Major Themes and Additional Budget Details

Fiscal Year 1983

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Major Themes and Additional Budget Details
Table of Contents

Major Themes and Additional Budget Details
Index

OVERVIEW

CHAPTER 1
OVERVIEW

Introduction

The 1983 Budget underscores the redirection of economic policy and fiscal priorities announced by President Reagan a year ago. In his first major address to the Congress in February of 1981, the President announced a Program for Economic Recovery to create a solid foundation for sustained economic growth and prosperity by limiting the size and scope of Government, strengthening the private sector and the free market economy, and reducing inflation and interest rates.

In the Budget Message submitted to the Congress in February of 1982, the President reasserted his firm resolve and unwavering adherence to the four policy fundamentals of his economic recovery plan:

- Reduced personal and business tax rates to stimulate saving, investment, work effort, and productivity,
- Firm control over the growth of overall Federal spending, borrowing, and credit demand,
- Decreased Federal regulatory burden where the Federal Government has intruded excessively and unnecessarily,
- In cooperation with the independent Federal Reserve Board, a steady and moderate growth in the money supply to reduce inflation.

During 1981, the Administration worked with the Congress to take major steps toward implementing this program:

- Congress passed the Economic Recovery Tax Act, the largest tax cut in history for businesses and individuals.
- In the Omnibus Budget Reconciliation Act, Congress reformed entitlement and other programs, saving $130 billion over the 1982–84 period.

The 1983 Budget will continue to diminish the rate of growth of Federal spending and to shrink the Government's share of GNP. The era of rapidly expanding budgets has come to an end. As a result, resources will remain permanently in the more productive private sector.

Major Themes

The changes proposed in the 1983 Budget are not short-term policies devised solely to reduce the deficit. Rather they are motivated by fundamental convictions about the relationships between the Federal Government and the State and local governments, the Federal Government and the private sector, and the United States and other nations, and about the management of the Federal Government itself. These convictions are:

- The governments closest to the people — the State and local governments — are more responsive to the needs and desires of their citizens than is the Federal Government.
- The most efficient means of allocating resources and meeting the needs of nearly all people is the free enterprise marketplace. The Federal Government's role in the marketplace should be one of creating incentives for growth and opportunity.
- A stronger and more modern defense capability is essential to deter attack and coercion, to protect vital U.S. interests, and to lay the groundwork for negotiating mutual force reductions.
- The Federal Government is the taxpayer's steward. It has the obligation to ensure that the resources surrendered to advance the public welfare are put to the most effective and proper uses.

Each of these convictions addresses fundamental imbalances that have built up over several decades of misguided public policies. Each calls for basic structural reforms, major policy changes, and the establishment of a long-term, stable policy framework.

FEDERALISM

The most important of the President's new initiatives is aimed at reducing Federal involvement in matters that are more properly conducted by State and local governments. His long-term proposal sorts out responsibilities between the Federal Government and the States. This new Federalism Initiative is motivated by: (1) a desire to restore the constitutional balance between Federal and State governments, (2) a need to reduce the growing number of categorical Federal grants, which are encumbered with too many conditions, regulations, and staffing requirements, and (3) a belief that State and local governments are more responsive to the needs of both benefit recipients and taxpayers.

The President's proposal will increase the effectiveness of State and local governments by giving them more control over services that are more appropriately conducted at their levels, and it will provide the resources to pay for them.

REFORMING ENTITLEMENT PROGRAMS

The President has established a National Commission on Social Security Reform to develop a bipartisan concensus on measures to ensure the long-term financial stability of the Social Security system. Thus, the 1983 Budget proposes no major changes to the Social Security system.

However, the growth of other entitlement spending has far outstripped increases in basic indicators of need and cost — the relevant population, the number of participants, and the general rate of inflation or the cost of particular goods and services. This explosion in entitlements points to the need for major legislative reforms to reduce work disincentives and inequities, eliminate overlapping and excessive benefits, retarget resources to those most in need, and provide new incentives and requirements to promote more efficient program administration.

DISCRETIONARY SPENDING

Much inappropriate Federal spending occurs in discretionary programs — those programs that are subject to annual Congressional appropriations or discretionary actions. The Administration has thoroughly reviewed such programs in search of unwarranted subsidies to businesses or individuals, spending that is more appropriate to State and local governments, and unnecessary public sector capital improvement projects. The result of the review is a number of significant proposals to reduce spending.

NATIONAL SECURITY

One of the most important tasks of the Federal Government is to ensure protection of national interests and security. Since the 1970's the United States has allowed its military power to decline relative to its expanding national interests and the growth in military power of the Soviet Union. President Reagan's defense program will reverse this unfavorable trend.

To meet national security and defense objectives, the Administration's program strengthens the U.S. military posture in the high priority areas of strategic forces, combat readiness, force mobility, and conventional force modernization.

CONTROLLING FEDERAL CREDIT

Unprecedented Federal demand for credit by the Government saps the vitality of credit markets and hampers their performance in the critical task of allocating resources to the most productive uses. This credit burden includes direct borrowing by the Government to finance the budget deficit and off–budget spending, as well as individual or institutional borrowing through the use of Government guaranteed loans, and borrowing by Government–sponsored enterprises.

The proliferation of credit demands has left interest rates exposed to continued upward pressure, while the misdirection of investment resources has seriously weakened economic growth and productivity. This year for the first time the credit budget was used to impose systematic discipline and policy control on the growth of Federal credit.

USER FEES

The Federal Government provides many services that directly benefit clearly identifiable groups of business and private users. Last September, President Reagan announced that the Administration would apply uniform principles of cost recovery to the current patchwork of user fees for Federal services. The President directed all Federal agencies to determine the extent to which benefits accrue to clearly identifiable users and to recover the cost of providing these benefits through specific fees instead of continuing the burden on the general taxpayer. User fees have several important advantages — including greater economic efficiency and equity — over general revenue financing for the provision of Government services.

MANAGEMENT INITIATIVES

In keeping with his commitment to stewardship, the President has made several proposals designed to reduce the Federal Government to an appropriate size and to ensure that it is managed effectively, efficiently, and productively. Included in the 1983 Budget are proposals to abolish the Departments of Energy and Education, reduce Federal employment, dispose of underused land held by the Federal Government, and improve the collection of debts owed the Federal Government.

FEDERALISM

CHAPTER 2
FEDERALISM

President Reagan has a number of broad and fundamental goals for his presidency. One of the most important of these is to alter the relationship between the Federal and State and local governments by shifting decision-making and responsibilities for a variety of policy, budgetary, and regulatory matters to State and local governments.

The 1983 Budget Proposals

The President's 1983 budget contains a number of initiatives aimed at reducing Federal involvement in activities that are more properly administered by State and local governments. The most important of the new initiatives is the President's long-term proposal for a sorting out of responsibilities between the Federal Government and the, States which was first announced in his recent State of the Union address. Following are highlights of the New Federalism Initiative:

- Starting in 1984 the Federal Government will assume full responsibility for financing Medicaid while the States take over the two main welfare programs — Food Stamps and Aid to Families with Dependent Children (AFDC).
- This $20 billion swap will consolidate responsibility for major medical programs at the Federal level and income assistance for the non-elderly needy at the State level. State savings from the swap grow by an increasing margin over time.
- For the transfer of other Federal grant programs, a new $28 billion trust fund belonging to the States will be established. It will be financed by existing Federal excise taxes and the windfall profits tax on oil.
- The States will draw upon this trust fund as they assume responsibility for more than 40 grant programs in the areas of education, community development, transportation and social services. Turnback of these programs will be at the option of the States through 1987. If States elect to withdraw from the Federal grant programs before then, their trust fund allocations will be treated as "super revenue sharing" and may be used for any purpose.
- For the States, individually and collectively, the plan involves essentially no net financial gain or loss. They would have a known, increasing and assured future source of financing without the present uncertainty over Federal budget levels.
- There will be protections in such areas as pass-through of funds to local governments, civil rights and adequate benefit levels for welfare.

The 1983 budget also continues the process, begun in 1982, of consolidating several categorical Federal grants into single block grants. The President proposes to combine over 40 categorical grants into 7 new block grants or consolidated programs, with over $6.5 billion in 1983 budget authority. New grants include:

- A child welfare block grant that would consolidate several categorical Federal grants into a more flexible grant, permitting States to focus efforts on permanent placement of children rather than maintaining long-term foster care arrangements.
- The Rental Rehabilitation Grant, which would replace the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund. It would be focused on low-income tenants through the proposed Section 8 Housing Certificate program.
- A training and employment grant that would replace the expiring CETA programs. Costs would decline substantially from an average of about $6,400 per service year in CETA Title II-B,C in 1982 to $4,600 in 1983 in the block grant.

- The Combined Welfare Administration grant would combine grants for State administration of Medicaid, AFDC and Food Stamps.
- Vocational and Adult Education combines a number of small grants.
- Education for the Handicapped combines 13 grants.
- Rehabilitation Services combines basic State grants with several project grant authorities.

"The New Federalism"

President Reagan's "New Federalism" is motivated by a number of factors:

- A desire to restore the Constitutional balance between the Federal Government and State and local governments. Under the Constitution, the powers of the Federal Government are limited.

> "The powers not delegated to the United States by the Constitution nor prohibited by it to the States are reserved to the States respectively, or to the people." *Article 10 U.S. Constitution.*

- A need to reduce the growing number of categorical Federal grants, which are encumbered with too many conditions, regulations, and staffing requirements.
- A belief that State and local governments are more responsive to the needs of both benefit recipients and taxpayers. The quality of State government has increased dramatically over the past two decades, as have the resources available to States formerly regarded as impoverished.
- A recognition that dividing responsibility for a program between the Federal and other levels of government results in neither being responsible.

The Problems of Categorical Grants

Federal grants to State and local governments have proliferated in the past two decades and have now attained a bewildering complexity that is satisfying to none of the parties. They also have been a significant cause of the growth of Federal spending. Numerous governors and mayors, and such bodies as the Advisory Commission on Intergovernmental Relations, have called for reform.

- In 1960, total Federal grant outlays to state and local governments were $7 billion; by 1981 they were about $95 billion.
- In the same period the number of grant programs almost tripled, to more than 500. For example, in 1981, the Department of Health and Human Services administered more than 160 separate programs in the health area alone. Seven different agencies provided grants for community and economic development. Five agencies funded water and sewer projects. There were 76 separate grant programs for elementary, secondary and vocational education.
- Between 1960 and 1981, Federal grant funding levels grew at an average annual rate of 13% — far faster than GNP, the Federal budget, or public sector expenditures as a whole.
- During that period the grant-in-aid share of the Federal budget nearly doubled, to 14% last year. Grants now finance 27% of State and local government expenditures compared to 15% 20 years ago, and have risen from 1.4% to 3.4% of the GNP.
- Statutory requirements and red tape associated with Federal assistance make the current Federal grant system almost impossible to administer. A typical grant program imposes from 300 to 500 separate requirements and mandates on State and local governments as a condition for receipt of funds.

- These requirements are accompanied by needless burdens on all parties. For example, child nutrition programs now involve 272 pages of Federal regulations and 38 million "burden hours" of paperwork a year, the equivalent of 18,000 persons working for a full year to complete forms.

Effects on The Political Process

The President's proposal will increase the effectiveness of State and local governments by giving them more control over activities that are more appropriately conducted at those levels. The proposals will also free Congressional resources now focused on local problems to concentrate more on national needs and problems.

- State responsiveness to local fiscal needs has dramatically increased. Total State aid to localities funded from the States' own revenues grew nearly six-fold from 1965–1980, and now surpasses $60 billion a year.

- The proliferation of Federal programs has undermined the ability of elected officials to make policy. From 1964 to 1978, the number of roll call votes in the House rose from 232 to 1,540 and the number of committee and subcommittee meetings rose from 3,596 to 6,771.

- In 1965 Representatives reported that they spent an average of one day a week on legislative study. In 1977 the Obey Commission reported that Congressional study time had shrank to only 11 minutes per day. The role of unelected staff rose correspondingly: from 4,500 House staffers in the mid–1960's to 9,000 in 1979.

- Stimulated by Federal growth, lobbying is now the third largest industry in Washington, with an annual budget of $4 billion. Excluding privately retained law firms and lobbyists, Washington offices of States, cities, and related public groups currently employ at least 1,500 persons and consist of at least 72 special State and local interest groups, 32 States, 3 State legislatures, 20 cities and 10 counties. Mayors and governors now spend increasing portions of their time regularly travelling to Washington.

The Effectiveness of State Governments

One of the original arguments for Federal assumption of so many of the tasks that belonged to the States was that the State governments were not capable of administering the programs. That is certainly not true today.

- As the Advisory Commission on Intergovernmental Relations has concluded:

  > "A largely unnoticed revolution has occured in state government. The states have been transformed to a remarkable degree. The decades of the 1960s and 1970s witnessed changes in state government unparalled since the post–Reconstruction period a century ago, generally in the direction advocated by reformers for 50 years."

- Twenty years ago, all but five State legislatures were badly malapportioned. Since Baker vs. Carr (1962), every State has apportioned its legislature on the basis of one person, one vote.

- Past regional differences in wealth have narrowed dramatically. In 1960, the per capita income in the wealthier regions, the Mideast and Far West, was 16% above the national average, compared with an income level in the Southeast that was 27% below the national average.

- By 1977, the relative disparity had been reduced by 40% with the wealthiest region, the Far West, having per capita income 11% above the national average and the poorest region, the Southeast, only 14% below. Moreover, all the States in the Southeast have experienced growth in per capita income since 1970 at rates exceeding the national average.

- Between 1960 and 1980 black voter registration in the eleven Southern States rose from 29.1% of the voting age population to 59.8%. Southern white registration during the same period rose only 4% — from 61.6% to 65.7%.

- One–party States have largely become a phenomenon of the past. Since 1968, no single party has held a monopoly on senatorial and gubernatorial positions in any State.

- Every State judicial system is now required to hear and remedy cases arising under constitutional and other Federal law. In addition, State courts have taken the lead in many instances in extending rights beyond those recognized in Federal law. State court systems in virtually every State have been dramatically reformed.

- The proportion of State civil servants covered by a merit system has increased from 50% in 1960 to 75% in 1980.

- State revenue sources have become significantly more diversified and resilient. 36 States now have a corporate and personal income tax, as well as a general sales tax, compared to only 19 in 1960.

- The diversity of interest groups active at the State level has increased significantly since the mid–1960s. Witness the growth of environmental, ethnic and racial minority, disadvantaged, tax reform, handicapped and other citizen lobbies in virtually every State capital.

- Executive power in State government has become more focused, more accountable, and more professional. 46 States now have four–year gubernatorial terms; 45 permit their governors to succeed themselves; virtually all governors now control a State planning unit. Between 1965 and 1980, all States undertook reorganizations of executive departments; 24 States reduced the number of independently elected administrative heads.

- Almost all State legislatures now meet every year in either regular or special session; professional staffs now provide technical support for the finance and appropriations committees or in a central legislative unit in every State on a year–round basis, compared to only a handful 20 years ago.

NEW FEDERALISM INITIATIVE

Proposal

To more clearly delineate between Federal and State responsibilities and to bring about a greater efficiency in both service and administration of government, the President proposes a major reshaping of the fiscal relationship between the Federal Government and the States. The details of the proposal follow. The plan offers significant advantages to both State and Federal Governments.

- Starting in fiscal year 1984, the Federal Government will assume the full cost of the rapidly growing Medicaid program, to go along with its existing responsibility for Medicare. This will save the States an estimated $19 billion in 1984, which would rise to $25 billion in 1987 under present trends.

- Also starting in 1984, the States will assume the full cost of the two major components of our welfare system — Food Stamps, which is now federally financed but administered by the States, and Aid to Families with Dependent Children (AFDC), the cost of which is now shared between the States and the Federal government.

- On a nationwide basis, the "swap" of Medicaid for Food Stamps and AFDC involves a net saving for the States of more than $2 billion in FY 84, an amount that will grow in later years because of the rapidly rising cost of Medicaid. This swap is not dependent on the new trust fund described in the following paragraphs.

- The Federal Government will earmark existing alcohol, tobacco and telephone excise taxes, $.02 of the gasoline tax and a portion of the oil windfall profits tax for a new $28 billion Federalism trust fund that will belong to the states.

- The share of each state in the trust fund will be based on its 1979–1981 share of specified Federal grants now slated for "turnback" (see appendix A), with an adjustment for any gains or losses for individual states resulting from the Medicaid–welfare swap.

- During a transition period of four years, 1984–1987, the states can use their trust fund money in either of two ways. If they want to continue receiving some or all Federal grants that are designated for turnback, they can use their trust fund money to reimburse the Federal agencies that make those grants and abide by Federal conditions and rules. Or, to the extent they choose to forego the Federal grant programs, they can receive their trust fund money directly as super revenue sharing, to be used for these or other purposes. There will be a mandatory pass–through of part of the super revenue sharing funds to local governments.

- The size of the trust fund will nearly equal the size of the turnback programs, which will total about $30.2 billion in FY 84. Thus the states, counting their net savings from the Medicaid–welfare swap, will lose nothing in fiscal terms and, equally important, they will no longer have to be concerned about Federal budget reductions.

- Beginning in 1988, the more than 40 Federal turnback programs — which involved 124 separate grants in 1981 — will cease to exist and the States will be in complete control of their own priorities.

- Also after four years, the Federal excise taxes will start to phase out, by 25 percent each year, and will disappear after 1991. The trust fund will go out of existence on the same schedule. The States will be able to impose the same excise taxes at their option to preserve their revenues, with no tax–raising effect on the items concerned. Or they can choose other revenues, or reduce program cost.

- During the period of operation of the trust fund, taking into account the Medicaid–welfare swap, the problem of "winners and losers" among the states is minimal.

Rationale

The plan represents a long–overdue effort to sort out responsibilities within the Federal system on the basis of principles and criteria. Apart from national functions such as defense, the Federal Government will retain and, in some cases, assume full responsibility for the most dramatically increasing domestic social needs.

Under the plan, the Federal Government will be responsible for health insurance and income maintenance programs for the elderly, including Social Security, and health insurance for the poor of all ages.

The States will assume responsibility for domestic needs that are growing much less rapidly, have in most cases historically been a state and local function, and which even now are administered and largely financed by the States despite the proliferation of Federal grants.

As Governor Babbitt of Arizona has said:

> "Congress ought to be worrying about arms control and defense instead of potholes in the street. We might just have both an increased chance of survival and better streets."

The plan represents a nonpartisan program for reorganization of Federal–state relations. Democrats presently hold 27 out of 50 governorships, and both Houses of the state legislature in 28 states, compared to 23 Republican governors and only 15 Republican state legislatures.

Effects of the Proposal

- The Federal government will assume primary responsibility for health insurance and the aged.

  Health Care

  — Health care has been the most rapidly rising expense for both the private sector and government. National health care spending more than doubled from 1974 to 1980, from $116 billion to $247 billion annually. The increase of 15.2 percent in national medical costs in 1980 alone was the largest on record.

  — Medicare and the Federal/state cost of Medicaid increased even more drastically, an average of 16% per year between 1975 and 1980 and 21% in 1981 alone. Total costs grew from $30.8 billion to $72.5 billion. Only an integrated cost containment and reform program can hope to slow either program.

  Aged

  — The country's proportion of persons above age 65 will increase by over 25% between 1970 and 1990, from 9.7% to 12.4% of the population. Current projections place the proportion at 20% by the year 2010.

  — Under social insurance and other programs, this growth in the elderly population has produced and will continue to produce rapid growth of government outlays. The Federal Government will bear major responsibility for these expenditures, including Supplemental Security Income, Medicaid, housing assistance and senior nutrition and service programs, as well as Medicare and Social Security.

- The State governments will assume responsibility for Food Stamps and AFDC, along with such essentially local functions as education.

  — In the President's budget, the total funding level for AFDC and Food Stamps is projected to decrease slightly from $26.5 billion in 1981 to $24.5 billion in 1987, compared with a projected *83%* increase in the total cost of Medicaid under current law in the same period.

- As to education, the national school age population, aged 5–17, peaked in 1970 at 51.3 million and will decline 4% from 45.0 million in 1981 to 43.4 million in 1984.

- States will receive a secure, dedicated revenue source to finance the turnback programs, removing most of the present uncertainty over funding levels.

  - In the past, States could not anticipate with certainty the level of Federal funding. From 1970 to 1981, Federal grants–in–aid to State and local governments increased in an erratic pattern ranging from 3% to 22%, and they decreased in 1982.

  - In the past, States have had to readjust their planning as often as seven times per year because of changes at various stages in the Federal budget process.

  - Federal excise taxes will be turned back and eventually eliminated, and excise taxes will be added to sales and property taxes as inherently State and local sources of revenue. In addition, the President's decision not to seek excise tax increases will maximize present State and local options to raise these taxes if they so desire.

