam and the Virgin Islands, and excise tax withholding for Puerto Rico. Outlays are estimated to increase from $175 million in 1988 to $178 million in 1989.

***Other General Government.***—Other activities in the general government function include payments of claims and judgments against the Federal Government, and funding for the territories, Indian affairs, and other activities.

*Compacts of Free Association.*—By Presidential proclamation on November 3, 1986, the Compacts of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands were placed into full force and effect. The compacts bind the United States to make annual payments to the two freely associated states totaling $2.3 billion during the next 15 years. Similarly, funding for the Compact of Free Association for Palau is included on the assumption that Palau and the U.S. will implement the Compact in 1988. These funds will aid in their successful development as sovereign states. Budget authority of $179 million is proposed for 1989.

*Territories.*—The administration is proposing budget authority of $71 million in 1989 for continued support of the U.S. territories of Guam, American Samoa, the Virgin Islands, and the Northern Marianas. Budget authority of $3 million in 1989 is requested for the Trust Territory of the Pacific Islands. The territories and the freely associated states receive grants and payments from many other Federal agencies for programs classified in other functions.

***Tax Expenditures.***—The Federal Government provides general purpose fiscal assistance through several tax provisions. Interest on State and local government debt is excluded from the taxable income of businesses—mainly commercial banks and casualty insurance companies—and individuals. As a result, State and local governments can borrow at lower interest rates than would be possible if such interest were taxable. In effect, the Federal Government subsidizes States and localities by paying part of their interest costs. Only the effect of excluding interest on general purpose obligations and revenue bonds for public purposes such as schools, sewers, and roads is included in this function. The exclusion of interest on tax-exempt bonds issued for private or quasi-public activities is covered in applicable budget functions, such as commerce and housing credit. The tax expenditure estimate for the exclusion of interest on general purpose State and local debt is $15.4 billion in 1989.

The Federal Government also provides indirect assistance to States and localities by allowing individuals to deduct nonbusiness State and local taxes, primarily income taxes, from income in calculating their Federal tax liability. The value of this assistance is estimated at $17.3 billion in 1989. The Tax Reform Act of 1986 repealed the State and local sales tax deduction. Tax expenditures resulting from deductibility of taxes on owner-occupied homes are included in the commerce and housing credit function.

As a means of providing assistance to U.S. possessions, primarily Puerto Rico, the Federal Government permits a special tax credit for qualifying U.S. corporations doing business in the possessions. This tax credit, which effectively exempts earnings attributable to the possessions, results in an estimated tax expenditure of $2.6 billion in 1989. Altogether, tax expenditures for general purpose fiscal assistance are an estimated $35.4 billion in 1989.

***Related Programs.***—In addition to general purpose fiscal assistance, the Federal Government provides States and localities with assistance through a variety of Federal grant-in-aid programs. These programs, which range from relatively narrow categorical programs to broader grant programs, are more restrictive than general purpose fiscal assistance, and are designed to meet other national needs and priorities. Therefore, they are not included as general purpose fiscal assistance, although, in total, they provided 21 percent in 1985 of the financing of total State and local expenditures. Total grant-in-aid outlays to States and localities are estimated to decrease from $109.9 billion in 1988 to $106.3 billion in 1989.

Grants are discussed in more detail in Special Analysis H, "Federal Aid to State and Local Governments."

# CENTRAL FEDERAL CREDIT ACTIVITIES

This is a new function that is proposed to begin in 1989. It is composed entirely of the transactions of two new Federal credit revolving funds, a key part of the administration's proposal to reform the way credit programs are treated in the budget. The revolving funds are included in one subfunction, which contains separate accounts for the financing of direct loans and for guaranteed loan insurance.

The revolving funds are to be established within the Department of the Treasury. Federal agencies would be required to obtain appropriations from the Congress for the subsidies implicit in all new direct loans obligated and guaranteed loans committed in 1989 and later years. Agencies would continue to originate and close direct loans and to make loan guarantees as they do now.

**NATIONAL NEED: CENTRAL FEDERAL CREDIT ACTIVITIES**

(Functional code 870; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Central federal credit activities:** | | | | | |
| Proposed credit reform | ..... | ..... | 3,432 | 3,171 | 2,979 |
| **Total, budget authority** | ..... | ..... | **3,432** | **3,171** | **2,979** |
| **OUTLAYS** | | | | | |
| **Central federal credit activities:** | | | | | |
| Direct loan revolving fund: | | | | | |
| Proposed credit reform | ..... | ..... | 1,981 | 2,026 | 2,047 |
| Guaranteed loan revolving fund: | | | | | |
| Proposed credit reform | ..... | ..... | −8,263 | −9,709 | −8,325 |
| **Total, outlays** | ..... | ..... | **−6,282** | **−7,684** | **−6,278** |

As borrowers draw down obligated direct loans, the agency would pay the subsidy component of the loan into the direct loan revolving fund. This fund would provide the balance of the loan, or nonsubsidized financing portion, through borrowing from Treasury. The original borrower would pay interest and repayments of principal to the lending agency, which in turn would pass these amounts through to the direct loan revolving fund to repay the financing portion.

For loan guarantees, fees from the borrower and the appropriated subsidy would be paid to the loan guarantee revolving fund, which would assume responsibility to cover defaults. Excess balances of this fund would be available for use in lieu of borrowing from Treasury.

Proposed budget authority in 1989 for this function is $3.4 billion; the outlay estimate in that year is −$6.3 billion because of

the large amounts of offsetting collections paid into the loan guarantee revolving fund from other budget accounts. Credit reform is discussed in more detail in Part 6b of this volume.

# NET INTEREST

The Federal Government engages in both borrowing and lending, and as a result it both pays and receives interest. In its borrowing, the Federal Government sells public debt securities to the public; it also issues public debt securities to Federal trust and revolving funds. The principal form of Federal borrowing is through issuance of public debt securities, and subfunction 901 is interest on the public debt issued by Treasury. The other three subfunctions in this function are composed primarily of interest income; however, subfunction 908 includes some interest payments as well as interest income.

Net interest outlays are estimated to rise from $138.6 billion in 1987 to $147.9 billion in 1988 to $151.8 billion in 1989.

***Interest on the Public Debt.***—The public debt consists of all Treasury debt securities, including debt issued by the Federal Financing Bank (FFB) (a revolving fund administered by the Treasury), but it excludes the comparatively small amount of debt securities issued by other Federal agencies. All interest in subfunction 901 is interest paid directly by the Treasury—it does not include interest paid by the FFB. Outlays for interest on the public debt were $195.2 billion in 1987 and are estimated to be $210.1 billion in 1988 and $220.3 billion in 1989, increases of 7.6 percent and 4.9 percent, respectively, over the prior years.

Interest outlays are determined by the size of the debt and the interest rates on that debt. The rates for new 91-day Treasury bills are assumed to decline steadily from an average of 5.8 percent in calendar year 1987 to 4.5 percent by 1991. Similarly, the rates for notes and bonds with more than 5 years to maturity are assumed to decline from 8.4 percent in calendar year 1987 to 6.0 percent in 1991. These declining interest rates offset some of the rise in interest payments due to higher Federal debt. Interest-bearing public debt issued by Treasury is estimated to increase by $251.1 billion in 1988 and an additional $235.4 billion in 1989.

***Interest Received by On-budget Trust Funds.***—Interest earnings of on-budget trust funds were $29.7 billion in 1987 and are estimated to be $34.3 billion in 1988 and $38.2 billion in 1989. More than half is received by the civil service retirement and disability fund, and one-fifth is received by medicare. Virtually all of these collections arise from interest payments by Treasury on the public debt (that is, the offsetting collections in subfunction 902 arise from payments in subfunction 901). However, some of the collections in subfunction 902 arise from trust fund investments in FFB securities, the payments of which are in subfunction 908.