- Protections will be maintained for cities, welfare recipients, and minorities subject to discrimination.

  - A mandatory pass–through procedure for local general units of government is incorporated in the super revenue sharing element of the plan.

  - Transitional requirements will be established to ensure that welfare recipients will be protected as the States assume responsibility for AFDC and Food Stamps.

  - Full civil rights protections against discrimination on the basis of race, color, ethnic origin, sex, religion, handicap and age are included on a model patterned after General Revenue Sharing.

- The President's new Federalism initiative is designed to remedy the fundamental problem of too many grant–in–aid programs. After the sorting out of programs is complete, the grant–in–aid system will shrink to about one–fourth its FY 81 magnitude.

Appendix I: Illustrative List of Programs For Turn Back To The States

Category/Program (# of Programs)	Types of Grants Made in FY 1981
EDUCATION AND TRAINING (5)	
Vocational Rehabilitation	5
Vocational and Adult Education	13
State Block Grants (ECIA Ch. 2)	28
CETA	8
WIN	1
	55
INCOME ASSISTANCE (1)	
Low Income Home Energy Assistance	1
SOCIAL, HEALTH AND NUTRITION SERVICES (18)	
Child Nutrition	4
Child Welfare	1
Adoption Assistance	1
Foster Care	1
Runaway Youth	1
Child Abuse	1
Social Services Block Grant	3
Legal Services	1
Community Services Block Grant	8
Prevention Block Grant	8
Alcohol, Drug Abuse and Mental Health Block Grant	5
Primary Care Block Grant	1
Maternal and Child Health Block Grant	7
Primary Care Research and Development	1
Black Lung Clinics	1
Migrant Health Clinics	1
Family Planning	1
Women, Infants and Children (WIC)	1
	47
TRANSPORTATION (12)	
Grants-in-Aid for Airports	2
Highways:	7
Primary	
Rural	
Urban	
Bridge	
Construction Safety	
Highway Safety	
Other	
Interstate Transfer	1

Appalachian Highways	1
Urban Mass Transit:	
Construction	1
Operating	1
	13

COMMUNITY DEVELOPMENT AND FACILITIES (6)

Water and Sewer	2
Grants	
Loans	
Community Facilities Loans	1
Community Development Block Grant	2
Urban Development Action Grants	1
Waste Water Treatment Grants	1
	7

REVENUE SHARING AND TECHNICAL ASSISTANCE (2)

OSHA State Grants	1
General Revenue Sharing	1
	2

GRAND TOTALS:

Programs	44
Grants made in 1981	125

Child Welfare Block Grant

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 506

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	523	465	380	380	380	380	380	—	121
OUTLAYS	508	493	383	380	380	380	380	—	151

Program Description

Several Federal programs, Child Welfare Services, Child Welfare Training, Adoption Assistance, and Foster Care, finance child welfare-related activities. Their objective is to strengthen and reunify families and to place children promptly and permanently in adoptive homes when they cannot be reunited with their families.

Proposed Change

These four child welfare related programs would be consolidated into a single block grant to States. Funds are requested to continue these activities at the same level requested in the 1982 September budget.

Rationale

Consolidation of related categorical programs into block grants is part of the Administration's effort to return responsibility for administration of categorical social programs to the States and remove the Federal Government from inappropriate directive roles. Under the current system, States do not have the flexibility to direct their efforts to permanently place children rather than continue foster care arrangements.

The consolidation is the logical extension of current law which allows States to use excess foster care funds for child welfare services so that they can utilize available resources in the most effective way to serve children.

Effects of the Proposed Change

- The proposed consolidation would greatly simplify administration of these programs at all levels. Currently States must develop and maintain three State plans and attendant reporting systems. These would be eliminated or replaced by a single, less rigid requirement, thus reducing by at least two-thirds the regulatory burden on the States for child welfare programs.
- States would be encouraged to focus their efforts on the return of children to their natural parent or the permanent placement of children rather than maintaining lengthy but tentative, inappropriate and costly foster care arrangements.
- States would have greater flexibility to develop service delivery mechanisms tailored to specific, local needs.

Health Block Grants

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	—	861	1,934	1,934	1,934	1,934	1,934	—	431
OUTLAYS	—	761	1,702	1,934	1,934	1,934	1,934	—	406

Program Description

The Omnibus Budget Reconciliation Act of 1981 consolidated 21 categorical health programs into 4 block grants for maternal and child health, preventive care, mental health and substance abuse, and primary care, beginning in 1982 or 1983. The block grants will serve program purposes similar to the categorical programs consolidated, *but* will allow States flexibility to coordinate and improve the effectiveness of services for their citizens. They will strengthen program administration by reducing Federal regulatory, legal, and reporting requirements now imposed on States and grantees. Duplicative and low-priority programs can be eliminated, while gaps in needed local services can be filled.

Proposed Change

- Building upon the changes enacted by the Reconciliation Act, the Administration proposes to expand the Maternal and Child Health (MCH) Block Grant to include the nutrition program for women, infants, and children (WIC), previously administered by the Department of Agriculture. This expanded and renamed program, "Services for Women, Infants and Children," will thus include a full range of health services for women and children.
- The Primary Care Block Grant, which is authorized to begin in 1983, will also be expanded to include current categorical programs for black lung clinics, migrant health, and family planning.

Rationale

- Under the Services for Women, Infants and Children Block Grant, the effectiveness of State and local health programs will be increased by assuring coordination of WIC with other health services for pregnant or lactating women and their young children. Evidence indicates that the combination of supplemental feeding and prenatal or postnatal health care is more effective in improving health status than either one alone. Currently, WIC and MCH funds are channeled through State health agencies but each program has its own regulatory and paperwork requirements. This proposal would reduce these duplicative Federal requirements on States and allow them to target resources towards the specific maternal and child health problems in each State.
- Consolidating separate categorical grants for black lung clinics, migrant health, and family planning with the Primary Care Block Grant beginning in 1983 will reduce the fragmentation of current primary care services programs. Rather than being required to go to several different and unrelated grantees for primary care services, individuals in need of health care will be able to receive care within a comprehensive assistance system. This approach will reduce the multiplicity of Federal rules and regulations under which primary care service agencies currently operate.

Effects of the Proposed Change

- The expanded health block grants will enhance the ability of States to target MCH and Primary Care Block Grant funds on specific health problems of vulnerable populations in the State, e.g., teenage pregnancy, infant mortality, poor nutrition among young children, anemia, and black lung.

- The expanded block grants will eliminate the detailed, overlapping, and complex Federal regulations associated with the WIC, black lung, migrant health, and family planning programs. These regulations now run more than 80 pages in the *Code of Federal Regulations* while the block grant regulations would be limited to about 5 pages in the *Code.*

Low Income Home Energy and Emergency Assistance Consolidation

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	1,849	1,752	1,300	1,300	1,300	1,300	1,300	-	452
OUTLAYS	1,849	1,865	1,300	1,300	1,300	1,300	1,300	-	452

Program Description

States, through two separate grant programs administered by the Department of Health and Human Services, assist low-income households with high home energy costs, and/or in need of emergency financial aid or other crisis support. States can augment LIHEEAC by transferring funds from other block grants.

Proposed Change

- Consolidate energy and emergency assistance activities under one program; eliminate those unnecessary restrictions in the reauthorized Low Income Home Energy Assistance Block Grant which currently prevent States from delivery of effective energy and emergency assistance to those who need it the most. The Administration is proposing to eliminate regulations which excessively direct States and impose burdensome reporting requirements.
- Re-establish the targeted nature of this program on heating costs in the winter months by adjusting the grant formula to target funds to States most in need.

Rationale

As part of the 1982 effort to consolidate categorical programs into block grants to States, the Administration proposed consolidating the low-income energy assistance and emergency assistance programs into a flexible block grant to States. Last year, Congress reauthorized the Low Income Home Energy Assistance Program separately and continued many of the same restrictive rules and regulations as the previous program. Both these categorical programs serve people in need, but Federal regulations and eligibility requirements prevent delivery of assistance in the most cost-effective manner. States could eliminate duplicative administrative mechanisms and criteria now required for two programs. States can determine who best to serve without Federal directives which obstruct efficient and effective service delivery.

Effects of the Proposed Change

- The new proposal would reduce the overall amount of State reporting requirements, assurances and compliance procedures now required from 32,490 to 16,000 manhours.
- Federal administration now needed to administer unneeded regulations could be reduced by $1 million.
- Poor families with children, and the elderly could apply to one Energy and Emergency Assistance program rather than different programs with complicated rules.

Rental Rehabilitation Grants

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 451

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	—	—	150	150	150	150	150	—	-150
OUTLAYS	—	—	—	75	150	150	150	—	—

Program Description

Two programs of the Federal Government currently subsidize the rehabilitation of multi-family rental properties: the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund. In addition, localities can use Community Development Block Grant funds, at their discretion, to rehabilitate these same types of units.

Proposed Change

The Administration proposes to terminate the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund and substitute a new block-grant program for subsidizing multi-family rental rehabilitation. This program, to be called Rental Rehabilitation Grants, would be linked with the Modified Section 8 Housing Certificate program (see the fact sheet on Modified Section 8 Housing Certificates) and would provide grants to States and units of local government for up to half the cost of rehabilitating multi-family rental properties, principally for low-income families. When a property has been rehabilitated through this program, its units will be made available to low-income tenants with housing certificates. The Administration is proposing an authorization of $150 million for this new program in 1983.

Rationale

Rental Rehabilitation Grants are being proposed as a replacement for the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund because:

- Up-front grants, as would be provided by this new program, would be more efficient and less costly economic subsidies than those currently provided in the programs proposed for termination.
- This program would address the rehabilitation needs of multi-family rental properties by providing Federal assistance to localities to encourage such rehabilitation.
- By linking this program with the Modified Section 8 Housing Certificate program, the rehabilitation efforts of the Federal Government would be concentrated on low-income tenants since the certificates will be used by them.

Effects of the Proposed Change

- At an anticipated average grant of $5,000 per unit, it is estimated that 30,000 multi-family rental units would be rehabilitated annually with this new program, thereby increasing the nation's stock of adequate multi-family rental housing units for low-income tenants.
- Single-family, owner-occupied housing rehabilitation will continue to be adequately addressed by the Community Development Block Grant program.

Training and Employment Programs

AGENCY: Department of Labor FUNCTIONAL CODE: 504

Funding

	($ in millions)*							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	5,245	3,070	2,387	2,387	2,387	2,387	2,387	—	1,666
OUTLAYS	5,564	4,259	2,179	2,837	2,387	2,387	2,387	—	1,871

* **1981 and 1982 includes CETA training, Trade Adjustment Assistance, and Community Service Employment for Older Americans. A program to replace them is proposed to start in 1983.**

Program Description

The Federal Government's principal training and employment programs are authorized by the Comprehensive Employment and Training Act (CETA) of 1973. CETA programs are operated by units called prime sponsors — States, cities, and counties of over 100,000 population, or combinations of such governmental units. Grants to prime sponsors are used to provide various types of training, counseling, and other supportive services to unemployed and economically disadvantaged individuals. Stipends are paid to those in training.

Proposed Change

Authorization for appropriations for the CETA programs expires at the end of 1982. Legislation will be proposed to replace the present program of categorical grants to prime sponsors with a block grant to States for training. The legislation will include provisions to increase coordination with vocational education and other related programs. Make-work subsidized jobs in the public sector will not be authorized. Training stipends will be eliminated.

Also included as part of the proposal will be a small program administered from Washington providing training for groups that have particular difficulties finding and retaining jobs. This nationally administered program will replace current training programs authorized by various laws for such groups as older Americans, migrants, Indians, and those eligible for Trade Adjustment Assistance benefits. (See the fact sheet on Trade Adjustment Assistance Weekly Cash Benefits in Chapter 3.)

The legislation will also propose continuing the Job Corps residential training program. The program provides basic literacy and arithmetic skills and vocational training for youth age 16–21 with severe educational and economic disadvantages.

Rationale

- Categorical grants should be consolidated whenever possible. By removing the current artificial categorization of Federal assistance under CETA, grant recipients will have more flexibility to concentrate on what they believe to be their most pressing employment problems.

- The block grant will place responsibility for training and employment programs at the State level which already has the responsibility for related programs such as vocational and adult education and the Employment Service.

- Stipends paid for participation in a training program can duplicate or supplant regular income maintenance programs. In addition, they can induce people to enter training programs for short-term income gains rather than for long-term improvements in employment and earnings.

- Administrative overhead costs will decrease for the Federal Government and the number of separate entities with which the Federal Government must negotiate and monitor grant agreements will be reduced.

Effects of the Proposed Change

- The most effective program approaches (on-the-job training and classroom training) will be stressed in Federal technical assistance to States, while the least effective approaches, such as public sector work experience, will be de-emphasized.
- Because stipend payments will not be provided to individuals who attend classroom training under the block grant, budget authority provided in 1983 would enable approximately 1.1 million people, the same number of people as were in the core training programs in 1982, to be served even though resource levels for training programs will be decreased by about $361 million. Somewhat lower levels of participation may be experienced in 1983 as the new program phases in.
- Average cost per service year will decrease from about $6,400 in CETA Title II-B,C in 1982 to $4,600 in 1983 in the block grant.
- The Job Corps program will be reduced to about 22,000 slots, roughly the level achieved during most of the 1970's. Federally operated centers, which are more costly than those run by private contractors, will be closed.

Legal Services Corporation

AGENCY: Legal Services Corporation FUNCTIONAL CODE: 752

Funding

	($ in millions)							Savings From Current Services	
	1981	1982*	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	321	120	—	—	—	—	—	121	260
OUTLAYS	324	147	13	—	—	—	—	112	247

*Reflects Continuing Resolution level through March 31, 1982.

Program Description

The Legal Services Corporation (LSC) funds State and local agencies that provide free civil legal assistance to the poor. LSC is a private non-profit corporation which acts independently of related Federal social and community services programs. Grantees are involved both in cases for individual clients and in broader "law reform" activities.

Proposed Change

The Administration proposes that the Corporation not be reauthorized and that no further separate Federal funding be provided for 1982, 1983, or later years. LSC funding already enacted by Congress in the Continuing Resolution through March 31, 1982 ($120.5 million) will be used for future needs relating to responsibilities for existing cases, separation costs of Corporation and grantee staff, and related close-out functions. The Administration proposes that any extension of the 1982 Continuing Resolution beyond March 31 not include further funds for LSC.

Rationale

The Legal Services Corporation has operated since 1980 without an authorization approved by Congress, due to differences over the proper role, funding mechanism, and structure for legal services. The Administration proposes adoption of a different approach: providing States with flexibility and discretion to use block grants funds, and relying on private attorneys to fulfill their ethical obligations to provide services to the poor.

The Administration's $2.1 billion Social and Community Services Block Grants include adequate authority to fund legal services activities States may wish to provide for their citizens. These sources of funds will give more flexibility to States, and permit the services to be more responsive to the direct needs of their citizens, than the current Legal Services Corporation.

The American Bar Association (ABA) Code of Professional Responsibility states:

> *"The basic responsibility for providing legal services for those unable to pay ultimately rests upon the individual lawyer, and personal involvement in the problems of the disadvantaged can one of the most rewarding experiences in the life of a lawyer. Every lawyer, regardless of professional prominence or professional workload, should find time to participate in serving the disadvantaged."*

The 500,000 attorneys nationwide can be a significant resource for legal services for the poor. The Administration believes the private bar can and should do more to fulfill their obligations through *pro bono publico* services.

In addition, the Federal Government should no longer subsidize the private bar in the fulfillment of its ethical responsibilities to the poor. Revenues received by private bar law firms alone now exceed

360-900 0 - 82 - 2

$20 billion per year. Significant legal services for the poor can also be undertaken through modest fee assessments and service requirements of State and local bar associations.

Restrictions on advertising, competition, and other barriers to normal market forces for legal services have been substantially reduced over the last few years. This will increase the availability of low-cost private legal services, particularly in "routine" cases such as divorce.

Most legal services are now provided by LSC grantees, operating as staff attorney offices directly handling individual cases. A major Congressionally-mandated study concluded that other legal service delivery systems which make greater use of the private bar are viable—"judicare" (operating in conjunction with staff attorneys) and contracts with law firms. States could use Social and Community Services Block Grant funds to finance such legal services if they so choose.

Effects of the Proposed Change

With the use of Social and Community Services Block Grant funds, State priority setting and control over resources will be enhanced, overhead will be decreased, and coordination among different social services at the local level will be improved. Direct services on pressing legal matters for eligible individual clients could be maintained or increased under this proposal. States will decide how the Social and Community Services Block Grant funds may be best used.

REFORMING ENTITLEMENT PROGRAMS

CHAPTER 3
REFORMING ENTITLEMENT PROGRAMS

The explosion of entitlement expenditures has forced a careful reexamination of the entitlement or automatic spending programs. Under these programs, individuals who meet eligibility criteria spelled out in law are entitled to receive benefits that help offset losses of income, aid those who are unable to provide for themselves, or finance certain goods and services such as medical care and higher education. When one looks behind the good intentions of these programs, one finds tremendous problems of fraud, waste and mismanagement. Worse than this, the truly needy have not been well served. We have been able to identify $11.7 billion (21% of the President's proposed 1983 net budget savings) in reforms in entitlement programs.

The proposed reforms for 1983 are for non–Social Security entitlement programs. The President has established a National Commission on Social Security Reform to develop a bipartisan consensus on measures to ensure the financial stability of the Social Security system. The Commission will issue its recommendations by January 1983.

Past Rapid Growth

Costs of non–Social Security entitlements have skyrocketed since the massive expansion of Federal social programs initiated in the 1960s.

- Spending for these programs totaled $167.8 billion in 1981, reflecting increases of 412% since 1970 and 1,745% since 1955.
- Between 1955 and 1981, non–Social Security entitlements roughly doubled as a percent of the budget, rising from 13.3% to 25.4%.
- As a share of the Gross National Product, they have doubled in even less time, increasing from 2.4% in 1965 to 5.9% in 1981.

The growth of entitlements has far outstripped increases in basic indicators of need — the relevant population, the number of participants, and the general rate of inflation or the cost of particular goods and services. For example:

- Real entitlement spending per person in poverty grew 83% between 1970 and 1980, counting all entitlements except Social Security, Medicare, and Federal employee retirement.
- Food Stamp spending per participant, adjusted to take into account increases in the price of food, grew 18% between 1975 and 1981.
- Medicaid expenditures per public assistance case grew 49.5% in real terms between 1970 and 1980.
- A real increase of 50.4% per Federal employee occurred in Federal Employees Compensation Act expenditures between 1974 and 1981, despite the fact that there was no change in the average number of job–related deaths — a primary indicator of safety in Federal employment.
- Spending per Guaranteed Student Loan recipient, adjusted for increases in educational costs, grew 10,500% between 1970 and 1981.

In part, this growth represents a shift in responsibility from both State and local governments and the family to the Federal Government.

- Food Stamp benefits now are fully funded by the Federal Government, whereas Aid to Families with Dependent Children (AFDC) benefits (which are intended to cover basic food costs) are set and funded, on average, 46% by the States. By holding down AFDC benefits while Food Stamp benefits have continued to increase, States have been able to increase the Federal share of the combined benefits package from 65% in 1972 to 76% in 1981.

- School meals provide another example of an unintended increase in the Federal share of overall program costs. Average Federal per meal costs in constant dollars rose from 31 cents in 1970 to 60 cents in 1981. At the same time, average student payments dropped from 60 to 34 cents. Because the lowest income students continued to receive school meals free, most of the increased Federal subsidy has gone to higher income students.

- The fastest growing single component of Medicaid is intermediate care for the mentally retarded, which increased at an average annual rate of 57.1% between 1973 and 1979. For the Federal Government, increased costs largely have resulted from the shift of responsibility for beneficiaries whose care was previously funded totally by the States to Medicaid, in which the Federal Government shares costs.

The Need for Reforms

The entitlement expenditure explosion reflects not only cost shifts from others to the Federal Government but program provisions which have:

- Created disincentives to work.
- Resulted in unequal treatment of people in similar circumstances.
- Provided unintended and excessive benefits to recipients.
- Undermined targeting of resources to those most in need.
- Impeded efficient and effective program operations.

Work Disincentives and Inequities

Welfare programs provide one example of disincentives to work and unequal treatment of people in similar circumstances. Paradoxically, these problems have arisen out of welfare program features designed to promote work by ensuring that families would be better off employed than on welfare. Such features include provisions to disregard some earned income and allow certain deductions for work expenses in the calculation of eligibility and benefits. They result, in far too many cases, in welfare families being better off than similar non–welfare families.