The ceiling on Treasury's statutory authority to borrow has been reached several times during the past 2 years. The Treasury has been required, during these "debt limit crises," to take extraordinary steps to continue financing legally authorized spending within the debt limit. One step taken was to disinvest the civil service retirement and disability trust fund of $15 billion in Treasury securities subject to limit and to replace them with FFB securities, which are not subject to the general debt limit. Another step was to delay investing some trust fund balances. The trust funds have been fully reimbursed for the interest foregone during this delay, and the civil service retirement and disability trust fund receives interest on the $14.8 billion of FFB securities that it continues to hold.

***Interest Received by Off-budget Trust Funds.***—By law, the receipts and disbursements of the old-age and survivors insurance trust fund and the disability insurance trust fund (collectively referred to as social security) are excluded from the budget. However, social security is a Federal Government program, just as are the on-budget trust funds. Hence, subfunction 903 includes the off-budget interest earnings that are similar to the on-budget amounts in subfunction 902. Interest earnings of these off-budget trust funds were $5.3 billion in 1987 and are estimated to be $7.3 billion in 1988 and $10.1 billion in 1989.

***Other Interest.***—This subfunction includes both interest payments and interest collections. While a significant portion of this subfunction involves interest payments to, or collections from, the public, most of the subfunction is composed of intragovernmental payments and collections that arise from attempting to apply proper cost accounting to Federal revolving funds. The revolving funds generally borrow from Treasury and use the proceeds of the borrowing to carry out lending or other business-type activities, and they pay interest to Treasury on the money they borrow. The Treasury collection of interest from these revolving funds is included in this subfunction.

*Interest on Loans to the Federal Financing Bank (FFB).*—The FFB is the major source of funds for a number of Government programs. The FFB normally borrows from the Treasury and uses these borrowed funds to make loans to various Government agencies or on their behalf. It collects interest on its lending, and in turn, pays interest to the Treasury on its borrowings. Most of its borrowings are from Treasury, the interest upon which is offsetting collections in this subfunction. However, as previously noted, the FFB has also issued securities to the civil service retirement and disability fund, and FFB interest payments to that fund are offset in subfunction 902. Interest payments by the FFB to the Treasury