- An average welfare family of four in 1970 would have received AFDC, Medicaid, and School Lunch benefits equivalent to $7,548 in 1980 dollars. Ten years later, they would have an increase in inflation–adjusted benefits (including Food Stamps in 1980) to a level of $8,124 in 1980 dollars.

- By contrast, a working non–welfare family of four with exactly the same after–tax income in 1970 would not have done nearly as well. If their income rose with national average earnings, their after–tax income in 1980 would be $7,224, a 4% decline in real terms. The family's income would be 11% below that of a non–working welfare family.

- Had the head of the welfare family gone to work in the same occupation as the head of the non–welfare family, the welfare family would be even better off. The combined effects of earnings disregards in cash and in–kind assistance programs and the Earned Income Tax Credit would give the working welfare family after–tax income including benefits of $11,076 — an amount 53% higher than that received by the family that supports itself through work alone.

Federal efforts to mitigate welfare program work disincentives have had the effect of creating a special class of those who receive income supplements far in excess of the take–home pay of their non–welfare, working counterparts. In fact, two–thirds of wage–earning, low–income families (income below 150% of the Federal poverty level) receive no AFDC, Food Stamps, or Medicaid benefits at all. However, the harmful effects of the misguided policies of the past go beyond the obvious inequities of selected income supplementation.

- Program benefits and hence costs rise faster than the ability of the working population to support these programs through taxes.

- With programs such as Medicaid and Food Stamps rising far faster than inflation, income supplementation programs have become a major source of persistent deficits, excessive taxes and poor economic performance.

- The resulting poor performance of the economy becomes a further penalty suffered by those who support their families solely through earnings.

Work disincentives and inequities also are evident in the Civil Service and Military Retirement programs.

- Office of Personnel Management data show that between 1965 and 1980 accumulated Consumer Price Index (CPI) increases of 173% resulted in Civil Service retirement benefit increases of 204%, while Civil Service wages rose by only 147%.

- Between 1977 and 1981, salaries of senior executives in the Executive Branch rose only 5.5% compared to CPI and Federal retirement annuity increases of over 54%.

- With annuities increasing faster than pay, many new retirees find that they receive lower annuities than persons who retired in prior years with identical service histories.

  — At least 95% of present Civil Service retirees receive annuities greater than similar new retirees would receive, with half receiving 15% to 35% more. Annuitants at all levels have been affected.

  — Similar problems have occurred in the military retirement program. After the 1982 CPI increase, over 60% of the military retired population will receive higher annuities than they would if retiring under 1982 pay scales, with some receiving as much as 21% more.

- In addition, the discrepancy between wages and annuities has encouraged persons to retire in order to take maximum advantage of annuity increases. A predictable result has been the loss of senior and executive personnel.

  — In 1980, 57% of career employees at the pay ceiling who were eligible to retire did so, in contrast to a 17% retirement rate in 1978.

  — The number of senior workers who chose to retire at the relatively young ages of 55 to 59 soared from 16% of those eligible in 1978 to 75% in 1980.

Overlapping and Excessive Benefits

An example of overlapping benefits is provided by the proliferation of nutrition programs which have pyramided benefits upon many of the same low-income population.

- In 1979, members of more than 2.2 million households received both Food Stamp and free or reduced-price School Lunch benefits. Because Food Stamp allotments are designed to assure a nutritionally adequate diet for all members of a household, dual participation provides children with approximately 133% of their recommended daily nutrition requirements.

- In 1981, milk subsidies worth more than $800 million were included as part of nutritionally balanced meals served by schools which also received Federal Special Milk Program subsidies of $104 million to deliver an additional 1.75 billion pints of milk.

Benefits Not Targeted on the Needy

An example of benefits for people not in need is reflected in the surge in Federal assistance for students from middle- and upper-income families following passage of the Middle Income Student Assistance Act of 1978 (MISAA), which liberalized eligibility for loan guarantee and grant programs:

- New loan volume between 1977 and 1981 grew from $1.5 billion to $8.0 billion — a 443% increase — much of which went to the non-needy.

  — For example, the proportion of college juniors in families with incomes over $25,000 who received Guaranteed Student Loans (GSL) increased from 23% in school year 1978–79 before MISAA to 33% in school year 1979–80 after MISAA.

- Moreover, the availability of low-interest loans in an era of dramatically fluctuating interest rates has made it profitable for families who have the resources to educate their children to borrow money through the GSL program, reaping a windfall at the expense of the taxpayer.

  — For example, in September 1980, a family with an annual income of $100,000 and three children attending Harvard, including one enrolled in law school, could have borrowed $10,000 through GSL and paid no principal or interest while the students were in school. The family could have invested the $10,000 in a money market fund paying 16% over the next 12 months. At the same time the Federal Government would have paid $1,760 in interest subsidies and special allowances to the bank making the loan, as well as $200 in interest on the Federal debt. As a result, in one year the family would have made $1,600 at a cost to taxpayers of $1,960.

Inefficient and Ineffective Program Operations

Examples of inefficient and ineffective program operations are provided by Medicare and Medicaid.

- Through these programs, the Federal Government is the largest single purchaser of hospital care in the Nation.

- The long prevailing wisdom has been that the infusion of Federal funds into the medical care market has resulted in runaway medical price increases.

- However, hospital cost growth in excess of inflation accounted for only 8.3% of expenditure increases between 1969 and 1979, while increases in utilization and intensity (quantity and complexity of care) accounted for 34.3% of the increase. Retrospective cost-based hospital reimbursement and widespread first dollar insurance coverage for hospital care have combined to create incentives for hospitals to provide, and consumers to seek or accept, new and more extensive diagnostic and therapeutic procedures and techniques.

- Although conceived primarily as a medical program and initially operated as such, Medicaid increasingly has become a program to help the functionally limited — people who need assistance in carrying out the tasks of daily living, such as dressing, bathing, and eating. Payments for long-term care grew from 32% to 47% of the total Medicaid budget between 1969 and 1979, in the latter year amounting to $9.7 billion.

- The explosive growth in Medicaid long-term care expenditures has not necessarily resulted in appropriate care. In fact, a Congressional Budget Office review of numerous studies concluded that as many as 10% to 20% of all skilled nursing facility residents and 20% to 40% of intermediate care facility residents may be receiving more expensive levels of care than necessary.

Enhancing Work Incentives and Equity

To deal with the problem of work disincentives and inequitable income supplementation, a series of entitlement program reforms are being proposed in this budget.

- Those who become unemployed as a result of industries shrinking from changing patterns of international trade will no longer be eligible for special extended Trade Adjustment Assistance cash benefits. The additional length of time workers are eligible for benefits discourages them from looking for employment in other industries. Moreover, all workers who have lost their jobs through no fault of their own should be treated similarly. Instead of these additional benefits, the Federal program for special target groups (see fact sheet on Training and Employment Programs in Chapter 2) will provide training, job search, and relocation allowances to help these workers to prepare for new work and move to it.

- Those who apply for AFDC and Food Stamps will have to show that they have searched for employment. States will be required to have Community Work Experience Programs to encourage AFDC recipients to find work in the private sector, to develop and maintain work skills, and to assure that they perform useful public services when no private job is available. Parents will not be counted in the assistance unit if they quit a job, reduce hours of work, or refuse a job or work assignment. Earnings disregards for those receiving Food Stamps and the $20 income disregard for new recipients of Supplemental Security Income will be eliminated in order to eliminate inequities between beneficiaries and others in similar circumstances.

- Federal employee injury compensation will be altered so that benefit levels depend on take-home pay rather than gross pay. This will prevent untaxed benefits from being higher than previous take-home earnings. Long-term disabled Federal employees will be transferred to Civil Service retirement rolls at age 65, as they would have been if they had continued working.

- Cost-of-living adjustments (COLA) for current and future Federal civilian and military annuitants will be changed to achieve more equity among annuitants and between annuitants and current workers. The adjustment will be the lesser of the annual increase in the pay schedule for most Federal employees or the Consumer Price Index. Annuitants whose annuity is 120% or more of the annuity of current retirees with the same grade/step of service will not receive a COLA increase. If their annuity is more than 100% but less than 120%, the adjustment will be 75% of the increase they would otherwise receive.

Reducing Program Overlap

Program proliferation has caused inequities and excessive payments. This Administration is committed to reducing these effects and will propose legislation to make needed changes.

- Energy assistance payments will be counted as income in calculating eligibility and benefits for AFDC and Food Stamps.

- The Summer Feeding Program and the Special Milk Program will be ended because Federal support for nutrition is available through Food Stamps, subsidies for school breakfasts and lunches, and other programs.

- More than half of retired Federal workers qualify for Hospital Insurance under Medicare. The Administration will propose universal eligibility for Medicare for Federal workers and require them to contribute to the hospital insurance.

- Veterans who are rated between 60% and 90% disabled and who are judged "unemployable" will not be paid at the 100% rate if they also receive Social Security, Supplemental Security Income, or Federal retirement benefits. Dependents of people who receive Veterans Pensions and Civil Service annuities will not receive student benefits beyond secondary school, just as dependents of Social Security recipients do not. Other assistance programs are available for students in postsecondary education.

Focusing Resources on Those in Need

Eligibility for many entitlement programs has been extended well beyond the people most in need. This not only has caused rapid growth of Federal expenditures for entitlement programs, but also has undermined the original objective of helping the most needy.

- Since 1978, the primary beneficiaries of Guaranteed Student Loans have been middle and upper-income families, many of whom could readily invest their own funds in their children's education instead of in high-yield financial investments. Starting in 1982, the needs of undergraduate students at all income levels will be analyzed, and loans will be limited to students who qualify after taking into account family contributions and other financial aid such as Pell Grants. Graduate and professional students will be allowed to borrow only under the less subsidized auxiliary program. Special allowance and interest benefit payments will be limited to the period of school attendance, any deferment periods, plus two years following graduation or withdrawal from school.

- Food Stamps benefits will be reduced 35 cents instead of 30 cents for each $1 of income. Other changes in the Food Stamp, AFDC, and Supplemental Security Income programs will also focus benefits on those most in need by taking account of all household resources, limiting benefits to the exact period of eligibility, and assessing need more carefully.

Promoting Efficient and Effective Program Operations

Incentives and requirements to tighten the administration of entitlement programs and hold down unnecessary costs are proposed in the budget.

- A Combined Welfare Administration program will be started to give States a fixed amount to manage the Food Stamp, Medicaid, and AFDC programs. The fixed amount will provide greater incentives for efficiency than the current open-ended match of administrative costs. States will have flexibility to respond to these incentives by designing administrative mechanisms under fewer Federal requirements.

- The Federal Government now matches State benefit payments for AFDC and Medicaid and also matches erroneous payments up to 4% of the State's total payments. For Food Stamps, a slightly higher percentage of erroneous payments can be made without penalty. Funding of erroneous payments in all programs will be reduced to 3% in 1983, 2% in 1984, and 1% in 1985. No such payments will be made thereafter. Quality control will be closely monitored to ensure that errors are measured correctly and that States have data to make program and management improvements. The Federal Government is working closely with State and local governments to reduce error rates. The President's new Federalism initiative's swap program would obviate this issue.

- Excessive payment to providers for Medicare services will be ended. Payments for the excess costs of private rooms not covered by Medicare will be stopped; hospital-affiliated home health agency and skilled nursing facility services will be reimbursed at the same rate as those provided by free-standing facilities; and duplicate reimbursement for hospital outpatient physician services will be limited. Utilization review targets to reduce the amount of unnecessary care provided will be set, and improvements will be made in the contractor bill-paying system.

End Inappropriate Federal Instrusion

The rail industry's pension will be restored to the private sector, thereby freeing railroad labor and management from the need to petition Congress to enact legislation to conform rail pensions to their collectively bargained labor contract.

- Defederalizing railroad retirement will reduce budget outlays by $2 billion in 1983 and eliminate a Federal agency with over 1,500 employees.

- Retirees' benefits and employees' rights will be unchanged due to the reorganization.

Entitlement Reform Effects

These reforms in entitlement programs will restore the original safety net character of social welfare programs, focus assistance on the people most in need, and improve the efficiency and equity of benefit payments.

- Outlay savings from these entitlement changes will amount to $1.4 billion in 1982, $12.8 billion in 1983, $18.1 billion in 1984, $23.8 billion in 1985, $29.4 billion in 1986, and $35.9 billion in 1987. The aggregate savings of $121.4 billion will be reduced by $5.1 billion of revenue losses over the six year period.

- The effect of the President's proposals will not be reduction in the total level of support for deserving American families. On the contrary, *non-Social Security entitlements will rise from $167.8 billion in 1981 to an historic high of $184.4 billion in 1983, a 9.9% increase.* Moreover, these expenditures, under the present proposals, are projected to increase steadily to $226.9 billion in 1987, or at an annual rate of increase of 5.3%.

Thus, necessary savings in, and focusing of, these entitlement programs will not undermine their role. Rather, the Administration's proposals conform these programs to their original rationale, thereby strengthening support for them and insuring that they meet the needs of those they were intended to serve.

Food Stamps

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

*Funding**

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	10,556	10,653	11,825	12,145	12,549	12,843	13,130
Outlays	10,340	10,613	11,821	12,108	12,505	12,798	13,083
REAGAN BUDGET							
Budget Authority	10,556	10,380	9,531	9,737	10,008	10,172	10,433
Outlays	10,340	10,340	9,563	9,732	10,002	10,166	10,427
PROPOSED SAVINGS							
Budget Authority	—	273	2,294	2,407	2,541	2,671	2,697
Outlays	—	273	2,258	2,375	2,502	2,632	2,656

***Excludes nutrition assistance for Puerto Rico in all years. Includes Food Stamps share of savings from Combined Welfare Administration for states, which is also included in a separate paper in this chapter.**

Program Description

Food Stamps subsidize the food purchases of households that meet the eligibility standards for gross income and disposable assets. Monthly allotments of Food Stamps are made available to such households and are redeemable for food through commercial outlets. Allotments are periodically adjusted to reflect changes in USDA's Thrifty Food Plan.

Proposed Change

The Administration is committed to restraining the uncontrolled growth of entitlement programs, requiring those who ought to work to do so, and targeting available resources to those families that most need assistance. In accordance with this policy, several changes will be proposed for the Food Stamp program.

- Energy assistance payments will be counted as income in determining household eligibility and benefit levels.
- The special disregard of earnings in determining benefit levels will be eliminated.
- Benefits will be reduced by 35 cents for each additional dollar in income rather than the current 30 cents.
- Able-bodied Food Stamp applicants will be required to begin job search activities when they apply for assistance.
- Benefit rounding adjustments will be made so that amounts in excess of whole dollar amounts will be dropped from benefit payments.
- Monthly benefits of less than $10 per household per month will be eliminated.
- Federally financed Food Stamp State administrative expenses will be combined with other welfare administration funds. This is discussed in more detail in a separate paper.
- States will be held to firm targets for reducing erroneous eligibility and benefit determinations so that by 1986 there will be no Federal participation in erroneous payments. This is also discussed in a separate paper.

Rationale

- These changes will contribute to efforts begun in the Omnibus Budget Reconciliation Act to refocus Food Stamps as a nutrition assistance program for the dependent poor rather than the generalized and costly income transfer program it has become in recent years.

- Under current law certain types of cash income are either not counted or partially disregarded in determining eligibility and benefit levels. This creates inequities among recipients and between recipients and non-participants with similar incomes and resources. Changes proposed in the treatment of income are intended to reduce these inequities and to take account of the total resources (both cash and in-kind) available for needy Americans.

- Issuance of benefits of less than $10 per month is costly both to the recipient who applies for Food Stamps and for the States and localities that administer the program. In most States, certification and issuance costs exceed $15 per case.

- Erroneous Food Stamp issuance cost the Federal government more than $1.1 billion in 1981. This level of waste and abuse cannot be allowed to undermine support for benefits for those who must have Government help to maintain an adequate diet.

- Food Stamp costs and participation have escalated rapidly over the past three years. Outlays grew from $5.5 billion in 1978 to more than $11 billion in 1981. During that same period more than six million new participants were added to the rolls. One out of ten Americans now receives Food Stamps.

- Census surveys in 1980 showed that nearly 40% of Food Stamp households had incomes above the Federal poverty level, and more than half of Food Stamp households had incomes in excess of $5,500 per year. More than 2 million households received nutrition benefits through both Food Stamps and federally subsidized school meal programs.

Effects of the Proposed Change

- Current Food Stamp benefits for families with little or no income — more than 4 million of the current participants — will be essentially unchanged by these proposals.

- Recipients with higher incomes will have their benefits adjusted to reflect their need for nutrition assistance in addition to the disposable income they currently have. Inequities in the treatment of income from various sources will be substantially reduced or eliminated.

- Those who are able to work will be required to make efforts to find employment so that assistance can continue for those unable to work because of age or infirmity.

Nutrition Assistance for Puerto Rico and Territories*

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981**	1982**	1983	1984	1985	1986	1987
BUDGET AUTHORITY	968	958	869	869	869	869	869
OUTLAYS	965	956	822	869	869	869	869

***Savings attributable to this proposal are incorporated in savings shown in categorical nutrition program (Food Stamps, Child Nutrition) papers.**

****Actual 1981 amounts and estimated 1982 amounts of spending associated with categorical nutrition programs (Food Stamps, Child Nutrition, WIC).**

Program Description

The Omnibus Budget Reconciliation Act of 1981 authorized a nutrition assistance grant for Puerto Rico, beginning in July 1982. This grant eliminates the detailed Federal regulations, accounting and reporting previously required for the Food Stamp program in Puerto Rico. Puerto Rico will receive $825 million in FY 83 under this grant, with the flexibility to target assistance in accord with local priorities. Other insular areas (Virgin Islands, American Samoa, Guam, Northern Marianas) also receive assistance under categorical Federal nutrition programs (e.g., Food Stamps and School Lunch programs).

Proposed Change

Federal nutrition assistance will be consolidated in the insular areas. This consolidation will permit the territorial governments to provide adequate nutrition for their needy residents without the constraints of detailed, federally imposed regulatory and program requirements.

Rationale

- Categorical nutrition programs, targeted for needy mainland residents, are inappropriate, complex and burdensome for Caribbean and Pacific island societies.
- Consistent with the intent of Public Law 95–134, Omnibus Territories legislation enacted in 1977, this consolidation will simplify application and reporting procedures, waive local matching funds requirements, and allow wide flexibility to direct assistance to locally determined needs.
- General Accounting Office (GAO) and Inspector General reports have repeatedly found that territorial governments do not have the administrative capability to manage complex Federal programs or the economic and transportation structure that is assumed for mainland programs.

Effects of the Proposed Change

- Nutrition assistance for needy residents of U.S. insular areas would continue under the auspices of territorial governments. Assistance could be provided in cash or in–kind (e.g., school meal subsidies, food purchase vouchers).
- Island governments will be freed from the constraints of more than 300 pages of Federal regulations and program reporting requirements.

Child Nutrition Programs

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	3,464	2,847	3,161	3,397	3,637	3,881	4,131
Outlays	3,438	2,729	2,989	3,217	3,445	3,678	3,917
REAGAN BUDGET							
Budget Authority	3,464	2,847	2,826	2,985	3,153	3,339	3,529
Outlays	3,438	2,729	2,708	2,853	3,013	3,191	3,373
PROPOSED SAVINGS							
Budget Authority	—	—	334	411	483	542	602
Outlays	—	—	282	364	432	487	544

Program Description

The Child Nutrition programs finance school lunches and breakfasts, child care meals, summer meals, snacks, nutrition education, and State administrative expenses. The lunch, breakfast, and child care programs subsidize all meals served, but the subsidy amounts vary by household income level. The summer program is fully subsidized for all recipients, regardless of need.

Proposed Change

- The summer feeding program would be ended.
- The current entitlements for school breakfast and child care feeding (CCFP) subsidies would be converted to a categorical grant to States.
- Nutrition education activities would be left to State and local discretion. Federal mini–grants for such programs would be discontinued.

Rationale

- The federally subsidized summer meal program has been riddled with fraud and abuse since it was established in the rush of Great Society legislation in the 1960's. With the availability of other Federal nutrition assistance programs, i.e., Food Stamps, which was not a national program when summer feeding began, the summer feeding program is now duplicative and wasteful. In recent years the summer programs have been concentrated in a few large, urban States where repeated abuses have been cited by GAO and USDA's Inspector General.
- The current CCFP is administratively cumbersome and over–regulated. Direct grants to States will allow more effective targeting of these resources according to State and local priorities and reduce administrative burden by eliminating detailed Federal regulations for over 60,000 child care feeding centers.
- Federal funding has grown dramatically as a percentage of school meal financing while student payments for such meals have, in real terms, substantially declined. In 1980 dollars, the Federal share of average per meal costs increased from an estimated 31 cents in 1970 to 60 cents in 1981 while student payments dropped from 60 cents to 34 cents during the same period.
- Funding individual meal subsidies for breakfast at school is an inappropriate Federal role. Under the grant–in–aid concept proposed by the Administration, States may allocate nutrition funds to schools and other institutions according to State and local priorities.