## NET INTEREST

(Functional code 900; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|
| **BUDGET AUTHORITY** | | | | | |
| **Interest on the public debt:** | | | | | |
| Existing law | 195,249 | 210,052 | 220,210 | 230,078 | 238,778 |
| Proposed legislation | ..... | ..... | 52 | 228 | 553 |
| Subtotal, Interest on the public debt | 195,249 | 210,052 | 220,262 | 230,306 | 239,331 |
| **Interest received by on-budget trust funds:** | | | | | |
| Existing law | −29,662 | −34,321 | −38,189 | −41,960 | −45,114 |
| Proposed legislation | ..... | ..... | −52 | −228 | −553 |
| Subtotal, Interest received by on-budget trust funds | −29,662 | −34,321 | −38,240 | −42,188 | −45,667 |
| **Interest received by off-budget trust funds** | −5,290 | −7,271 | −10,136 | −13,445 | −17,237 |
| **Other interest:** | | | | | |
| Interest on loans to Federal Financing Bank | −15,126 | −15,127 | −14,224 | −13,463 | −12,969 |
| Interest on refunds of tax collections | 1,941 | 1,756 | 1,793 | 1,735 | 1,776 |
| Interest on unvested funds: | | | | | |
| Existing law | 21 | 18 | 18 | 18 | 18 |
| Proposed credit reform | ..... | ..... | 177 | 532 | 796 |
| Other: | | | | | |
| Existing law | −8,479 | −7,236 | −7,846 | −6,831 | −6,453 |
| Proposed legislation | ..... | ..... | ..... | 12 | 13 |
| Subtotal, Other interest | −21,732 | −20,590 | −20,082 | −17,997 | −16,819 |
| **Total, budget authority** | **138,565** | **147,871** | **151,804** | **156,676** | **159,608** |
| On-budget | (143,856) | (155,142) | (161,940) | (170,121) | (176,845) |
| Off-budget | (−5,290) | (−7,271) | (−10,136) | (−13,445) | (−17,237) |
| **OUTLAYS** | | | | | |
| **Interest on the public debt:** | | | | | |
| Existing law | 195,249 | 210,052 | 220,210 | 230,078 | 238,778 |
| Proposed legislation | ..... | ..... | 52 | 228 | 553 |
| Subtotal, Interest on the public debt | 195,249 | 210,052 | 220,262 | 230,306 | 239,331 |
| **Interest received by on-budget trust funds:** | | | | | |
| Existing law | −29,662 | −34,321 | −38,189 | −41,960 | −45,114 |
| Proposed legislation | ..... | ..... | −52 | −228 | −553 |
| Subtotal, Interest received by on-budget trust funds | −29,662 | −34,321 | −38,240 | −42,188 | −45,667 |
| **Interest received by off-budget trust funds** | −5,290 | −7,271 | −10,136 | −13,445 | −17,237 |
| **Other interest:** | | | | | |
| Interest on loans to Federal Financing Bank | −15,216 | −15,127 | −14,224 | −13,463 | −12,969 |
| Interest on refunds of tax collections | 1,941 | 1,756 | 1,793 | 1,735 | 1,776 |
| Interest on unvested funds: | | | | | |
| Existing law | 19 | 18 | 18 | 18 | 18 |
| Proposed credit reform | ..... | ..... | 177 | 532 | 796 |
| Other: | | | | | |
| Existing law | −8,472 | −7,236 | −7,846 | −6,831 | −6,453 |
| Proposed legislation | ..... | ..... | ..... | 12 | 13 |
| Subtotal, Other interest | −21,727 | −20,590 | −20,082 | −17,997 | −16,819 |
| **Total, outlays** | **138,570** | **147,871** | **151,804** | **156,676** | **159,608** |
| On-budget | (143,860) | (155,142) | (161,940) | (170,121) | (176,845) |
| Off-budget | (−5,290) | (−7,271) | (−10,136) | (−13,445) | (−17,237) |

were $15.2 billion in 1987 and are estimated to be $15.1 billion in 1988 and $14.2 billion in 1989.

*Interest on Refunds of Tax Collections.*—Treasury pays interest on tax refunds if the money refunded has been held by Treasury for longer than a specified period. Interest on these refunds was $1.9 billion in 1987 and is estimated to decline to $1.8 billion in 1988 and 1989. This decrease is due to improved claims processing by the Internal Revenue Service (IRS), which reduces the backlog of refunds subject to interest. Under current law, the rate paid on refunds of tax collections is set quarterly at the average market bid yield on outstanding marketable obligations of the United States with maturities of 3 years or less.

*Federal Credit Revolving Funds.*—A central element of the administration's proposals for credit reform (discussed in Part 6b of this volume and in Special Analysis F, "Federal Credit Programs") is the creation of two new revolving funds in Treasury. If enacted, the Federal credit direct loan revolving fund would finance the non-subsidized portions of Federal direct loans. It would borrow from Treasury to obtain the money to make the loans, and would pay Treasury interest on its borrowings (the interest payments would be financed from interest collections by the fund on its loans to the public). Thus, starting in 1989 this subfunction would begin to record interest from this new fund. In turn, existing loan revolving funds would cease to make new loans using money borrowed from Treasury, and their interest payments to Treasury on existing loans would gradually decline as the old loans were repaid or sold.

The second new credit fund is the Federal credit guaranteed loan revolving fund. This fund is proposed to administer an insurance program to cover all Federal loan guarantees. The fund would collect insurance premiums and payments to underwrite subsidies on Federal loan guarantees, and would disburse money to make good on any Federal guarantee that went into default. The fund would accumulate large balances of such payments and maintain these as uninvested balances in the Treasury. Treasury, in turn, would pay interest on these uninvested balances.