Effects of the Proposed Change

- Inappropriate Federal imposition of nutrition program design and administration would be ended for the child care and breakfast programs. More than 40 pages of program regulations and requirements would be eliminated.
- Federal meal subsidies for all school lunches would continue for more than 23 million students.

Special Milk Program

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	119	28	29	30	34	37	41
Outlays	104	34	27	28	32	35	39
REAGAN BUDGET							
Budget Authority	119	28	—	—	—	—	—
Outlays	104	34	2	—	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	29	30	34	37	41
Outlays	—	—	25	28	32	35	39

Program Description

The Special Milk appropriation finances milk subsidies for students in schools that do not participate in other federally subsidized meal programs.

Proposed Change

The Special Milk program would be terminated effective for the 1982–83 school year.

Rationale

- Nearly 90% of the 1.6 million students receiving milk subsidies are non–needy (their families have incomes in excess of $16,000 per year). These students will receive subsidies of 9 cents per half–pint of milk in the 1981–82 school year regardless of their family income.
- Every President since John Kennedy has proposed major reductions or elimination of the Special Milk Program.

Effects of the Proposed Change

- The program's original goal, to promote fluid milk consumption in schools, has been superseded by the large subsidies ($700 million in 1982) for milk consumption in other Federal meal programs. The $34 million now anticipated to be spent on Special Milk in 1982 will have a negligible effect on milk consumption in the U.S.
- Termination of this special subsidy would cost upper–income families about 10 cents per day, less than $20 per year per child — less than one–half of one percent of the average family's disposable income.

Aid to Families with Dependent Children

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	8,036	5,893	6,609	6,607	6,669	6,779	6,891
Outlays	8,064	7,811	6,609	6,607	6,669	6,779	6,891
REAGAN BUDGET							
Budget Authority	8,036	5,727	5,454	5,541	5,554	5,582	5,677
Outlays	8,064	7,645	5,454	5,541	5,554	5,582	5,677
PROPOSED SAVINGS							
Budget Authority	—	166	1,155	1,066	1,115	1,197	1,214
Outlays	—	166	1,155	1,066	1,115	1,197	1,214

Program Description

Aid to Families with Dependent Children (AFDC) provides cash assistance for needy children deprived of parental support by the death, disability or continued absence of a parent from the home. About half the States also have an AFDC — Unemployed Parent program for low income families in which both parents are present in the home, but the principal earner is unemployed. AFDC is administered by State and local governments in conformity with Federal guidelines. Benefit levels are determined by each State, with the Federal Government matching these benefit costs at rates from 50% to 77%. The Federal Government also pays 50% of the cost of State and local administration.

Proposed Changes

A variety of legislative changes to AFDC eligibility rules and benefit levels is proposed, as described below. These changes, which would be effective July 1, 1982, are designed to:

- Strengthen AFDC employment incentives by requiring those who are able to work to do so.
- Determine AFDC benefits by including in the applicant's income those resources which are often available to an AFDC family but have not previously been counted.
- Eliminate program overlaps and simplify administration.

Rationale

- *Require States to have Community Work Experience Programs.* States now have the option to establish workfare programs, but less than half the States are planning to do so. Requiring the work experience in all States would assure that AFDC recipients are encouraged to find work in the private sector and perform useful public services when no private job is available. ($–49 million)
- *Mandate job search for AFDC applicants.* Applicants would be required to demonstrate that they have exhausted possible private sector employment as a source of income before receiving public assistance. A similar change is proposed for Food Stamps. ($–145 million)
- *Provide Unemployed Parent benefits only if parent participates in workfare.* Since these benefits are paid to families in which both parents are present, one parent should actively be seeking employment through all possible means, including Community Work Experience Programs (CWEP). Limiting Unemployed Parent benefits to those who participate in CWEP programs would help preserve work skills and assure that only those who are unable to find private employment receive public assistance. ($–86 million)

- *Remove parent/caretaker from the assistance unit for voluntarily quitting work, reducing earnings, refusing employment, or refusing a workfare assignment.* The benefit level would be reduced because the parent/caretaker would not be counted as a member of the unit when assistance needs are computed. The change would discourage reductions in work effort simply to become eligible for welfare.

- *Seek no further funding for the Work Incentives (WIN) program.* New work opportunities for welfare recipients created in the Omnibus Budget Reconciliation Act of 1981, including Community Work Experience Programs and Work Supplementation programs, and the reforms proposed in the 1983 Budget make WIN unnecessary. These new programs would give States greater flexibility to develop public and private job settings for welfare recipients than WIN does. As WIN funding had been separate from AFDC, savings from this proposal are not included in the AFDC totals in the table above. ($-245 million)

- *End employable parent's benefit when youngest child reaches 16.* Since the parent's presence in the home is no longer essential in these cases, the employable adult should be expected to seek work rather relying solely on public assistance. ($-47 million)

- *Prorate shelter and utilities for AFDC families in large households.* The economies of sharing living expenses in large households are often not taken into account in AFDC. By taking into account *de facto* support that is not now considered, benefits would be targetted on those most in need. ($-174 million)

- *Require States to count Federal or State energy assistance payments as income for AFDC.* The change would reduce program overlap and take into account existing resources in determining benefits to AFDC families. Over $1.7 billion in Federal Low Income Energy Assistance was disregarded by AFDC in 1982. A similar policy is proposed for Food Stamps. ($-175 million)

- *Include the income of all unrelated adults as part of the AFDC assistance unit for purposes of computing benefits.* While the income of stepparents has recently been included in the AFDC benefit calculation, other unrelated adults are still excluded, even if they have significant resources to help support the AFDC family. Standard income disregards would be applied before determining the amount available to the AFDC unit. ($-69 million)

- *Include all minor children in the AFDC unit, except for disabled children who have separate benefits.* Minor children who have significant separate resources can currently be excluded from the AFDC unit at the option of the welfare family. Counting the resources of all minor children would ensure equitable treatment of families with similar needs. Children with SSI disability benefits would continue to be excluded. ($-63 million)

- *Eliminate military service by the father as a reason for AFDC eligibility.* Military personnel can sometimes avoid family financial obligations and shift their responsibility to the public assistance rolls, even when there is continued family contact. This practice would be stopped. Families who have actually been deserted could still be eligible for AFDC, but increased efforts to collect child support payments would first be made. ($-16 million)

- *Require States to round benefits to the lower whole dollar.* This is similar to recently enacted practice in Social Security, and is also proposed for Food Stamps and SSI. This proposal would streamline State administration. ($-10 million)

- *Prorate first month's benefit based on date of application.* States are now permitted to pay benefits back to the first day of the month of application. Under this proposal, assistance would begin on the date of application. A similar change has been enacted for Food Stamps, and is proposed for SSI. ($-14 million)

- *Eliminate optional AFDC emergency assistance program, and broaden the Low Income Home Energy Assistance program to include emergency assistance-type expenditures.* This would reduce program overlap and give States added flexibility to provide assistance in the manner they deem most appropriate. This change would be effective October 1, 1982. ($-60 million)

- *Phase in full fiscal responsibility to the States for erroneous payments in AFDC, Medicaid, and Food Stamps.* A zero error tolerance would be phased in by 1986. ($-234 million)

Proposed changes which affect AFDC and other public assistance programs, including Combined Welfare Administration for States, and the new Federal policy on treatment of erroneous payments, are discussed elsewhere in this chapter.

Effects of the Proposed Changes

These changes would ensure that Federal resources are targeted on the neediest, and that individuals and families who are able to support themselves do not continue to rely on public assistance. Federal outlay savings from these changes are estimated at $1.2 billion 1983 and nearly $6 billion over the next five years. States will save an amount equal to about 85% of the Federal savings.

Child Support Enforcement

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	448	409	553	622	700	787	886
Outlays	439	510	553	622	700	787	886
REAGAN BUDGET							
Budget Authority	448	374	408	471	544	625	718
Outlays	439	475	408	471	544	625	718
PROPOSED SAVINGS							
Budget Authority	—	35	145	151	159	166	176
Outlays	—	35	145	151	159	166	176

Program Description

Currently, the Federal Government pays 75% of State and local administrative costs for Child Support Enforcement (CSE) agencies that establish paternity and collect support payments from legally liable absent parents. The Federal share of these costs is shown in the table above. Where the absent parent's family is on AFDC, these collections offset AFDC costs. In 1981, these collections reduced Federal AFDC costs by $268 million. By 1987, the Federal share of collections under current law is projected to exceed $500 million.

An added 15% payment (financed solely out of the Federal share of collections) is also made to States for "cooperating" in child support cases in other jurisdictions. States also receive special Federal financing for court personnel who are involved in child support as part of their regular responsibilities.

Since the Federal share of total collections is less than 50%, but the Federal share of administrative costs is over 75%, the CSE program is a net gain for States, and a net cost to the Federal Government, even though AFDC collections are increasing.

Proposed Changes

The Administration proposes to restructure Federal matching to provide incentives for improved State and local performance. The current structure of Federal matching payments and distribution of AFDC collections would be repealed. Instead, a new formula designed to reward States both for increasing collections and for operating cost-effective programs would be instituted.

The Administration also proposes to require States to retain 6% of child support collections for all non-AFDC cases as reimbursement for the costs of enforcement and collection. Currently, these costs are paid almost entirely by the Federal Government, even though the collections do not offset Federal AFDC costs. The existing fee provision, which is applied only to a few non-AFDC cases, would be repealed.

In addition, a number of other reforms are proposed to strengthen the CSE identification and collection process, and increase collections. These include increasing the availability of information for State CSE agencies, and making allotments against pay for military personnel who have delinquent child support obligations. Savings from these proposals ($12 million in 1983) are shown in the AFDC budget as increased collections which offset AFDC costs.

Rationale

- Twelve States run cost-effective programs with AFDC collections/administrative cost ratios of more than 2 to 1. Nineteen States do not currently collect enough to even cover costs, and the remaining States run programs of only marginal effectiveness. Since the Federal Government finances over 75% of State and local CSE costs, improved performance by the States should be required.
- The new 6% fee for non-AFDC cases would stop the public subsidy to families not receiving AFDC, while continuing to provide a service that the private sector could not provide at a comparable price.

Effects of the Proposed Changes

Restructuring Federal matching rates would increase the incentives for States to improve the performance of their child support enforcement agencies, and would help ensure that family financial obligations are fulfilled. The proposed changes would increase AFDC collections and/or decrease the Federal share of CSE administrative costs by about $150 million in 1983 and nearly $900 million over the next five years. Increased child support collections would help offset Federal and State AFDC costs.

Medicaid

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES*							
Budget Authority	17,442	18,945	14,461	20,960	24,152	26,472	29,223
Outlays	16,843	18,101	18,989	20,960	24,152	26,472	29,223
REAGAN BUDGET							
Budget Authority	17,442	17,968	12,925	18,628	20,407	22,138	24,314
Outlays	16,433	17,823	17,006	18,628	20,407	22,138	24,314
PROPOSED SAVINGS							
Budget Authority	—	977	1,536	2,332	3,745	4,334	4,909
Outlays	—	278	1,983	2,332	3,745	4,334	4,909

***Includes $884 million in 1981 and $895 million in 1982 for State administration grants; in later years these funds are shown in a separate account. The Administration's proposal for a Combined Welfare Administration for States is discussed in a separate paper in this chapter. Excludes Federal administrative costs of approximately $70 million, which are included in the functional tables in Part 5 of the Budget. The large reduction in BA in 1983 is due to a transition quarter resulting from a technical change in the appropriation language.**

Program Description

Medicaid is a program of grants to States to assist them in providing medical care to low income families and individuals. The Federal Government provides States with open-ended matching payments for their expenditures, with the Federal match (based on State per capita income) ranging from 50% to 78%. Program growth averaged 15% annually from 1975 to 1980, and was 21%, $2.9 billion, in 1980–1981. Combined Federal and State expenditures per Medicaid beneficiary will exceed $1,400 in 1983 even with proposed savings.

The Reconciliation Act of 1981 reduced the Federal match — by 3% in 1982, 4% in 1983, and 4-1/2% in 1984 — and provided States some additional flexibility to manage the program efficiently. Nonetheless, Federal program expenditures under current law (excluding administrative expenses) are expected to grow at an annual rate of more than 10% in 1983 and 1984, jumping to over 15% in 1985.

Proposed Change

The Administration will propose a variety of legislative changes designed to improve program efficiency and effectiveness and to provide increased ability to manage the program. Adoption of these changes would result in outlay savings of $2.0 billion in 1983, rising to $4.9 billion annually by 1987. As part of the Federalism initiative, discussed elsewhere, the Administration has also offered to accept full responsibility for the financing of Medicaid.

Rationale

The unconstrained growth of the Medicaid program places a heavy burden on both Federal and State taxpayers. Open-ended Federal matching, poorly structured benefits, and overly-generous eligibility have contributed to Medicaid's failure to provide cost-effective services to those in need. The Administration proposals will reduce excessive costs while assuring maintenance of essential assistance. Proposed changes would:

- *Reduce the Federal match for optional services and beneficiaries.* Currently, the Federal Government matches expenditures for optional services and for optional beneficiaries at the same rate as expenditures under the basic program. The Administration proposes to reduce the Federal match for optional State programs by three percentage points to reflect their lower priority and their discretionary character (-$600 million in 1983).

- *Establish co-payments for Medicaid services.* The provision of nearly all medical services without any charge to the beneficiary creates a situation which can lead to unnecessary demand for services, waste and excess costs. Imposing modest recipient co-payments (e.g., \$1/outpatient visit, \$2/inpatient day) would encourage more responsible use of resources by requiring beneficiaries to provide some financial contribution for their own care in accord with generally accepted insurance principles (–\$329 million in 1983).

- *Allow States flexibility to recover long term care (LTC) costs from beneficiary estates and relatives.* Because of the high cost of LTC services, individuals with relatively high incomes and assets may become Medicaid-eligible. Federal law and regulations, however, pose barriers to State collections from the beneficiaries' estates and the incomes of beneficiaries' families. Removing these barriers, while retaining Medicaid eligibility requirements, would eliminate an inappropriate public subsidy to Medicaid LTC beneficiaries' families and heirs, while continuing to assure access to needed care (–\$283 million in 1983).

- *Establish a Combined Welfare Administration program for States.* Expenditures for administrative services are largely controllable by States. However, despite the controllability of administrative costs, the Federal Government matches whatever States spend. At the same time, the regulations associated with open-ended matching are unnecessarily complex and burdensome. The Administration proposes to replace the current matching system with a unified fixed payment for administrative costs for three welfare programs — Medicaid, AFDC and Food Stamps. The unified payment is discussed in more detail in a separate paper (–\$218 million in Medicaid savings in 1983, not included in the Medicaid totals above).

- *Eliminate Federal matching for the State Medicare buy-in.* Currently, Federal general fund expenditures finance 75% of Medicare Supplementary Medical Insurance (SMI) expenditures. States are allowed to enroll eligible Medicaid beneficiaries in SMI and pay the beneficiary share of premiums out of Medicaid funds at the normal Federal Medicaid match (the Medicare buy-in). The combination of the 75% general fund subsidy and the Federal Medicaid match results in a Federal subsidy of almost 90% for Medicare-covered services. Eliminating matching for the buy-in would reduce the Federal subsidy to a more reasonable 75% while still providing sufficient incentives for States to buy in (–\$203 million in 1983).

- *Eliminate special matching rates.* Currently, States receive special higher matching rates for such activities as family planning and nursing home inspections. Elimination of these special matches would allow States to establish program priorities without the distortions imposed by special Federal fiscal incentives and would end unnecessary Federal subsidies for these activities (–\$64 million in 1983).

- *Phase-in full State responsibility for erroneous payments.* State payment errors, up to 4% of program costs, are currently matched by the Federal Government at the same rate as other program payments. The proposed change would establish a policy of phasing-in full State responsibility for erroneous payments through reducing the acceptable error level by 1 percentage point per year. This proposal is discussed in detail in a separate paper in this chapter (–\$59 million in 1983).

- *Shorten the automatic extension of Medicaid eligibility.* Currently, individuals who lose their eligibility for AFDC as the result of increased earnings are granted an automatic Medicaid eligibility extension of four months. The Administration proposes to reduce the extension to one month, sufficient time for private employment-based health insurance to become effective (–\$75 million in 1983).

- *Impact on Medicaid of AFDC proposals.* Proposed changes in AFDC to improve the welfare system, including increased work requirements, improved income measurement, and administrative simplification, will reduce Medicaid costs (–\$153 million in 1983).

- *Impact on Medicaid of SSI proposals.* Reductions in the SSI rolls through tightened standards for determination of disability will reduce Medicaid expenditures (–\$176 million in 1983).

- *Other proposals.* Several minor changes, including the impact of Medicare proposals on Medicaid, will produce additional savings (–\$41 million in 1983).

Effects of the Proposed Change

These changes will maintain basic Federal responsibility for assuring medical care for those in need. Even with these reforms, Federal program expenditures will rise to $17 billion in 1983 and are expected to increase to $24 billion annually by 1987. At the same time, excessive program expenditures will be reduced by:

- increasing beneficiary and family responsibility for care;
- reducing Federal subsidies which are unnecessary to assure services to those in need and which distort program priorities;
- providing additional incentives for economical program administration and targeting of resources; and,
- eliminating Federal barriers to economical program operation.

Medicare

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	45,292	55,846	61,293	67,768	76,127	87,447	97,244
Outlays	42,489	49,872	57,823	66,309	76,174	87,027	99,145
REAGAN BUDGET							
*Budget Authority**	45,292	55,863	62,454	68,860	76,656	88,523	98,566
Outlays	42,489	49,552	55,352	61,178	68,365	75,649	83,051
PROPOSED SAVINGS							
*Budget Authority**	—	17	1,161	1,092	529	776	1,322
Outlays	—	320	2,472	5,131	7,809	11,378	16,094

***Excludes amounts associated with combining Social Security trust fund resources other than as provided by current law.**

Program Description

Medicare provides health insurance for aged and disabled Americans. Medicare Hospital Insurance (HI) is financed by payroll taxes; Medicare Supplementary Medical Insurance (SMI) is financed by a combination of beneficiary premiums and general revenues. Approximately 26 million aged and 3 million disabled Americans will benefit from Medicare coverage in 1983.

Proposed Change

The Administration is proposing a number of program changes to improve the efficiency and effectiveness of Medicare. The changes are designed to:

- reduce the excessive rate of health care cost inflation by improving market forces in the health care industry,
- reduce excessive reimbursement to providers, and
- improve program efficiency.

The proposed changes would help fulfill the Administration's commitment to assuring the continuance of Medicare–financed services to beneficiaries and, if adopted, would result in outlay savings of $2.5 billion in 1983, rising to $16.1 billion in 1987. Specific proposals are discussed below.

Rationale

Medicare's rate of spending increase is a growing burden to the Federal budget and a major contributor to health cost inflation. Under current law and policy, the program will grow about 16%, or about $8 billion in 1983, compared to overall budget growth of 4.5%. Medicare spending now accounts for 26% of national expenditures for hospital care and 17% for physician services. The perverse incentives built into the health care financing system have fueled Medicare cost increases. At the same time, the explosive growth in Medicare costs, combined with Medicare's inflationary reimbursement principles, has also contributed to the excessive rate of health care cost inflation generally.

The urgency of achieving economies in the Medicare program is heightened by the financial difficulties confronting the Social Security system. Considered alone, the Medicare HI trust fund will see expenditures exceeding income in 1985 and will be exhausted by the early 1990s. Program economies are needed in order to assure continuance of essential protection to aged and disabled Americans and to eliminate wasteful and unnecessary expenditures. For the long term, the Administration proposes to reduce the Medicare growth rate through reforms designed to improve market forces in the health care industry and in the program itself.

Proposed changes include:

- *Improve market forces in the health care industry.* Perverse incentives are woven into the fabric of the current health care market. Wasteful provider reimbursement, coinsurance arrangements that subvert price-consciousness in choice of provider and promote excessive utilization of services, and inadequate incentives to promote cost-effective health care systems have all contributed to an explosive rate of growth in health care costs. The Administration will propose, later this year, measures to improve market forces in the health care industry and in the medicare program. No costs or savings from these efforts are assumed until 1984.

- *Institute co-payments for home health services.* Home health services are currently free and unlimited. As a result, the program is growing at an annual rate of almost 30%. Modest co-payments would be established to encourage beneficiary cost-consciousness in the use of the service. The co-payment would be 5% for the first 100 visits (about $2.40) and 20% thereafter (–$35 million in 1983).