*Other.*—The remainder of this subfunction was $8.5 billion in 1987 and is estimated to be $7.2 billion in 1988 and $7.8 billion in 1989. This income comes from two principal sources. By far the larger source is interest that Treasury charges to Federal agency revolving funds. Revolving funds, such as that of the Commodity Credit Corporation (CCC), borrow from the Treasury primarily to finance direct loans to the public, and then pay interest to the Treasury on their borrowings. The other principal source is interest collected from the public by funds other than revolving funds. Such collections include interest on loans made to the public by non-revolving funds, interest received from the Outer Continental

Shelf (OCS) escrow account, and interest collected from banks on Federal tax collections kept on deposit in those banks.

***Net Budgetary Effect.***—The Federal Reserve System owns Government securities for the purpose of implementing monetary policy. The Treasury pays interest on these securities, but virtually all of the interest the Federal Reserve receives on these securities is returned to the Treasury as deposits of earnings of the Federal Reserve System (classified as budget receipts). As shown below, deposits of earnings were $16.8 billion in 1987 and are projected to be $16.1 billion in 1988 and $16.4 billion in 1989. Deducting these receipts from the outlay totals for the function shows the net budgetary effect of interest transactions with the public.

**NET BUDGETARY EFFECT OF INTEREST TRANSACTIONS WITH THE PUBLIC**

(In millions of dollars)

| | 1987 actual | Estimates | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| Net interest function | 138,570 | 147,871 | 151,804 | 156,676 | 159,608 |
| LESS: Deposits of earnings by the Federal Reserve System [1] | 16,817 | 16,053 | 16,421 | 17,443 | 18,190 |
| Net budgetary effect | 121,753 | 131,818 | 135,383 | 139,233 | 141,418 |

[1] Shown as budget receipts.

***Tax Expenditures.***—A tax expenditure arises from the optional deferral of interest income on U.S. savings bonds. Interest is normally taxed each year as it is earned, but the holder of a U.S. savings bond may defer paying tax until the bond is redeemed. The estimate for this provision is $905 million in 1989.

# ALLOWANCES

The budget includes allowances to cover certain forms of budgetary transactions that are expected to occur but are not reflected in the program details shown in the preceding functions. When these transactions actually take place, they are reported as outlays for the appropriate agencies and functions rather than as allowances. For this reason, allowances for completed years are always zero. In 1989, allowances included in this category reduce outlays by $48 million.

**ALLOWANCES**

(Functional code 920; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY** | | | | | |
| **Civilian agency pay raises:** | | | | | |
| Civilian agency pay raises [1] | ..... | ..... | ..... | 953 | 2,121 |
| Coast Guard military pay raises | ..... | ..... | ..... | 32 | 75 |
| Subtotal, Civilian agency pay raises | ..... | ..... | ..... | 985 | 2,196 |
| **Savings from reform of Davis-Bacon and Service Contract Acts (non-DOD):** | | | | | |
| Proposed legislation | ..... | ..... | −50 | −50 | −50 |
| **Allowance for contingencies:** | | | | | |
| Relatively uncontrollable programs | ..... | ..... | ..... | ..... | ..... |
| Other requirements | ..... | ..... | ..... | ..... | ..... |
| **Total, budget authority** | ..... | ..... | **−50** | **935** | **2,146** |
| **OUTLAYS** | | | | | |
| **Civilian agency pay raises:** | | | | | |
| Civilian agency pay raises [1] | ..... | ..... | ..... | 915 | 2,074 |
| Coast Guard military pay raises | ..... | ..... | ..... | 32 | 75 |
| Subtotal, Civilian agency pay raises | ..... | ..... | ..... | 947 | 2,149 |
| **Savings from reform of Davis-Bacon and Service Contract Acts (non-DOD):** | | | | | |
| Proposed legislation | ..... | ..... | −48 | −49 | −50 |
| **Allowance for contingencies:** | | | | | |
| Relatively uncontrollable programs | ..... | ..... | ..... | ..... | ..... |
| Other requirements | ..... | ..... | ..... | ..... | ..... |
| **Total, outlays** | ..... | ..... | **−48** | **898** | **2,099** |

[1] Includes allowance for administration of the off-budget social security trust funds.

***Civilian Agency Pay Raises.***—This allowance covers the costs of pay raises for civilian agency employees and Coast Guard military personnel in 1990 and subsequent years. Allowances to cover similar pay raises for military and civilian personnel of the Department of Defense-Military are included in the national defense function.

In accordance with the Bipartisan Budget Agreement, no increase in funding will be proposed for pay raises in 1989. Therefore, the budget does not include allowances for 1989 for the proposed 2.0 percent pay increase for civilian employees or the proposed 4.3 percent increase for military personnel (including Coast Guard military personnel), effective January 1989. The costs of these proposed increases are included in the budget request for each agency, which is distributed by function. The pay raise allowances for 1990 and 1991 assume that Federal civilian employees will receive a 3.0 percent pay raise in January of both years, and that Coast Guard military personnel will receive pay increases in January of each year that equal the pay increases received by Department of Defense military personnel.

***Savings From Reform of Davis-Bacon and Service Contract Acts (non-DOD).***—The administration proposed legislation in June 1987 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. The allowance for savings in the Department of Defense (DOD) is included in the national defense function. This allowance reflects expected savings resulting from enactment of pending legislation raising the dollar threshold for non-DOD contracts to $100,000.

***Allowances for Contingencies.***—The Congressional Budget Act of 1974, as amended, requires that the budget include an allowance for unanticipated spending or savings in relatively uncontrollable programs and an allowance for other unanticipated spending or savings. The contingency allowance for relatively uncontrollable programs is estimated to be zero for all years, because the chance of these outlays being lower than the estimates is as great as the chance of being higher. The contingency allowance for other requirements is also assumed to be zero, with probable increases being offset by unanticipated decreases.

# UNDISTRIBUTED OFFSETTING RECEIPTS

Offsetting receipts are collections by the Federal Government that are deposited in receipt accounts but are deducted as offsets to outlays rather than being recorded as governmental receipts. Such collections may result from payments by Government accounts to other Government accounts (intragovernmental transactions) or they may arise from payments from outside the Government (the public) as a result of business-like transactions, such as sales of goods and services. As a result of this treatment, governmental receipts measure the amount collected from the public due to the Federal Government's sovereign capacity—generally taxes and other compulsory charges—while outlays measure the net spending by the Federal Government that must be financed by governmental receipts or borrowing.[1] When offsetting receipts are deducted from outlays, an equal deduction (offset) is made against budget authority in order to maintain consistency between budget authority and outlay totals.

**UNDISTRIBUTED OFFSETTING RECEIPTS**

(Functional code 950; in millions of dollars)