- *Establish HI entitlement insurance coverage for Federal workers.* Currently, more than half of retired Federal workers over 65 qualify for HI coverage on the basis of spouse earnings or modest periods of employment in the private sector, even though they did not pay the HI tax as Federal employees. Universal eligibility for Medicare among Federal workers would be established by requiring payment of the HI tax. This change would improve the solvency of the HI trust fund and provide more equitable treatment of Federal workers ($619 million in 1983 revenue increase).

- *Make Medicare coverage secondary to private group insurance for the working aged.* Currently, Medicare subsidizes the labor costs of companies employing aged workers by providing primary insurance coverage. This proposal would require employers to offer aged workers the same health insurance as other employees and establish coordination of benefits between Medicare and private group insurance (–$306 million in 1983).

- *Reduce the rate of increase of Medicare hospital reimbursement by 2%.* Currently, Medicare generally reimburses hospitals for the full cost of medically necessary services to beneficiaries, regardless of how inefficiently the services are provided. This inherently inflationary reimbursement method has contributed to an excessive rate of hospital cost increase which was close to 20% in 1981. This proposal would achieve program economies by reducing Medicare hospital reimbursement 2% on an interim basis until the Administration's forthcoming proposals to improve the competitiveness of the health care sector are fully effective (–$653 million in 1983).

- *Set single reimbursement limit for home health agency (HHA) and skilled nursing facility (SNF) services.* Currently, hospital-affiliated HHAs and SNFs have a higher reimbursement limit than free-standing facilities, even when services provided are identical. The Administration proposes to establish a single reimbursement limit to encourage greater competition and efficiency in the delivery of services (–$18 million in 1983.)

- *Eliminate private room subsidy.* Payment to hospitals for the excess cost of private rooms is an unintended byproduct of current Medicare cost calculation methods, since Medicare was always intended to pay only the cost of semi-private rooms. The Administration proposes to remove the excess cost of private rooms prior to calculation of Medicare's share of total costs. The change would not increase out-of-pocket expenses of program beneficiaries, since only reimbursement to hospitals would be affected (–$54 million in 1983).

- *Reduce reimbursement for physicians rendering care in hospital outpatient departments.* The outpatient reimbursement reduction would reflect the lower overhead costs experienced by these physicians and thus eliminate the double payment which results from Medicare paying this overhead both through physician charges and through hospital cost reimbursement (–$160 million in 1983).

- *Establish prospective reimbursement rates for renal dialysis services.* This proposal would create greater incentives for provider efficiency and would encourage less costly home dialysis (–$130 million in 1983).

- *Revise radiology/pathology reimbursement.* The Administration proposes to reduce Medicare reimbursement for radiologists and pathologists from 100% to 80%, thus paying them on the same basis as other physicians (–$160 million in 1983).

- *Update Medicare physician fee limits on October 1, 1982, instead of July 1, 1982.* This proposal would conform Medicare fee limit changes with the Federal fiscal year (–$210 million in 1983).

- *Cut proposed increase in the physician fee limits from 8% to 5%.* Since 1972, the increase in the maximum fees the Medicare program will recognize for reimbursement purposes has been limited by an index representing wages and physician practice costs. Physician payments under Medicare have increased faster than the index. The rate of increase in recognized fees would be reduced on an interim basis until the Administration's forthcoming proposals to improve competition in the health care sector are fully effective (–$35 million in 1983).

- *Index the SMI deductible.* The current $75 deductible would be indexed to the Consumer Price Index in order to keep its economic value constant (–$65 million in 1983).

- *Establish targets to reduce unnecessary use of hospital and medical care.* Currently, the average length of stay for Medicare patients is 11 days. Wide variations in the length of stay among regions, even after adjusting for differences in diagnosis, indicate that some of these days are unnecessary. For example, there are 48% more days of care per capita in the Northeast than the West. The Administration proposes to establish objectives for Medicare contractor activities and cooperate with private sector efforts to reduce unnecessary days and other services. At the same time, current provisions which waive provider liability for the cost of unnecessary or uncovered care would be eliminated (–$ 372 million in 1983).

- *Establish Medicare eligibility at the beginning of the first full month after attaining age 65* rather than the beginning of the month in which the birthday occurs. This change would conform Medicare practices to similar changes proposed for other entitlement programs (–$145 million in 1983).

- *Other reforms.* Other minor reforms would produce additional savings (–$129 million in 1983).

Effects of the Proposed Change

The proposed changes will reduce Medicare program costs while maintaining beneficiaries' basic health insurance protection.

- Even with the proposed changes, benefits per Medicare enrollee would increase 10% in 1983, and payments to providers will increase 12% percent.

- These proposals, by preserving trust fund assets, will help to assure that basic benefits can continue to be paid in the future without excessively burdensome tax increases.

Supplemental Security Income

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	7,227	7,878	9,177*	8,270	9,330	9,826	10,296
Outlays	7,191	8,000	9,188*	8,268	9,326	9,823	10,292
REAGAN BUDGET							
Budget Authority	7,227	7,777	8,891*	7,781	8,622	8,912	9,196
Outlays	7,191	7,900	8,903*	7,779	8,618	8,909	9,192
PROPOSED SAVINGS							
Budget Authority	—	101	286	489	708	914	1,100
Outlays	—	100	286	489	708	914	1,100

***Since the first day of the first month of fiscal 1984 falls on a weekend, the first benefit check for 1984 is paid on the last weekday of 1983 thus making 1983 a 13 rather than 12 benefit month year.**

Program Description

Supplemental Security Income (SSI) provides cash assistance to low-income individuals who are aged, blind or disabled. The current (1982) maximum monthly payments and income guarantees are $264.70 for an eligible individual and $397 for an eligible couple. These amounts are indexed annually for increases in the cost-of-living. Approximately 1.5 million aged persons and 2.1 million blind or disabled persons receive Federal SSI benefits. Another 500,000 persons receive State SSI supplementation payments only. Benefit checks are usually issued the first of each month.

Proposed Change

The Administration proposes to:

- Prorate the first month's SSI benefit from the date of application or date of eligibilty (in the case of aged persons).
- Restrict the definition of permanent disability to a prognosis of at least 24 months of disability.
- Ensure that the definition of disability is based on a preponderance of medical rather than other factors.
- For new beneficiaries no longer disregard the first $20 of income in setting benefit levels.
- Recover overpayments to individuals from available Social Security benefits.
- Continue to phase out transitional hold harmless payments.

Rationale

- Under current law, all new recipients have been paid a full month's benefit regardless of the day of the month on which they file or, in the case of aged applicants, the day they become eligible for assistance (i.e., turn age 65). Consequently, most individuals who apply for SSI receive benefits for periods of time before they applied or were eligible. Prorating the first month's benefits based upon date of application (or eligibility) would base an applicant's benefits more fairly on the appropriate period.

- Under current law, the monthly guarantee and actual payments are rounded to the next higher 10 cents in the computation process. Over time, however this rounding procedure has had a compounding effect that results in slightly higher benefit payments. Rounding the SSI guarantee and payment amounts to the next lower dollar would eliminate the modest overcompensation that results from the current higher rounding procedure.

- The SSI definition of permanent disability includes a requirement that an individual's impairment must be expected to result in death or continue for not less than 12 months. Restricting permanent disability to nonemployable individuals with a prognosis of at least 24 months of disability would assure that temporary disabling impairments would not be a basis to qualify for benefits. The 24 month duration requirement is more consistent with the concept of *permanent* disability.

- Individuals are considered disabled under SSI if their medically determined impairment is of such severity that they are not only unable to do their previous work, but cannot, because of education or work experience, engage in substantial gainful employment. Ensuring the definition of disability is based on a preponderance of medical factors would eliminate a problem under present law in utilizing vocational and other subjective nonmedical factors which make consistent disability determination decisions difficult. Relying on medical factors would produce more objective and consistent determinations and fewer appeals.

- Under current law, $20 per month of an individual's income is disregarded in determining SSI eligibility and amount of benefits. Since the disregarded amount is fixed, it is of decreasing significance in real dollars. It also can result in differential treatment of recipients. Some people in similar circumstances get the maximum SSI payment of $264 and others having combined SSI and other income get $20 more a month than the maximum SSI payment. The proposed change would apply a uniform standard to newly eligible persons.

- The Social Security Administration has been unable to recover more than forty percent of SSI overpayments because many of the overpaid individuals are no longer in the SSI program. Half of the former beneficiaries receive Social Security retirement and disability benefits. The proposed change would allow Social Security Administration to recover SSI overpayments from these no longer needy individuals.

Effects of Proposed Change

Rounding benefit amounts and payment standards would have a minimal effect on individual benefits. Beneficiaries would have their monthly benefits reduced by an average of 50 cents.

Applying an established medical definition of disability would lower SSA's administrative costs and make disability determinations more consistent and objective.

This proposal would exclude payments to an estimated 115,000 individuals in 1983 who are not permanently disabled.

Combined Welfare Administration

AGENCY: Department of Health and Human Services/ Department of Agriculture

FUNCTIONAL CODE: 609/551/605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	2,125	2,296	2,483	2,615	2,794	2,920	3,056
Outlays	2,100	2,298	2,488	2,588	2,761	2,885	3,020
REAGAN BUDGET							
Budget Authority	—	2,296	2,181	2,181	2,181	2,181	2,181
Outlays	—	2,298	2,181	2,181	2,181	2,181	2,181
PROPOSED SAVINGS							
Budget Authority	—	—	302	434	613	739	875
Outlays	—	—	307	407	580	704	839

NOTE: These figures include savings to the Departments of Health and Human Services and Agriculture which are shown separately in the 1983 budget.

Program Description

The Federal Government currently matches State administrative expenses at a 50% rate for the Food Stamp, Medicaid, and Aid to Families with Dependent Children (AFDC) programs on an open-ended basis. Some administrative expenses, such as those for anti-fraud activities and management information systems, receive a higher Federal match. Although these three welfare programs are often jointly administered, States work with a different set of cost allocation and reporting requirements for each program.

Proposed Change

Combined Welfare Administration (CWA) will combine funding to States for the administrative expenses of Food Stamps, Medicaid and AFDC into a single payment with no State match required. It will be funded at 95% of the Federal share of 1982 ongoing administrative expenses for those programs. In certain areas where the Federal Government supports anti-fraud and anti-abuse activities at a higher level, such as Food Stamps Fraud Control, the current open-ended Federal match will continue. Many Federal administrative requirements will be reduced or eliminated to give States added flexibility.

Rationale

- CWA supports the Administration's goal of returning to the States greater responsibility for running programs. States will have the flexibility to design efficient administrative mechanisms for public assistance programs that best meet their beneficiaries' needs.
- CWA replaces an open-ended system that provides States with little incentive to control administrative costs, and that burdens States with separate reporting and cost allocation requirements for AFDC, Medicaid, and Food Stamps. Under the current system, administrative costs vary widely; for example, in 1978, States' costs for issuing one Food Stamp case varied from $7.00 to $107.00. These variations bear little relationship to an individual State's ability to control the high error rates in public assistance programs.
- From other appropriations the Federal government will continue to match 75% of State expenditures for activities that currently receive special Federal matching for controlling fraud and abuse on an open-ended basis. This reflects the high priority given these activities by the Administration.

Effects of the Proposed Change

- CWA will reduce Federal payments for administering the Food Stamp, Medicaid and AFDC programs by $302 million in 1983 and $875 million by 1987.
- With the opportunity to restructure their administrative operations and the removal of separate cost allocation and reporting requirements, States should be able to realize substantial savings.
- CWA will also give States the incentive to operate more efficiently, since they will not need to apply the full amount of State funds previously used to meet the matching requirement.

State Responsibility for Errors in Welfare Programs

AGENCY: Department of Health and Human Services/ Department of Agriculture

FUNCTIONAL CODE: 551/605/609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES (est)							
Budget Authority	1,781	1,684	1,562	1,278	1,297	1,304	1,310
Outlays	1,781	1,684	1,562	1,278	1,297	1,304	1,310
REAGAN BUDGET (est)							
Budget Authority	1,781	1,684	654	424	234	—	—
Outlays	1,781	1,684	654	424	234	—	—
PROPOSED SAVINGS (est)							
Budget Authority	—	—	908	854	1,063	1,304	1,310
Outlays	—	—	908	854	1,063	1,304	1,310

Program Description

Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamps are the major Federal/State public assistance programs. While benefits are paid in part or in total by the Federal Government, States administer the programs. In AFDC and Medicaid, States also design the eligibility rules and benefits levels within broad Federal guidelines. Of the more than $50 billion in total 1981 benefit payments for AFDC, Medicaid, and Food Stamps, an estimated $3.3 billion are overpayments or are paid to individuals who are totally ineligible, according to quality control samples. In these cases, States have either not complied with Federal program rules, have incorrectly computed benefits, or have failed to adequately verify the statements of income and family composition made by recipients.

States are currently subject to fiscal sanctions for AFDC and Medicaid payment error rates which exceed 4% (the level for Food Stamps is slightly higher). Errors up to these target levels are currently permitted, and Federal funding for them is provided.

Proposed Change

Under the Administration's proposal, full State fiscal responsibility for erroneous welfare payments administered by State and local governments would be phased in over 4 years. The maximum allowable payment error rate for Federally financed payments would be 3% in 1983 and decline to 1% for 1985. Beginning in 1986, no Federal matching would be permitted for any erroneous payments in AFDC, Medicaid, and Food Stamps. The quality control system would ensure that errors are measured correctly. Grant amounts to States would reflect projections of State costs and error rates. The change would begin on October 1, 1982.

Rationale

There is no justification for Federal financing of payment errors in State-administered programs. States currently have little special financial incentive to reduce errors since they are federally funded under matching rates that range from 50% to 77%. Food Stamp benefits are fully federally financed. While State error rates have decreased substantially over the last 10 years, they remain too high: 7.3% in AFDC, 5.0% in Medicaid, and 10.4% in Food Stamps. The Federal cost of erroneous State AFDC and Medicaid payments in 1981 was about $700 million. Food Stamp payments in error exceeded $1 billion for 1981.

360-900 O - 82 - 3

The four year phase-out would give States adequate time to make improvements in design and administration of their welfare programs in order to eliminate errors. Waivers of these maximum error rates would not be permitted.

Effects of Proposed Change

This proposal would require States to run welfare programs more efficiently by placing financial responsibility with the level of government which administers the programs. This change is an integral part of the Administration's commitment to eliminating fraud, abuse, and waste. By 1986, Federal savings from this proposal would exceed $1.3 billion annually.

Trade Adjustment Assistance Weekly Cash Benefits

AGENCY: Department of Labor FUNCTIONAL CODE: 603

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	1,481	144	118	81	65	63	60
Outlays	1,481	144	118	81	65	63	60
REAGAN BUDGET							
Budget Authority	1,481	144	10	—	—	—	—
Outlays	1,481	118	10	—	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	108	81	65	63	60
Outlays	—	26	108	81	65	63	60

Program Description

Workers whose loss of work is attributed, at least in part, to imports can receive extra unemployment compensation under Trade Adjustment Assistance (TAA). The majority of current recipients are workers in the automobile industry. TAA benefits, equal to the worker's weekly unemployment benefits, are paid to those who have used up all their weeks of unemployment insurance and are still not working. Such workers can receive a total of 52 weeks of unemployment insurance and TAA benefits combined.

TAA funds in the Employment and Training Assistance account also cover those training costs approved by the Secretary of Labor as well as job search and relocation allowances. These benefits, which assist dislocated workers to find new jobs, are commonly called "adjustment" benefits. Workers in approved training may receive up to 26 additional weeks of TAA beyond the 52 weeks of combined unemployment insurance and TAA benefits available to them.

Proposed Change

The Administration proposes to:

- Maintain the adjustment portion of TAA by funding training, job search, and relocation as part of a Federal program for special target groups. (See fact sheet on Training and Employment Programs in Chapter 2.)
- Eliminate all TAA weekly cash benefits effective July 1, 1982, for all but those already enrolled in approved training.

Rationale

- Workers who have lost their jobs through no fault of their own should be treated similarly regardless of the reason for job loss. The regular unemployment insurance program provides adequate benefits for such workers. This is consistent with Administration policy of targeting aid to those most in need.
- Most workers eligible for TAA have taken advantage only of the cash benefits and have not used the training or other adjustment benefits. Of almost 1.3 million workers who received TAA from April 1975 through March 1981, only 38,000, or 3%, entered training; 1.2% completed training; 0.35% took job search aid; and 0.24% received relocation allowances.
- The extra weeks of cash TAA benefits provide disincentives for effective job search by unemployed workers. Research on unemployment insurance indicates that availability of

additional weeks of cash benefits leads workers to remain unemployed for longer periods of time.

- Training, job search, and relocation allowances are better than cash payments in helping displaced workers find new jobs, since such allowances help workers prepare for and move to new work while cash payments tied to unemployment do not.
- The Administration's goal of increased economic growth is best achieved by helping these workers acquire the new skills they need to re-enter the workforce.

Effects of the Proposed Change

This change will reorient the TAA program to emphasize adjustment to changed economic conditions. Training, job search, and relocation benefits which help workers adjust will be maintained. Extra weekly cash unemployment benefits, which provide workers with a disincentive to seek new jobs, will be eliminated.

Redwood Employee Protection Program

AGENCY: Department of Labor

FUNCTIONAL CODE: 603

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	31	12	10	2	—	—	—
Outlays	31	12	10	2	—	—	—
REAGAN BUDGET							
Budget Authority	31	12	5	1	—	—	—
Outlays	31	11	5	1	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	5	1	—	—	—
Outlays	—	1	5	1	—	—	—

Program Description

The Redwood Employee Protection program provides specified rights and benefits for up to six years to an estimated 3,000 workers who have been or are likely to be declared displaced by Federal acquisition of land for the Redwood National Park, pursuant to 1978 amendments to legislation that established the Redwood National Park. Benefits include cash payments to replace fully after-tax wages that would have been paid to Redwood workers if they had not been laid off. The program also includes severance payments, continuation of all rights and benefits under health, other welfare, and pension plans, as well as job search and relocation allowances.

Benefit payments began in September 1978. Through early December 1981, the program had paid $28.4 million in weekly benefits to 2,448 workers and $18.9 million in severance payments to 1,239 workers. Job search allowances totaling less than $20,000 were authorized for 90 workers and relocation allowances totaling $340,000 were authorized for 127 workers. Net weekly benefit amounts have ranged from $150 to $800. Recently the average severance benefit has been $22,000. Net severance benefits have ranged from $5,600 to $54,000.

Proposed Change

Effective July 1, 1982, pay benefits under the program only to those eligible workers directly affected by the expansion of the park who became unemployed on or before December 31, 1978. Other workers in the area who became unemployed after December 31, 1978 and who are still eligible for regular unemployment insurance benefits would continue to receive them but could not collect Redwood benefits.

Rationale

- The Federal benefits were authorized for workers who lost their jobs when the Federal Government acquired land to expand the Redwood National Park. These extraordinary benefits should be limited to those workers directly affected by the land acquisition.
- The proposed change would continue special benefits for workers whose unemployment began as late as December 31, 1978, some nine months after the land acquisition.
- Excessive and inequitable benefits cannot continue to be justified at a time when budget constraints force very sharp targeting of aid on those most in need.

Effects of the Proposed Change

The change would eliminate the extraordinary benefits for workers who first became unemployed nine months or more after the Redwood Park land acquisition. They would be eligible for unemployment insurance under the same rules that apply to other workers who lost their jobs through no fault of their own.

Federal Employee Injury Compensation

AGENCY: Department of Labor FUNCTIONAL CODE: 602

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES*							
Budget Authority	279	345	394	418	472	535	605
Outlays	238	269	394	418	472	535	605
REAGAN BUDGET							
Budget Authority	279	345	336	372	450	511	578
Outlays	238	269	336	372	450	511	578
PROPOSED SAVINGS							
Budget Authority	—	—	58	46	22	24	27
Outlays	—	—	58	46	22	24	27
SAVINGS IN OTHER AGENCIES	—	—	38	80	104	112	119
POSTAL SERVICE SAVINGS	—	—	20	41	54	57	61
TOTAL SAVINGS	—	—	116	167	180	193	207

*After reflecting proposed limit on Federal pay raises.

Program Description

Federal employees injured on the job are paid by the Department of Labor for medical expenses and provided with tax-exempt income replacement of as much as 75% of their former gross salaries if they have dependents. These payments can continue for life. Employing agencies subsequently reimburse the Department for their employees. Employees who file claims that an injury prevents them from reporting for work can continue to receive full pay from their agencies for up to 45 days while the claim is being examined.