| Major missions and programs | actual 1987 | Estimate | | | |
|---|---|---|---|---|---|
| | | 1988 | 1989 | 1990 | 1991 |
| **BUDGET AUTHORITY AND OUTLAYS** | | | | | |
| **Employer share, employee retirement (on-budget):** | | | | | |
| Military retired contributions | −18,288 | −18,353 | −18,577 | −19,331 | −20,025 |
| Contributions to HI trust fund | −1,700 | −1,888 | −1,945 | −2,084 | −2,139 |
| Contributions from Postal Service: | | | | | |
| Existing law | −2,788 | −3,647 | −3,421 | −3,563 | −3,874 |
| Proposed legislation | ..... | ..... | ..... | −535 | −616 |
| Contributions from other civilian agencies | −4,483 | −4,782 | −5,095 | −5,451 | −5,829 |
| Subtotal, Employer share, employee retirement (on-budget) | −27,259 | −28,670 | −29,038 | −30,964 | −32,483 |
| **Employer share, employee retirement (off-budget)** | −3,300 | −4,298 | −4,719 | −5,510 | −5,846 |
| **Rents and royalties on the Outer Continental Shelf** | −4,021 | −3,155 | −3,920 | −3,832 | −4,124 |
| **Sale of major assets:** | | | | | |
| Sale of Conrail | −1,875 | ..... | ..... | ..... | ..... |
| Sale of petroleum reserve (proposed) | ..... | ..... | −3,225 | −275 | ..... |
| Sale of power administrations (proposed) | ..... | ..... | −100 | −1,368 | ..... |
| Spectrum fees, FCC (proposed) | ..... | ..... | ..... | −250 | −250 |
| Subtotal, Sale of major assets | −1,875 | ..... | −3,325 | −1,893 | −250 |
| **Total, budget authority and outlays** | **−36,455** | **−36,123** | **−41,002** | **−42,199** | **−42,703** |
| On-budget | (−33,155) | (−31,825) | (−36,283) | (−36,689) | (−36,857) |
| Off-budget | (−3,300) | (−4,298) | (−4,719) | (−5,510) | (−5,846) |

[1] See "collections" in Part 6e of this volume for additional information.

Most offsetting receipts are offset against the function that contains the outlays that give rise to the receipts, i.e. the function of the account collecting the money. In such cases these offsetting receipts are deducted before reaching functional budget authority and outlay totals and are referred to as "distributed" to the functions. However, there are several categories of offsetting receipts that cannot be properly offset against any specific function. These collections are deducted just before reaching government-wide totals and are referred to as "undistributed offsetting receipts."

The three categories of offsetting receipts that are undistributed by function are: the collections of amounts paid by Federal agencies to Federal employee retirement funds and medicare, collections from the public of rents and royalties on the Outer Continental Shelf, and collections from the public arising from the sale of major Federal assets.[2]

Undistributed offsetting receipts are estimated to be $36 billion in 1988 and $41 billion in 1989. Details of all offsetting receipts are shown in table 14 in Part 6g.

***Employer Share, Employee Retirement.***—Classification within the functional structure is relatively straightforward for most Federal Government accounts, since only one type of transaction occurs—a payment to the public. In the case of intragovernmental transactions, which are payments by one Government account to another, the functional classification becomes more complex because of the special accounting conventions used to record these transactions. Outlays are charged to the paying account (for the payment to the receiving agency for services provided) and also to the agency being reimbursed (for the expenditures it makes on behalf of the paying account). Although two expenditures occur, only one is made to the public, and therefore one of these expenditures must be offset (reduced) in order to measure properly the Federal Government's net transactions with the public. Since the paying account is ultimately responsible for the expenditure to the public, and the receiving agency simply acts on its behalf, the budget authority and outlays of the agency and function being reimbursed are normally offset (reduced) by the size of the payment. Thus outlays are recorded for the agency ultimately responsible for the expenditure and within the function that best represents the purpose of the expenditure.

Employing agency payments for employee retirement are an exception to this convention. These payments to Federal retirement

[2] Undistributed offsetting receipts in tables presenting budget authority and outlays by agency exceed the undistributed offsetting receipts in the functional tables. The offsetting receipts that are not distributed by agency but are distributed to the net interest function are: interest received by on-budget trust funds (subfunction 902), interest received by off-budget trust funds (subfunction 903), and interest received from the Outer Continental Shelf escrow account (which is included in subfunction 908).

funds represent the accrued liabilities for retirement benefits earned by current employees and are a cost of fulfilling the employing agency's mission. Hence the payments are recorded as outlays of the paying account and the function within which the paying account is classified. The retirement funds in turn pay retirement and medicare benefits to current retirees, thereby serving important functions that are distinct from the ones served by the employing agencies. Hence the benefits paid are recorded as outlays of the retirement funds and the medicare and income security functions. Neither the employing agency payments nor the retirement benefits are offset directly, because this would seriously understate the resources used to fulfill their purposes. Instead, the offset is recorded as an undistributed offsetting receipt.