Proposed Change

The Administration proposes to:

- Alter the compensation rate for disability from a flat percentage of gross Federal pay to a formula based on 80% of take-home pay.
- Eliminate the 45-day continuation of full pay while claims are being examined; extend the waiting period from three to seven days before compensation can be paid; and permit agencies to advance compensation under the above formula in clear-cut cases while claims are being examined.
- Transfer long-term disabled employees to civil sevice retirement rolls at age 65.
- Provide survivors of employees who die as result of work-related injury the same benefits as those provided to disabled workers.
- Provide the same benefits to all employees for loss of a body member regardless of grade level.
- Limit annual cost-of-living adjustments to the lesser of the annual increase in the pay schedule for most Federal employees (General Schedule) or the Consumer Price Index (CPI).

Rationale

The changes are designed to ensure that Federal workers disabled as a result of their employment return to gainful work as soon as possible. The changes would accomplish this by correcting a number of deficiencies in the structure of the program and by tightening program administration to preclude misuse and assure efficient case processing. The number of claims being submitted for workers' compensation benefits under the Federal Employees' Compensation Act (FECA) has been growing at an alarming pace bearing no relationship to the number of Federal employees or the Government's safety record. The annual number of claims received by this program has grown from 18,000 in 1970 to over 30,000 in 1980. In the same period, Government employment declined and there was no change in the average number of job-related deaths, indicating that the Government's safety record has not deteriorated.

- Relating income replacement to gross salary results in higher paid workers receiving more take-home pay than they receive when they are working. The proposed change to 80% of take-home pay would eliminate this problem. Augmentation of benefits in the case of those with dependents would also be eliminated, since it is both inappropriate for a wage replacement system and unavailable to private sector workers.

- The 45-day continuation of pay has succeeded in ensuring that employees were not left without income while their claims were being processsed. However, full pay is clearly an incentive to take time off for minor injuries beyond that necessary for recovery and has resulted in significant agency costs. The proposed change would authorize agencies to pay the new injury compensation in advance of claim determination provided they have certain medical evidence that shows a serious disability involved.

- Prior to amendments of FECA in 1974 the three-day waiting period was between the onset of the disability and the collection of benefits. The 1974 amendments placed the waiting period at the end of the 45-day continuation of pay period. The proposed change would establish a seven-day waiting period before a claimant receives compensation benefits. This would make the Federal compensation program similar to that in most State workers' compensation systems, which have traditionally used such periods to (1) reduce the number of minor injury cases entering the system and (2) provide disincentives for workers to take time off for minor injuries.

- Workers' compensation programs in theory provide replacement of wages lost due to employment-related injury or illness. However, this loss is no longer present once retirement occurs, and in the case of Federal employees the retirement system is better suited to meet the needs of this period. For example, present FECA recipients have no survivor benefits for nonwork-related deaths, whereas in the retirement program, by taking a reduced annuity, a recipient can have survivor benefits regardless of cause of death.

- Survivors of employees who die as a result of work-related injury are now paid less than disabled workers. This was an oversight in the last amendments to the law.

- Higher-grade Federal employees receive higher additional benefits than lower-grade employees for loss of a body member. There is no economic justification for such a difference, particularly because the basic monthly income payments which vary with grade already compensate for loss of earning power.

- Since injury compensation benefits are adjusted annually by the increase in the CPI, they tend to rise faster than wages paid to Federal employees still working. Tying the benefit adjustment to the lower of the CPI or Federal pay increase will correct this inequity.

Effects of the Proposed Change

These changes will result in the removal of (1) incentives to file questionable claims, (2) disincentives for injured workers to return to work when they are medically able to do so, and (3) inequities in compensation rates which permit higher paid workers to receive more in compensation benefits than they received in take-home pay when working.

- Approximately 50,000 beneficiaries will continue to receive average workers' compensation benefits of about $950 a month.

- Approximately 50,000 beneficiaries will have their benefits reduced on average by $115 per month, primarily because of the new compensation formula.

- Approximately 100,000 claimants will not go on continuation-of-pay.

- Approximately 9,000 beneficiaries will be transferred to the civil service retirement rolls.

Guaranteed Student Loan (GSL)

AGENCY: Foundation for Education Assistance* FUNCTIONAL CODE: 502

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	2,535	3,061	3,397	3,689	4,035	3,877	3,768
Outlays	2,259	3,039	3,313	3,616	3,949	3,916	3,795
REAGAN BUDGET							
Budget Authority	2,535	2,752	2,485	2,516	2,499	2,001	1,521
Outlays	2,259	2,807	2,551	2,508	2,503	2,125	1,641
PROPOSED SAVINGS							
Budget Authority	—	309	912	1,174	1,536	1,876	2,247
Outlays	—	232	762	1,108	1,445	1,791	2,154

*Formerly the Department of Education.

Program Description

The Guaranteed Student Loan (GSL) program was authorized by the Higher Education Act of 1965. The program provides loan guarantees and interest subsidies to States, private lending institutions, and eligible students. Parents and graduate and professional school student borrowers can also finance higher education costs through the less subsidized GSL auxiliary loan program.

Proposed Change

The Higher Education Act would be amended to:

- Increase the "origination fee" charged on new loans from 5% to 10%.
- Apply the need analysis to students at all income levels and limit loans to those students who will qualify after taking into account family contributions and other financial aid (e.g., Pell Grants, G.I. bill).
- Allow graduate and professional students to borrow only under the auxiliary loan program and increase the loan limits under the auxiliary loan program for these students from $3,000 to $8,000 per year and from $15,000 to $40,000 for all years.
- Increase the insurance premiums paid on GSL's to the Federal Government by:
  - — increasing the premium charged lending institutions in the Federally Insured Loan program, which insures 5% of all new loans, from 0.25% to 1.0%; and
  - — initiating a reinsurance premium charged State and private guarantee agencies, which insure 95% of all new loans, equal to 50% of the annual income which these agencies earn from insurance premiums they charge participating lending institutions.
- Limit special allowance interest benefit payments to in-school and deferment periods plus a two-year period following graduation or withdrawal from school (exclusive of deferment periods).

Rationale

The current program provides complete Federal subsidization of interest during a student's postsecondary education and subsidizes any interest above 9% after school completion and deferments. This encourages students to borrow regardless of financial need from their first year in school and can needlessly cause students to amass high levels of debt. These debt levels in turn allow decreased reliance on family savings and student work. Federal expenditures to pay interest subsidy entitlements in this program have increased by over seven-fold between 1977 and 1981, from $331 million to $2.4 billion.

Since 1978 the primary beneficiaries of GSL loans have been middle and upper income families who could afford to invest their own funds, which were "freed up" by the guaranteed loans, or the GSL funds themselves in money market funds and similar savings instruments yielding high returns — in essence making money on their "free" Federal loans at the taxpayers' expense. The effective rate of Federal subsidy of a student loan has been as high as 19%.

Effects of the Proposed Change

- Starting in 1982, only undergraduate students with demonstrated financial need will receive some 2.9 million federally insured loans amounting to about $6.3 billion. In addition, about 943,000 auxiliary loans to parents and to graduate and professional school students will be insured, amounting to some $2.5 billion.
- In 1983, an estimated 2.8 million undergraduate students will receive federally insured loans amounting to about $5.9 billion. In addition, an estimated $1.8 million auxiliary loans totalling about $4.4 billion will be insured.

Civil Service Retirement

AGENCY: Office of Personnel Management

FUNCTIONAL CODE: 600

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	—	32,849	34,262	36,435	38,350	40,005	41,324
Outlays	—	19,436	21,543	23,516	25,386	27,277	29,249
REAGAN BUDGET							
Budget Authority	—	32,849	34,254	36,223	37,873	39,362	40,553
Outlays	—	19,412	21,054	22,417	23,928	25,567	27,339
PROPOSED SAVINGS							
Budget Authority	—	—	8	212	477	642	770
Outlays	—	24	489	1,099	1,458	1,710	1,910

Program Description

Civil Service Retirement (CSR) annuities are protected against inflation by being indexed to the Consumer Price Index. Full CPI adjustments are made each year.

Proposed Change

Cost-of-living adjustments (COLA) would be limited to the lesser of the increase in the CPI or the annual increase in General Schedule pay for Federal employees. Annuitants whose annuity in any given year is 120% or more of the annuity of current retirees with the same grade/step and length of service would not receive a COLA increase. If the annuity is more than 100% but less than 120% the adjustment would be 75% of the COLA increase. Conforming changes will be effected in the other Executive Branch retirement systems.

Rationale

Annuities have been rising much faster than pay. Because annuities of new retirees are usually based on their recent wages, their annuities are much lower than the annuities of those who retired several years ago, even when their service history is identical in length and grade level. Further, Federal workers who retire are treated better than those who stay on the job because their income is given greater protection from inflation.

Effects of the Proposed Change

- To rectify past excessive adjustments, this proposal would hold down future COLA's until annuities of those who retired some time ago are once again in parallel with the annuities of new retirees. The proposal would ensure that annuitants would not receive more in annuity payments than they would receive in salary had they not retired.

- The proposal would remove an incentive for valuable senior personnel to retire.

  — In 1980, 57% of career employees at the pay ceiling who were eligible to retire did so. Only 17% of comparable employees retired in 1978.

  — The number of workers retiring at ages 55 to 59 — relatively early compared to private enterprise — has increased dramatically from 16% of eligibles in 1978 to 75% in 1980.

- The discrepancy between annuities of persons retiring at the same grade-step would be reduced.

- — A person who retired at GS–15/4 in May 1973 recieves $8,868 more a year than a retiree in that grade and step who retired in May 1981.
- — At GS–5/4, a May 1973 retiree receives $2,796 more than a May 1981 retiree.

- Protection of Federal annuities with full (100%) CPI adjustments is a far more generous benefit than that ordinarily provided by the private sector. Non–Federal retirees generally are afforded only partial inflation protection—70% for the majority.

Military Retirement

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	13,840	15,036	16,600	17,922	19,113	20,273	21,457
Outlays	13,729	15,000	16,560	17,880	19,068	20,226	21,407
REAGAN BUDGET							
Budget Authority	13,840	15,036	16,511	17,732	18,856	19,959	21,111
Outlays	13,729	15,000	16,471	17,690	18,811	19,912	21,061
PROPOSED SAVINGS							
Budget Authority	0	0	89	190	257	314	346
Outlays	0	0	89	190	257	314	346

Program Description

Military Retirement annuities are protected against inflation by being indexed to the Consumer Price Index. Full CPI adjustments are made each year.

Proposed Change

Cost-of-living adjustments (COLA) would be limited to the lesser of the increase in the CPI or the annual increase in Basic Pay for military personnel. The objective of the change is to reach a point where people on the retired rolls will not receive higher annuities than those about to retire. Thus, annuitants whose annuity in any given year is 120% or more of the annuity of current retirees with the same rank/grade and length of service would not receive a COLA increase for that year. If the annuity is more than 100%, but less than 120%, the adjustment would be 75% of the COLA increase. These changes would extend to personnel retired from all the uniformed services, including the Coast Guard, the Commissioned Corps of the Public Health Service, and the Commissioned Corps of the National Oceanographic and Atmospheric Administration.

Rationale

With annuities rising so much faster than pay, new military retirees are finding their annuities much lower than the annuities of those who retired several years ago even when their service history is identical.

Protection of Military annuities with full (100%) CPI adjustments is an overly generous benefit compared to the private sector. Non-Federal retirees generally are afforded only partial inflation protection — 70% for the majority.

- 60% of the military retired population receive higher annuities than they would receive if retiring under today's pay scales.
- The difference for many is large — as much as 21% higher for members who retired under the 1973 pay scales.

Effects of the Proposed Change

- The proposal would hold down future COLA's to these annuitants until their annuities are once again drawn into a reasonable relationship with the annuities new retirees are now receiving.
- An incentive would be removed for valuable senior personnel to retire early.

Railroad Retirement and Railroad Unemployment and Sickness Insurance

AGENCY: Railroad Retirement Board FUNCTIONAL CODE: 601

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	4,675	5,121	5,493	5,775	6,069	6,228	6,408
Outlays	5,294	5,328	5,722	6,067	6,334	6,642	6,939
REAGAN BUDGET							
Budget Authority	4,675	5,121	—	—	—	—	—
Outlays	5,294	5,328	—	—	—	—	—
PROPOSED SAVINGS*							
Budget Authority	—	—	5,493	5,775	6,069	6,228	6,408
Outlays	—	—	5,722	6,067	6,334	6,642	6,939

***Rail workers' payroll taxes would be directly credited to the Social Security trust funds and rail retirees' social security benefits would be directly administered by the Social Security Administration. The overall effect of this proposal would reduce the Federal budget deficit as follows:**

1983	1984	1985	1986	1987
-248	-374	-502	-508	-596

Program Description

The Federal Railroad Retirement Board (RRB), located in Chicago with 76 district offices, administers selected fringe benefits for railroad workers and their families:

- Social Security-equivalent benefits, including Medicare;
- "windfall" benefits, wholly subsidized by American taxpayers;
- a multi-employer rail industry pension plan financed by special payroll taxes and exempt from Employee Retirement Income Security Act of 1974 (ERISA) standards;
- special unemployment insurance (UI) compensation, which is directly federally administered and outside the normal State systems; and
- a sickness insurance plan, like others in the private sector which are based on contractual agreements.

The General Accounting Office concluded (GAO Report HRD 81-27, March 9, 1981):

> ". . .the railroad retirement program has evolved from a staff retirement plan to a social security plus private pension plan. . . the purpose and structure of the railroad retirement program have been fundamentally changed since its beginning. . . the Federal Government has helped the program increase benefits and add more categories of beneficiaries by (1) allowing railroad retirement to interface with and receive support from social security, and (2) providing general revenue appropriations to pay for dual (windfall) benefits. Such assistance, and the need for additional revenues to meet future program liabilities, *raise questions as to the Federal Government's role and responsibilities in supporting the railroad retirement program."* (Emphasis added)

Proposed Change

Reorganize RRB, restoring the rail industry's pension to the private sector, and treat rail employees the same as all other private sector employees, providing social insurance through Social Security and regular State UI programs.

Rationale

The Administration reorganization proposal would defederalize railroad retirement. This would restore the rail industry's pension to the private sector, completing a decade of evolution. This would end an inappropriate Federal function and free railroad labor and management from the need to petition Congress to enact legislation to conform the rail pension system to their collectively bargained labor contract. In the future, the rail sector pension plan would operate like other multi-employer private pension plans.

- Retirees' benefits and employees' rights would be unchanged due to the reorganization.
- While restructuring railroad retirement in 1974, both the House and Senate Committees concluded:

> "the Railroad Retirement system is today, in essence, a *company pension program administered, for historical reasons, by the Federal Government*. . . Future changes in (industry pension) benefits will arise out of collective bargaining between railroads and the unions.
>
> Under these circumstances, the character of the Railroad Retirement system differs substantially from other systems having a Trust Fund managed by the Secretary of the Treasury.
>
> The Committee, therefore, feels that the Railroad Retirement Account should be treated similarly to trust funds established for the payment of other private pension plans. . . ". (Emphasis added)

This fall, GAO "recognize(d) that matters involving the benefits and rates, especially for the private pension component, are negotiated through the collective bargaining process." (GAO Report HRD 81-112, September 24, 1981).

- Railroad employees are among the most organized and best represented workers in America; their union leaders currently bargain on an industry-wide basis with railroad operators on pensions, wages, work rules, and health and welfare benefits. Existing Federal laws insure fair bargaining and guarantee needed protections to both railroads and their employees.
- Rail earnings will *average* $31,880 in 1983, placing rail employees among the highest paid workers in America.
- The average rail employee receives 105% or 5% *more* in rail pension income upon retiring than his take home pay according to a Congressional Budget Office (CBO) study (The Railroad Retirement System Benefits and Financing, December 1981).
- Rail pensions are among the richest multi-employer pensions. Railroaders' pensions *exceed* Federal Civil Service or Military Retirement payments for comparable earnings, according to GAO (HRD 79-41, June 8, 1979), and they exceed the pensions available in "the utilities and other transportation industries", according to CBO.
- Federal taxpayers *directly* subsidize railroad retirement — because it combined Social Security and industry pension benefits — by $379 million in 1982. This yearly taxpayer subsidy exceeds $750 per rail employee.
- Rail labor and management collectively bargained sound financing of the rail pension and sought Congressional enactment of their agreement. Historical reasons for Federal involvement in an industry pension have disappeared. The rail sector declared that even under "worst case" assumptions, uninterrupted annuities are assured by the labor and management agreement enacted this summer.
- By ending the inappropriate Federal involvement:
  - — the rail industry's pension will be free to invest outside of Federal debt securities and receive higher returns;

— both the nationwide Social Security system and the industry pension plan could provide better targeted service to beneficiaries;

— the rail industry's pension will no longer be intertwined with Social Security; and

— collectively bargained private pensions would no longer have to contend with the "changing viewpoints — and whims — of both the executive and legislative branches of government", alleviating the concern expressed recently by the head of a major rail union.

Effects of the Proposed Change

- Ending Executive Branch administration of the rail industry pension would:

  — abolish a Federal agency;

  — reduce the Federal deficit by over $0.2 billion starting in 1983, and result in a $0.6 billion deficit reduction by 1987;

  — end an inappropriate Federal function;

  — avoid future raids on the Federal Treasury from this industry pension; and,

  — reduce Federal Government costs as a percent of GNP by 0.1%.

- Individuals would *not* receive lower private pension benefits. They would receive Social Security and Medicare benefits directly from the Social Security Administration and the Health Care Financing Administration. And, a few individuals now *denied* benefits under the railroad pension plan would receive payments from Social Security.

- Rail workers would become eligible for higher unemployment benefits typically available under the State unemployment insurance systems.

- Social Security, in a unique arrangement, has contributed $18 billion to railroad retirement since 1951; annually, Social Security pays over $1.6 billion to railroad retirement for social security equivalent benefits. This transfer would end as Social Security would directly administer Social Security benefits for retired rail workers and their familes.

- Railroad retirement assets — $3.6 billion — would be transferred to the new, private rail industry pension corporation. These reserves would help assure the financial integrity of the rail industry's pension plan and could be invested in non-Federal securities.

Veterans Disability Compensation

AGENCY: Veterans Administration (VA) FUNCTIONAL CODE: 701

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	8.530	9.604	10.293	11.100	11.675	12.272	12.820
Outlays	8,426	9.488	10.316	11.039	11.627	12.222	12.774
REAGAN BUDGET							
Budget Authority	8.530	9.604	10.146	10.668	11.227	11.799	12.318
Outlays	8.426	9.487	10.170	10.607	11.179	11.749	12.272
PROPOSED SAVINGS							
Budget Authority	—	—	147	432	448	473	502
Outlays	—	1	146	432	448	473	502

Program Description

Compensation is payable to veterans and their survivors based on disabilities incurred in or aggravated by active military service, death while on active duty, or death resulting from service-connected disabilities. Beneficiaries are rated 10% to 100% disabled on the basis of average earnings impairment for any particular disability, with benefit payments ranging from $54 to $1,016 per month on that basis. Benefits to survivors are based on the military grade of the veteran at the time of discharge or death. Total beneficiaries are expected to increase from 2,632,000 in 1981 to 2,638,000 in 1982 and to 2,644,000 in 1983. Large annual funding increases are caused primarily by annual cost-of-living increases.

Proposed Change

Eliminate the current provision of law which provides payment at the 100% rate to veterans who are rated between 60% and 90% disabled and who are judged to be "unemployable," even though they also receive Social Security, SSI, or Federal retirement benefits.

Dependents allowances would be restricted to veterans rated 50% or more disabled. Prior to 1978 only veterans rated 50% or more disabled received allowances for their dependents. In 1978, legislation was enacted extending dependents allowances to veterans with 30% and 40% disabilities.

Rationale

- Receipt of other Federal disability or retirement benefits is evidence that these veterans receiving VA "unemployability" payments either do not have the intent or do not have the capability of re-entering the labor market.

- The second proposal would reduce compensation benefits to a large number of veterans with relatively minor disabilities such as flat feet, severe chronic laryngitis, severe convulsive tic, or a moderate ulcer. This would restore the emphasis of this program to aiding those veterans most in need whose service-related disabilities clearly and substantially restrict their employment opportunities.

Effects of the Proposed Change

- About 54,000 veterans who are rated between 60% and 90% disabled, and currently receive "unemployability" compensation, would receive a reduction of benefits averaging $5,212 per year, or 35%.

- 320,000 disabled veterans rated less than 50% disabled would receive an average of $423 per year less in dependents benefits.