Because, by law, social security is off-budget, and because some of these intragovernmental employer retirement contributions are used to finance social security, the collections by on-budget accounts are recorded in a separate subfunction from the social security accounts. The great bulk of the $36 billion in 1989 that are collected by on-budget accounts are used to finance the military retirement and the civil service retirement trust funds.

The administration proposes that the Postal Service contribute money to the civil service retirement fund to cover the full cost of providing cost-of-living adjustments to Postal Service annuitants. This proposal, which is discussed in greater detail in the commerce and housing credit function, will increase employing agency outlays for employee retirement and, therefore, undistributed offsetting receipts by $535 million in 1990.

***Rents and Royalties on the Outer Continental Shelf (OCS).***—In the private sector, owners of property collect money from companies in exchange for the right to explore and produce oil from the property. Oil companies voluntarily bid for these rights and those bidders that are successful make the associated payments in the form of rents and royalties.

The Federal Government exercises authority over the Outer Continental Shelf in its capacity as a sovereign government, and it makes similar rent and royalty charges to the oil companies that successfully bid for the right to explore and produce oil from the OCS. Since these collections result from business-like transactions rather than compulsory taxes, they are classified as proprietary receipts from the public and not governmental receipts.

However, the income to the Government from this source is large and does not arise in significant measure from any spending program by the Government function or agency that handles the transactions. As a result, their inclusion as offsetting receipts in any particular function or agency would substantially understate the amount of budget authority and outlays needed to carry out

programs in that function. To avoid this distortion, these collections are undistributed.

The collections in this category include cash bonuses received from leasing of OCS lands that have the promise of containing oil and gas; annual rents on existing leases; and royalties, based on a percentage of the value of production. In cases where there is a dispute as to whether the owner of the collection is the Federal Government, the collections are not recorded as offsetting receipts in the budget until the dispute is settled; such collections are retained in escrow in a deposit fund outside the budget. When settlement is reached, the amounts determined to belong to the Federal Government are recorded as undistributed offsetting receipts, while the amounts determined not to belong to the Government are paid to the owners. On September 30, 1987, the amounts of disputed OCS collections held in escrow totaled $1.2 billion. Most of the collections in dispute are expected to be settled by the end of 1989.

The current estimates of $3.2 billion in 1988 and $3.9 billion in 1989 include the proceeds from five OCS sales that are expected to occur in 1988 and eight sales expected to occur in 1989. No final decision will be made on any of these sales until environmental impact studies and other requirements under the National Environmental Policy Act have been completed.

***Sale of Major Assets.***—In 1987 the Government received $1.9 billion from the sale of Conrail. The administration proposes to sell the naval petroleum reserves for an estimated $3.5 billion. Sales proceeds are expected to be received in 1989 and 1990. The Alaska Power Administration is also proposed to be sold for $100 million by the end of 1989 and the Southeastern Power Administration for $1.4 billion in 1990. These proposed sales are discussed in greater detail in the energy function.

In addition, the administration proposes to assess a charge for the right to use the non-mass media radio frequency spectrum. The charge would not apply to spectrum assigned for public safety or amateur services. The Federal Government, in its capacity as a sovereign government, exercises authority over the radio frequency spectrum, a scarce and valuable public resource. The Federal Communications Commission (FCC) issues licenses to authorize the right to use the spectrum. Users transmit and receive information via, for example, television, car telephones and mobile radios. Users of the spectrum include businesses, private citizens, and State and local governments. Presently, FCC charges a nominal amount that only covers the cost of processing the license application. Through the spectrum fee the Federal Government, and ultimately the taxpayer, would receive a payment in exchange for the

right to use the spectrum. The proposal, if enacted, would collect revenues of approximately $250 million beginning in 1990.

Because these asset sales should result in large offsetting receipts that are not closely related to a spending program, the collections are included as undistributed offsetting receipts rather than as an offset to a function.