Veterans Pensions

AGENCY: Veterans Administration (VA) FUNCTIONAL CODE: 701

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	3,794	4,048	3,981	4,181	4,290	4,424	4,577
Outlays	3,755	3,940	4,077	4,166	4,271	4,404	4,554
REAGAN BUDGET							
Budget Authority	3,794	4,048	3,915	4,121	4,233	4,368	4,520
Outlays	3,755	3,940	4,015	4,106	4,213	4,347	4,497
PROPOSED SAVINGS							
Budget Authority	—	—	66	60	57	56	57
Outlays	—	—	62	60	58	57	57

Program Description

A pension is payable to wartime veterans or their survivors on the basis of need and disabilities that are considered permanent and total. The program provides income for basic needs of eligible veterans or their survivors. The number of beneficiaries is expected to decrease slightly from 1,953,000 in 1981 to 1,846,000 in 1982 to 1,763,000 in 1983 as WWI and WWII veteran populations decrease. Survivors are defined to include adult students up to the age of 23.

Proposed Change

Legislation is proposed to provide benefit payments for dependent students in secondary schools only up to the age of 19. Students beyond secondary school would not receive benefits past the age of 18.

Rationale

- Providing aid to adult students to attend postsecondary educational institutions is inappropriate to the primary mission of the program — income protection for veterans and survivors. A wide variety of Federal and non-Federal higher education financial assistance programs is already available to aid such students.
- This benefit is not related to education costs, proficiency in school, or the ability to meet educational expenses.
- This legislation makes VA's pension allowance for adult students consistent with a similar Social Security allowance.

Effects of the Proposed Change

About 105,000 students will lose benefits averaging about $290 per year.

DISCRETIONARY SPENDING

CHAPTER 4
DISCRETIONARY SPENDING

$14.2 billion or 25% of the President's proposed 1983 budget savings come from non-defense discretionary programs — those programs that are subject to Congressional appropriations or discretionary actions.

The reductions in the discretionary programs are desirable and necessary for two reasons:

- Much inappropriate or unnecessary Federal spending occurs within the discretionary programs. (Entitlement spending, which also contains much inappropriate spending, is discussed in Chapter 3.) Discretionary programs finance:
  - — unwarranted subsidies to businesses and individuals;
  - — spending that is more appropriate to State and local governments;
  - — unnecessary public sector capital improvement projects; and
  - — peripheral or lower priority programs.
- Since discretionary programs are generally subject to appropriations actions, changes can be made quickly and in large increments. This is especially important because so much of the budget is extremely difficult to change within a short period of time. For example:
  - — Social Security, funded in great part by permanent budget authority, will lead to outlays of $173.5 billion or 22.9% of 1983 outlays.
  - — Government-wide outlays from budget authority provided in previous years will account for $125.7 billion in 1983 outlays or 16.6% of total outlays. .
  - — Net interest payments are estimated to be $96.4 billion or 12.7% of 1983 outlays.

Criteria for Change

Since the common element in discretionary spending programs is the appropriation form, there is a tremendous diversity within the category, ranging from subsidized housing to space missions, and from aid to local school districts to subsidies for ocean-going vessels. The changes proposed, however, are based on one or more of the following principles:

- Eliminate unwarranted subsidies;
- Reduce lower priority spending programs;
- Invest in high risk, high pay-off, long term research and development only where appropriate to National needs;
- Reduce the Federal role in programs that are more appropriately administered by State and local governments (see Chapter 2).
- Provide a free-market approach, through the enterprise zone concept, to encourage jobs and revitalization in depressed inner city areas.

Unwarranted Subsidies

The Federal government uses direct spending subsidies — as with other forms of subsidies — to alter the market's allocation of resources. In some instance, subsidies can be useful tools for advancing the public interest. But in many cases they have resulted in unwarranted and unproductive transfers to businesses, State and local governments, or individuals.

Subsidies to Business

The President has proposed a number of reductions in programs that are simply transfers or assistance to private, profit-seeking industries or enterprises.

- The Federal Government would make no additional commitments to provide operating differential subsidies to U.S. merchant ship operators to offset the higher operating costs (primarily wages) of vessels that sail under the U.S.-flag.
- Federal purchases of railroad preferred stock to finance specific improvements would cease in 1983, as would loan guarantee commitments for the same purpose.
- The operation of the Transportation Test Center, a rail R&D facility, would be transferred to the railroad industry, with no 1983 funding.
- Federal financing of the 30 year old brucellosis control program would be phased out by 1985. Brucellosis, a bacterial disease that causes infertility and spontaneous abortion in cattle and swine breeding stock and reduced milk productivity in dairy animals, can and should be taken care of by livestock and dairy owners.
- The Federal Government will cease direct subsidies for the commercial introduction of energy technologies (e.g., high temperature turbines) where the private sector has incentives to invest.
- Grants, loans and loan guarantees offered to private businesses through the Economic Development Administration and the Trade Adjustment Assistance Program would be discontinued. There is little evidence that the billions provided in the past have induced development or economic expansion in depressed areas that would not have occurred there or elsewhere without this investment. In fact, the Economic Development Program has been so expanded that over 80% of the nation qualifies for assistance.
- CONRAIL would receive no operating assistance in 1983 or future years.
- The Health Maintenance Organization Program would cease to offer new grants and loans for the establishment and expansion of HMOs. After 9 years, the feasibility of HMOs has been adequately demonstrated and the market system can now better determine the value that people place on HMO services.

Subsidies to State and Local Governments

The Federal Government also provides a variety of subsidies to State and local governments. Since the Federal Government pays for a portion or all of the service, State and local governments often offer or accept services that are inappropriate or unnecessary.

- Operating assistance for mass transit systems would be phased out by 1985. Since the benefits of mass transit are local, mass transit is primarily a State and local responsibility.
- The President proposes to reduce the Federal subsidy to AMTRAK and require the States, labor, and passengers to share the cost of maintaining rail passenger service. States benefitting from AMTRAK service pay less than 1% of AMTRAK's total costs.
- Federal funding for the Appalachian Regional Commission and non-highway programs and access roads will be terminated at the end of 1982. The Appalachian Development Highway System (ADHS) would be phased out and funded at a level sufficient to complete on-going construction projects and to repay States that used their own funds in anticipation of later reimbursement. High priority projects in the States will also be funded in an effort to assure a minimum allocation to each State during the phaseout. The ADHS will be included in the Federal Highway Trust Fund in 1983.

Subsidies to Individuals

The Federal Government offers a number of subsidies to individuals. Much like entitlement programs, the discretionary subsidies have both expanded beyond the proper target population and have often run counter to the forces of the market system, rather than using the market to further the program goals.

- The Administration proposes to redirect low-income housing assistance away from high-cost newly constructed housing towards a system of subsidies that would encourage recipients to choose their own housing units.
- The Pell Grant program would be more tightly focused on low-income students. The amount of discretionary income that families must contribute would be increased. Grants would be provided to 1.8 million students.
- Health professions education assistance will be eliminated for many medical specialties. There is very strong evidence that even with decreased Federal support health professions enrollment will remain at its current level.
- Federal fee awards to attorneys would be restricted, and fee caps would be placed on all such awards, other than those authorized under the Equal Access to Justice Act to small businesses that are subject to an overreaching Federal Government.

Lower Priority Spending

The President has also proposed a number of reductions in lower priority programs: those programs that produce benefits of little or questionable value. Often the reductions are accompanied by program reforms that would improve efficiency or more clearly target Federal resources to areas in which significant returns can be attained.

For instance:

- National Park land acquisition would be restricted and no funding would be proposed for State Historic Preservation, Urban Parks, and Land and Water Conservation Fund State grants. However, the Administration believes that existing National Park System facilities are badly in need of repair, and therefore restoration is a higher priority. A $525 million multi-year initiative for park improvement is proposed again in 1983 in lieu of land acquisitions and grants.
- State Environmental grant funding would be reduced 19% in 1983, due to specific Environmental Protection Agency actions to improve program efficiency and reduce State overhead and staff requirements.
- Soil and Water Conservation funding would be significantly reduced because more of conservation costs should be borne by private landowners who benefit. The President proposes to initiate a matching grant program to induce State and local governments to take a greater role in managing the conservation program.
- The National Oceanic and Atmospheric Administration (NOAA) would achieve considerable economies by closing low priority weather stations, operating only one polar satellite, deferring lower priority R&D, and stretching out marine boundary survey research activities. There are also a variety of subsidies to State and local governments which are being phased out.
- Fish and Wildlife Services would close or transfer to States those fish hatcheries that produce fish for sports fishing within State waters. At the same time, hatcheries of national significance, the National Wildlife Refuge System, and grants to States would receive increased funding.

Investment in Research and Development

The Federal Government invests in research and development to meet direct Federal needs, such as defense, and to assist in meeting national needs. The Reagan Administration believes that the market system generally provides private enterprise with sufficient incentives to undertake research and development to meet "national needs." However, due to the absence of a market incentive for profit seekers to invest adequately in basic research and in long-term, high-risk R&D with a potential high payoff to the Nation, there is a role for the Federal Government in these areas. Although such Federally supported R&D is usually far removed from immediate and visible public benefit, its importance to the economy, over the long term makes this Federal investment a relatively high priority endeavor.

Exemplifying this strategy, the 1983 budget:

- Provides for real growth of about 2% over 1982 in National Science Foundation support of research — largely basic — in the natural sciences and engineering.
- Proposes funds for the National Aeronautics and Space Administration funds to:
  - — further develop the Shuttle-based transportation system, and
  - — continue support for space science and long-term research in space applications and aeronautics.
- Continues a strong nuclear program
  - — continuing construction of the Clinch River Breeder Reactor demonstration, and
  - — emphasizing research in fusion,.

Other Programs

Other discretionary programs included in the 1983 budget are:

- An enterprise zone program
- Maintenance of program levels for minority business assistance, to encourage private sector opportunities and Federal procurement opportunities for minority business firms
- Maintenance of funding for the Community Development Block Grant Program and the Urban Development Action grant program
- An improved savings bond program that links rates to be paid to market rates, providing small savers with the opportunity to earn market-related rates on bonds purchased.

REDUCING SUBSIDIES

Brucellosis Control

AGENCY: Department of Agriculture FUNCTIONAL CODE: 352

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	90	91	60	26	6	6	6	—	31
OUTLAYS	87	92	60	26	6	6	6	—	32

Program Description

Brucellosis is a bacterial disease that causes infertility and abortion in breeding stock and reduces milk productivity in dairy animals.

The brucellosis program consists of testing for the disease at markets, dairies, and slaughter plants; tracing disease back to herd origin and testing area herds for additional infection; quarantining of infected herds; requiring the slaughter of infected animals and paying the owners indemnities; and vaccinating uninfected calves and adult animals. States are required to contribute 40% of program costs.

The program is aimed at eradication of the disease by the year 2000 at a combined Federal–State–producer cost of $1.1 billion (in 1981 dollars).

Proposed Change

The federally financed "eradication" program will be ended. Surveillance for disease and technical assistance to producers will be continued.

Rationale

- The brucellosis control program is a subsidy to beef and dairy producers for what otherwise would be a normal management practice.
- Federal costs for the program are nearly triple the annual production loss of $34 million.
- Producers who practice good herd management are penalized by the current program:
  - — breeding animals cannot be shipped outside the quarantined areas without being tested.
  - — immunized animals that erroneously test positive for brucellosis must either be sent to slaughter or retested to prove absence of disease.
- Eradication may not be realistically achievable:
  - — wild animals carry the disease.
  - — disease can be easily reintroduced and spread.
  - — The incidence of disease has only been reduced to 0.42% from 1.2% in 1960 although $690 million was spent between 1960 and 1981.
- Over the next twenty years, this change will save over a half billion dollars for the Federal Government and an additional $200 million for States and producers.

Effects of the Proposed Change

The program change will:

- Increase producer responsibility for vaccination of their own herds and for selective purchasing of breeding stock.

- Eliminate unnecessary costs associated with retesting animals whose immunity (i.e., circulating antibodies) erroneously indicates disease is present on preliminary testing. If retesting is not done, the animals (often expensive breeding animals) are condemned to slaughter.

- Eliminate an unwarranted intrusion of Federal Government into the operation of private businesses — in this case dairy and beef production.

- Provide the impetus for a major reexamination of Animal and Plant Health Inspection Service programs during the coming year to assure continued provision of adequate protection against high priority animal disease and plant pest problems in the future.

- Economic loss from the disease is expected to rise somewhat but should level off and begin dropping sharply as more producers manage the disease through increased vaccination and selective purchasing of breeding stock.

Economic Development Administration and Trade Adjustment Assistance Program

AGENCY: Department of Commerce FUNCTIONAL CODE: 452

Funding

	($ in millions)							Savings From Current Services	
	1981	1982*	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	476	251	15	10	8	6	4	0	237
OUTLAYS	619	506	301	187	90	13	-18	0	53

* The President's budget requested $44 million for EDA and $28 million for TAA in 1982. The second Continuing Resolution for FY 1982 added $180M in budget authority for EDA.

Program Description

The Economic Development Administration (EDA) provides grants, loans, and loan guarantees to assist economically distressed areas and to help localities adjust to economic disruptions such as those caused by the closing of a major company or government installation. Under the Trade Act, the International Trade Administration (ITA) provides Trade Adjustment Assistance (TAA) grants, loans, and loan guarantees to firms adversely affected by imports from foreign countries.

The Fact Sheet entitled "Trade Adjustment Assistance Weekly Cash Benefits" (Department of Labor) deals with TAA for workers.

Proposed Change

As part of its policy of placing greater emphasis on the private sector and transferring primary responsibility for administering community and economic development assistance to States and local governments, the Administration proposed, in March 1981, termination of EDA at the end of 1981. However, to provide for a more gradual phase-out of EDA programs and for a longer adjustment period prior to termination, funds have been made available to continue EDA programs through 1982.

The Administration now proposes to terminate EDA at the end of 1982. In 1983, funding will be provided solely for close-out costs. TAA is also proposed for termination at the end of 1982.

Rationale

- Economic expansion and job creation will be stimulated through the President's overall economic recovery program, which includes general tax, spending, and regulatory reduction measures. By 1986, the President's program is expected to create millions of new jobs. Improvement in overall economic conditions offers more hope to distressed areas than do the programs to be terminated. Furthermore, States and their localities will continue to receive Federal assistance for economic development through block grant programs that distribute Federal funds more efficiently and provide for more local discretion.

- The original purpose of EDA was to provide special financial assistance to those few economically distressed areas of the country that were by-passed by general prosperity. The program has evolved to the point where over 80 percent of the nation qualifies as a distressed area. In fact, even when an area has experienced economic recovery, it still continues to be eligible for EDA funds by law.

- There is little evidence that the expenditures from these programs have induced development in distressed areas that would not have occurred either there or elsewhere without this investment.

- There is no evidence that the programs being terminated have created new jobs nation-wide. Rather, such programs appear primarily to encourage potential growth in some areas at the expense of other areas. Similarly, the Government does not create net new jobs in the economy by moving productive resources from the private sector to the public sector.
- The programs being terminated tend to lock people and resources into firms and areas that have lost their economic viability. The nation pays for this subsidization of inefficiency through direct budgetary costs and hidden costs of decreased productivity and economic growth. Our economic system generates prosperity and high living standards through a process of continual economic change.
- Trade Adjustment Assistance to firms has a high default rate since most of the firms assisted are close to bankruptcy. As of June 30, 1981, 30 percent of the TAA portfolio was delinquent in meeting payments and another 33 percent was in the process of liquidation.

Effects of the Proposed Change

- Because EDA programs often substitute Federal resources for expenditures that would have been made for industrial parks, community centers, etc. by the private sector or the local public sector in distressed areas or elsewhere, the impact overall of terminating the programs will be minor.
- Only about 65 firms per year have benefitted from TAA loans and loan guarantees. A significant portion of these firms has failed to adjust to import competition. Thus, the impact of abolishing this program will be relatively minor.
- Funds for State and local community and economic development programs will continue to be available in 1983 through the Urban Development Action Grant program ($0.4 billion) and the flexible Community Development Block Grant program ($3.5 billion) which distributes Federal funds more efficiently than EDA. Likewise, specialized assistance for rural areas will continue to be available through the Farmers Home Administration.
- Job creation and revitalization of highly distressed urban areas will be stimulated by the President's urban enterprise zone initiative which is based on a reduction of tax and regulatory burdens.

Non-Nuclear Energy Research and Development

AGENCY: Department of Commerce FUNCTIONAL CODE: 271

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	2,292	1,026	376	331	323	327	351	0	892
OUTLAYS	2,239	1,749	666	425	355	340	364	0	811

Program Description

The non-nuclear R&D programs (in the existing Department of Energy) provide support to the private sector for developing new technologies using fossil fuels, solar and geothermal energy; for energy conservation research; for developing new methods of electricity transmission and energy storage; and for supporting energy related health and environmental effects research.

Proposed Change

- These programs would be transferred to a new Energy Research and Technology Administration in the Department of Commerce as a result of the proposed dismantling of the Department of Energy.
- Subsidies to accelerate commercial introduction of advanced technologies (e.g., high temperature turbines) would be discontinued.
- Long term generic and technology base research (e.g., materials and catalysis research and instrumentation) and environmental research would continue to be supported. Operation of unique Government experimental facilities and certain pilot plant and test facilities would also continue.

The following table summarizes funding for non-nuclear energy R&D by major program.

	Budget Authority (in Million $)		
	1981	**1982**	**1983**
Fossil	994	417	107
Solar	524	208	72
Geothermal	156	63	10
Conservation	279	81	18
Environment	227	223	169
Electric Systems/Storage	112	34	0
Total Non Nuclear Energy R&D	2,292	1,026	376

Rationale

- The practice of giving Government subsidies to business in order to accelerate technology development was originated in the 1970's during a period of Government controls on oil markets.
- Energy industries are already making significant investments in energy technology development and are able to make the necessary market-related decisions on funding the

360-900 0 - 82 - 4

further efficient development of new economical products and processes. With the decontrol of oil and new tax provisions, the pace of development of new technologies by the private sector should accelerate.

- In some cases, e.g. coal gasification, the introduction of commercial processes is not technologically constrained but is rather dependent on favorable economic conditions, so it makes little sense to continue Government R&D on further technology development.

- The Government can perform an important role in support of private sector technology development by focusing Federal funding on technology base research with widespread application (e.g. materials research or understanding the mechanisms of catalysis) rather than subsidizing the development of company-specific processes (e.g., in coal liquifaction). Industry can then take Government research findings and apply them to the development and demonstration of specific new products or processses

Effects of the Proposed Change

Adoption of these policy and program changes in Federal support of non-nuclear technology development would save the taxpayer over $1 billion in outlays in 1983.

The FY 1983 budget reductions will not have a significant effect on the overall national energy R&D effort. For example, based on the latest NSF survey of private R&D activity:

- Total Government funding for fossil R&D in 1980 amounted to 14% of total industry spending.

- Private sector spending for energy R&D in 1980 was up by 18% over 1979. Lower inflation and more favorable tax changes (including a new 25% tax credit for certain incremental R&D investments) should spur further increases in the future.

In general, the reductions in direct Federal R&D spending will result in further refinement of Federal programs toward basic and other long-term research. The specific effects in each technology area are noted below.

- In fossil energy, Federal support for improving or accelerating development of specific new synthetic fuels technologies, new mining equipment, etc. would be ended. Research would continue on instrumentation, environmental effects and generic research such as coal chemistry and catalysis all of which can provide important new information and lead to development by industry of new and improved technologies.

- In solar energy, Federal funding of the development of advanced hardware (e.g., active solar cooling systems) and operation of component test facilities would be phased out in favor of growing industry support. The solar program would be restructured to focus on basic, generic research activities (e.g., materials science, photobiology). Support for operation of the Barstow solar thermal pilot plant would continue while preparations are made for transferring support for this facility to the private sector.

- In geothermal, federally supported research would continue on high potential areas such as geochemistry and energy conversion work associated with the most abundant yet undeveloped lower temperature geothermal resource base.

- In electric energy system and energy storage, all remaining federally funded research activities would be phased out since they are largely of an applied nature. Generic research related to these activities will be funded through other programs.

- Environmental research would be maintained (except for process-specific studies) to assist the Government in carrying out its environmental regulatory responsibilities, particularly in fossil energy.

- The Federal Government would continue to operate experimental facilities with unique capabilities and would continue support for pilot-scale and other technology test facilities that are cost effective (e.g., where project completion costs are less than termination costs).

Health Professions Education

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 553

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	232	165	117	117	117	117	117	—	59
OUTLAYS	302	232	184	148	124	121	119	—	5

Program Description

The Department of Health and Human Services supports 21 project and formula grant training programs for institutions and students aimed at increasing the supply of health professionals, primarily physicians, dentists, and nurses.

Proposed Change

As part of its plans for better targeting of the allocation of Federal funds, the Administration has proposed to refocus Federal aid on a limited number of national priority medical specialities, rather than providing large subsidies for all specialities. The Congress has agreed to this redirection in the Reconciliation process by eliminating capitation entitlement grants to health professions schools. Large subsidies for all specialties are no longer necessary in light of the growing projected supply of most health professionals. In 1983, support will thus be focused on training in nonphysician specialties such as physicians assistants and nursing occupations, where additional support and improvement are warranted and where manpower utilization can be more effective. The Administration will request funding in 1983 for a $117 million grant program for high priority health professions training. As part of this program, the Administration will continue support at $17 million for assistance programs to encourage minorities, who are now under-represented in health professions fields, to choose health careers.

Rationale

- Federal subsidy of physician education is particularly inappropriate in view of the projected surpluses, high physician earnings potential and generally low tuition levels. Average medical school tuition in 1980 was about $3,000, and was only $1,600 for the two-thirds of students enrolled in public schools in their own States.
- The number of active physicians alone is expected to reach nearly 600,000 by 1990, an increase of 58% between 1975 and 1990.
- The ratio of physicians per 100,000 population is projected to rise from 173 per 100,000 to 239 per 100,000 in the same period.
- During the 1960's and the 1970's the supply of health professionals increased dramatically, partly as a result of Federal subsidies of about $18 billion. During the 1970's, the annual number of graduates from medical schools doubled from 8,000 to nearly 16,000.
- Recent national surveys have demonstrated that the Nation today has reached or will exceed the estimated required level of health professionals for almost every major specialty.

Effects of the Proposed Change

- There will be no effect on supply excess for most health professionals. There are three times as many qualified applicants as there are spaces available in health professions schools, indicating that, even with decreased Federal support, health professions enrollment will likely remain at its high current level.
- Nurse training will continue to be supported through nursing special projects as opposed to general support since the total supply of nurses appears to be adequate but too many qualified nurses have chosen other professions or are being utilized in nonpatient care positions.

Health Maintenance Organizations

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	20	4	7	—	—	—	—	18	—
OUTLAYS	34	21	16	—	—	—	—	16	7

Program Description

The Health Maintenance Organization (HMO) program provides grants and loans for the establishment or expansion of HMOs. Loans may also be awarded for construction of ambulatory care facilities. HMOs provide specific health services to their members in return for a prepaid, fixed payment. HMOs are an alternative to the traditional health care delivery system, which provides health care on a fee-for-service basis.

Proposed Change

As part of the effort to eliminate unnecessary Federal subsidies, the Administration proposes to phase out the Federal grant and loan subsidy program to HMOs by the end of 1983. Legislation will be proposed to carry out this policy. In 1982, Congress has agreed to funding levels consistent with the Administration proposals.

Rationale

- The feasibility of HMO prepaid health care delivery has been adequately demonstrated after 9 years of Federal support. HMOs can be financially self-supporting. In recent years, substantial amounts of private capital have gone into HMO development. There are now 253 HMOs with 10.3 million members located in every urban area with a population greater than 1 million, and affiliated with 15% of the Nation's physicians.
- A major impediment to private capital for HMO development has been the unnecessarily restrictive requirements for Federal qualification found in the Health Maintenance Organizations Act. In fact, restrictive benefit requirements and organizational standards have priced their benefit packages out of the market and been a leading source of defaults among small, federally supported HMOs. The Omnibus Budget Reconciliation Act of 1981 modified certain of these restrictive requirements by allowing HMOs to set different payment rates by community group.
- The current subsidy program focuses on entities that could not obtain private financing because of their high risk, and continues to impose extensive, costly benefit packages and other conditions that inhibit their competitiveness. As a result, defaults on unsecured loans for HMO operating deficits and required interest subsidy payments will exhaust the $35 million HMO loan revolving fund by the end of 1982. The exhaustion of the revolving fund could require future appropriations of up to $100 million to cover contingent liabilities even without awarding any new loans. An additional 1982 supplemental request may be required for defaults that cannot be covered by the HMO loan fund.
- Once HMOs are no longer required to meet restrictive Federal requirements for organization, services and financing, private capital should be more available for HMO development, obviating the need for further subsidies.

Effects of the Proposed Change

- The phaseout of the Federal grant and loan program should have no significant effect on development of economically viable HMOs, which can be funded through private sources. Corporations supporting HMO development or enrollment include R. J. Reynolds, General Motors, IBM, Xerox, Blue Cross/Blue Shield, U.S. Steel, Sears, General Foods, General Mills, Ford, Chrysler, Kaiser, and Prudential.

- Competitive HMOs will be more effectively encouraged through the health financing reform proposals that the Administration is developing for later submission than through grants and loan subsidies.

Federal Subsidy for Saint Elizabeths Hospital

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	99	95	68	55	42	35	28	—	—
OUTLAYS	99	96	70	56	43	36	29	—	—

Program Description

In 1855, Congress established a Government Hospital for the Insane on the "Saint Elizabeths tract" in southeast Washington to provide mental health services to D.C. residents and certain Federal beneficiaries. During the Civil War, the hospital was used to treat amputees who, reluctant to be treated in a mental institution, referred to the facility as Saint Elizabeths Hospital (SEH). Like the recently repealed 1798 entitlement to free care for merchant seamen, SEH entitlements to nationally subsidized care are based on needs of an earlier era, and a Federal role prior to the development of D.C. home rule.

The role of SEH (and other mental institutions and hospitals) began to change in the 1950's and 1960's, with the development of effective drug treatment of mental illness and the growing use of community-based mental health services. SEH now serves approximately 1,975 inpatients (more than 85% of whom are D.C. residents) and outpatient services are provided without charge to about 3,400 D.C. residents.

The availability of beds at SEH and the willingness of the Federal Government to subsidize the cost of care there have been incentives to inappropriate institutionalization of large numbers of D.C. residents. The U.S. District Court in D.C. recognized this in 1975 and ordered the Federal and District governments to provide mental health care in less restrictive settings for several classes of SEH patients. Despite community outplacement of several hundred SEH patients since that date, surveys of patient care needs indicate that up to half of the inpatients currently at SEH should be in less restrictive community settings.

Proposed Changes

- In compliance with the court order and to facilitate appropriate mental health treatment, the Administration is proposing to increase efforts and incentives to place in alternative community facilities the classes of SEH inpatients for whom the court has determined less restrictive care is appropriate.
- In addition, to phase down the Federal subsidies of D.C. mental health care, the Administration will seek partial reimbursement by the District of Columbia and full payment from Federal agencies for the cost of care provided at SEH to individuals for whom they are responsible.

Rationale

In the last fifteen years SEH costs have increased dramatically—despite a two-thirds reduction in the inpatient census—and these costs have been shifted increasingly from the District to the Federal Government, as displayed below:

	($ in millions)	
	1965	1981
Inpatients	6,148	2,040
Outpatients	1,437	3,250
Operating cost	$29	$124
Federal subsidy	$10	$99
Percentage Federal subsidy	33%	80%

Effects of the Proposed Changes

- Implementation of the court order would be accelerated, as a result of increased financial and administrative incentives for SEH and D.C. to locate alternative care beds and actively carry out court directives.
- Many patients would receive more appropriate care in less restrictive, less expensive environments.
- Direct Federal subsidies for D.C. residents would be reduced, consistent with the more limited Federal support other States receive.
- D.C. would have increased responsibility for and control over mental health services delivered to D.C. residents, consistent with home rule and federalism, while the Federal role in delivering community services would be reduced.

HUD Subsidized Housing Overview

AGENCY: Department of Housing and Urban Development FUNCTIONAL CODE: 604

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	24,840	16,367	17,313	18,192	19,061	19,933	20,824
Outlays	5,747	6,775	7,852	8,768	9,658	10,582	11,500
REAGAN BUDGET							
Budget Authority	24,840	5,217	-5,221	-3,478	890	-1,627	1,728
Outlays	5,747	6,726	7,352	7,831	8,401	8,867	9,205
PROPOSED SAVINGS							
Budget Authority	—	11,150	22,534	21,670	18,171	21,560	19,096
Outlays	—	49	500	937	1,257	1,715	2,295
DETAILS OF SAVINGS							
1. Modified Section 8 Housing Certificate Program							
Budget Authority	—	—	6,100	4,470	5,419	8,152	5,199
Outlays	—	—	32	2	-35	-74	-146
2. Subsidized Housing: New Production*							
Budget Authority	—	9,400	14,989	14,810	14,049	14,661	15,106
Outlays	—	10	34	283	685	1,299	2,036
3. Subsidized Housing: Tenant Rent Contribution							
Budget Authority	—	—	—	—	—	—	—
Outlays	—	19	311	442	363	298	277
4. Rent Supplement and Rental Assistance Payment Programs							
Budget Authority	—	1,750	1,445	2,390	-1,297	-1,253	-1,209
Outlays	—	20	123	210	244	192	128

*Except for Section 8 subsidy for Sectin 202 financed housing for the elderly and handicapped.

The Department of Housing and Urban Development currently administers several programs that assist low-income individuals in meeting the cost of renting adequate housing. Under these programs, the Federal Government has entered into long-term (15 to 40 year) contracts with private landlords or local housing authorities to subsidize the rents for eligible low-income households. The recently enacted Omnibus Budget Reconciliation Act of 1981 limited the amount of rent that eligible low-income tenants can pay to 30% of their adjusted income. (Most current tenants now pay 26% of their income for rent and this percentage will be increased gradually to 30% by 1986).

Each of the major HUD subsidy programs are described briefly below. Although the specific subsidy mechanisms differ substantially, they suffer some common defects:

- All involve long-term subsidy commitments that result in uncontrollable budget outlay increases for many years;
- Because the tenant's rent contributions are capped by law, any unanticipated cost increases are borne solely by the Federal Government;
- Eligible households are restricted in their choice of housing since many of the subsidies are tied to specific rental units; and
- The per unit subsidy costs, especially for the newly-constructed units, have increased at unacceptably high rates.

The Administration's 1983 proposed reforms for the subsidized housing programs address each of these serious defects.

Public Housing

The Public Housing program houses 1,204,000 families renting units owned and operated by local public housing agencies (PHA's). HUD supports the construction of this low-income public housing by making annual payments to PHA's to amortize their long-term tax exempt debt issued to finance these projects. The Government also spends over $1 billion annually to assist PHA's in meeting the high cost of operating their projects.

In addition to being very expensive to construct and maintain, public housing has, in the past, resulted in excessive concentrations of low-income households in particular neighborhoods. Adverse social side-effects have arisen where concentration has occurred. For these reasons, the Administration is proposing that no additional public housing units be funded.

Section 8 Existing Housing Program

HUD currently provides subsidies to 844,000 households living in private market rental housing that rents for amounts below a certain established level and meets certain housing quality standards. Actual rents are limited to a maximum "fair market rent" level established and revised annually for the area by HUD. Fair market rents for Section 8 housing have exceeded the rents for comparable units in the private market.

The Administration is proposing to reform this program by deregulating the rent level of qualifying units and allowing eligible tenants to use the subsidy to select for themselves any standard quality rental unit they choose.

Section 8 New Construction Program

HUD provides assistance to 475,000 households living in privately owned, newly-constructed and rehabilitated rental housing. Under this program, HUD makes commitments to housing developers to pay "fair market" rents for these units for 20 to 40 years if the landlord agrees to rent to eligible low-income tenants.

The Section 8 New Construction program is very expensive — subsidies will average nearly $4,000 per family in 1983. Given the austere budget environment, the Administration has proposed shifting resources away from the "deep subsidy" new construction program to the more efficient Modified Section 8 Housing Certificate program.

Rent Supplement and Rental Assistance Payments

The Rent Supplement and Rental Assistance Payments (RAP) programs provide assistance to 207,000 low-income tenants living in privately-owned housing. Both programs pay apartment project owners the difference between the tenant rent contribution and market rent, although subsidies in the Rent Supplement program are limited to no more than 70% of market rent. No mechanism was provided in the authorizing language of either program that would fund increased subsidies required because of higher operating costs. Deobligations from the Rent Supplemental and Section 236 Rental Housing Assistance programs, and other sources used in the past to provide increases for Rent Supplement and RAP subsidies are no longer available.

The Administration proposes converting these projects to another program that is better structured to provide these units with needed subsidy increases — the Section 8 Existing Housing program.

Section 202 — Elderly and Handicapped Housing Direct Loan Program

The Section 202 direct loan program assists non-profit organizations to build Section 8 subsidized housing for low income elderly or handicapped tenants. To qualify for a Section 202 loan, the housing must be specially designed to provide an alternative to institutionalization of the elderly and handicapped. Non-profit organizations sponsoring the construction and management of these housing projects provide a range of necessary services for the occupants of such projects. HUD has made $4.3 billion in Section 202 direct loans and provided Section 8 subsidies for 97,000 elderly and handicapped units.

The Administration proposes to continue this program at a reduced level and provide direct loans for the construction of 10,000 additional units for the elderly and handicapped in 1983.

Modified Section 8 Housing Certificate Program

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 604

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
SAVINGS FROM CURRENT SERVICES							
Budget Authority	—	—	6,100	4,470	5,419	8,152	5,199
Outlays	—	—	32	2	−35	−74	−146

Proposed Change

- The Administration proposes to replace the Section 8 Existing Housing Program with a Modified Section 8 Housing Certificate Program as current commitments with public housing authorities, which administer the current Section 8 Existing Housing Program, expire.
- The current Section 8 Existing Housing Program imposes a rent ceiling equal to the "fair market rent". Under the modified program, there would be no "maximum" rent level chargeable by the landlord. Instead, the modified program would provide the tenant rental assistance directly and permit the subsidy recipients (Housing Certificate holders) to select for themselves the type and cost of a standard unit within the locality of the PHA issuing the certificate. As under the Section 8 Existing Housing Program, the value of the certificate will be based on a payment standard reflecting relative area rental costs and the tenant's income level. The tenant will be able to keep all savings associated with finding an acceptable unit that rents below the regionally determined payment standard.
- In addition, the modified program will be funded to the extent that other Section 8 and public housing contracts can be converted to this more efficient subsidy mechanism. The Modified Program will also be used in conjunction with a HUD Rental Rehabilitation initiative (see fact sheet on Rental Rehabilitation Grants).
- As under the current Section 8 Existing Housing Program, eligibility for Section 8 Housing Certificates will be limited to households with incomes less than 50% of area median income. The local public housing authorities (PHA's) issuing these Housing Certificates will give greater priority to displaced tenants, tenants currently living in substandard housing, or those currently paying a disproportionately high percentage (greater than 30%) of their income for housing. The amount of the subsidy provided under the Modified Section 8 Housing Certificate Program will be a function of a family's geographic location, size, and annual income. The average subsidy will be about $2,000 per recipient per year.

Rationale

- The Section 8 Existing Housing program provides subsidy payments to assist low-income households in meeting the cost of renting decent, safe, and sanitary housing. The Modified Section 8 Housing Certificate Program, which is a reform of the Section 8 Existing Housing Program (see Subsidized Housing Overview), draws upon the experience gleaned from the recently-completed 10-year study of housing subsidies known as the Experimental Housing Allowance Program (EHAP). The results of the EHAP experiment indicate that the modifications to the Section 8 Existing Housing Program would not have any inflationary impact on prevailing local rent levels.
- Under the current Section 8 Existing Housing Program, rents for subsidized units exceed rental costs for private market rental units by 26%. Landlords have an incentive to raise rents to the published fair market rent level, and tenants have no incentive to negotiate their own rents. By providing a subsidy directly to the tenant, the Section 8 Housing Certificate would give tenants the incentive and the ability to "shop around" and pay only the market rent for the type of unit they choose to occupy.

- The Housing Certificate approach is economically efficient in that it would enable tenants to allocate their income to those things they value most highly.
- The Federal Government is currently tied to subsidized housing commitments extending well into the next century. Such long-term commitments are fiscally imprudent given the uncertainty of the long-term need for, or economic viability of, such housing units. The shortened Modified Section 8 Existing Housing subsidy commitment (5 years versus 15 to 40 years) provides greater flexibility to adjust to or reconsider subsidized housing policy in the future.

Effects of the Proposed Change

- Over the next 5 years the Administration expects to support 910,000 Section 8 Housing Certificates starting with an estimated 107,000 for 1983.
- Under the Housing Certificate approach, participating households would be rewarded for their efforts in finding the lowest cost unit. The tenant will be able to keep all the savings in connection with finding an acceptable unit that rents below the regionally determined payment standard.
- The Modified Section 8 Housing Certificate Program would provide an average subsidy comparable to the subsidy provided in the current Section 8 Existing Housing Program. The subsidy would effectively increase the average recipient's income by 25%. The subsidy will cover 80% of the estimated rent that unsubsidized low-income renters are expected to pay in 1983.
- Tenants would be provided maximum freedom to choose the type of unit and the location in which that they wish to live given the amount of rent (supplemented by their Housing Certificate subsidy) they are willing to pay.

Subsidized Housing: New Production

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 604

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
SAVINGS FROM CURRENT SERVICES							
Budget Authority	—	9,400	14,989	14,810	14,049	14,661	15,106
Outlays	—	10	34	283	685	1,299	2.036

Proposed Change

- The Administration proposes to terminate the costly new construction program, except for 10,000 elderly and handicapped housing units, and rely more heavily on a Modified Section 8 Housing Certificate Program to aid low-income households in need of housing assistance (see fact sheets on the Modified Section 8 Housing Certificate Program and Housing for the Elderly and Handicapped).

- HUD currently has commitments to subsidize 400,000 Section 8 and public housing units that have not begun construction. Many of these projects are not financially viable, and given historical trends, the Administration anticipates that in 1982 and 1983, 145,000 of these commitments will be cancelled and their funds deobligated and returned to HUD. The 1983 budget anticipates to use these deobligated funds to convert Rent Supplement projects to the Section 8 subsidy program, provide funds for public housing modernization and support the Modified Section 8 Housing Certificate Program.

Rationale

- The housing construction programs are being terminated because they are very costly, provide too large a subsidy to too few people, and do not address the nation's current housing problem.

- The rapidly rising cost of newly-constructed subsidized housing prohibits the continuation of these programs. Tenant rent subsidies, paid to the developers of newly-constructed Section 8 projects, have risen at twice the rate of increase in construction costs. Public housing is also expensive, with construction costs averaging $63,000 per unit.

- Annual subsidies for newly constructed Section 8 units range as high as $17,000 per family. This large subsidy is, in part, a result of expenditures for unnecessary amenities which do not significantly improve the quality of housing. A recent GAO report found that newly-constructed Section 8 units were 25% larger than the acceptable size established by HUD and often contained costly amenities such as swimming pools and ceiling "skylights".

- The most recent data indicate that in 1977, less than 7.5% of U.S. households resided in substandard housing with one or more physical deficiences. The basic housing problem confronting the poor has changed from one of lack of adequate housing to inadequate income. The Administration is therefore proposing a policy of providing Section 8 Housing Certificates to address the basic housing problem facing low income households.

- Federally subsidized public housing projects have had serious problems in providing a decent and safe living environment for low-income households. Many public housing projects have become concentrations of culturally deprived families packed into tall structures — an environment ill-suited to normal family life. Often projects are built in economically decaying central cities where job and educational opportunities are limited. The Modified Section 8 Housing Certificate Program, which will replace new public housing construction, will provide recipients freedom of choice as to the location of their residence.

- Subsidized housing outlays grew from $2.9 billion in 1978 to $5.8 billion in 1981, an annual compounded growth rate of 24.2%. By the end of 1981, commitments for future housing outlays totaled $239 billion. Curbing the growth of the subsidized housing programs and holding the number of subsidized households to 3.8 million is essential to the Administration's effort to control long-term Federal Government spending, thereby eliminating inflation and promoting economic growth. Historically, increases in real income growth have been the largest contributor to improvements in housing conditions and the ability of the private sector to respond to market demand for housing.

- HUD currently has a backlog of nearly 700,000 subsidized housing construction commitments. The Administration wants to complete economically viable outstanding commitments and focus efforts on better serving current tenants and making current programs operate more efficiently.

Effects of the Proposed Change

- Renters will not suffer from a reduced subsidized housing new production program. A recent analysis of rental housing conditions prepared by HUD for Congress found that, in most housing markets, there is an adequate supply of rental housing.

- Even at the reduced program level, the Administration's program will increase the number of subsidized households from 3.4 million at the beginning of 1983 to 3.8 million households by the end of 1985. This includes 200,000 newly constructed Section 8 and public housing units that will be made available as a result of prior commitments. Thus, by 1985 HUD will be serving 400,000 more subsidized households, but this support will be provided partly through the less costly and more effective Modified Section 8 Housing Certificate Program.

- The Administration's policy of terminating the Public Housing and Section 8 new construction and substantial rehabilitation programs will yield outlay savings of over $4.3 billion between 1982 and 1987.

Subsidized Housing: Tenant Rent Contributions

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 604

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
SAVINGS FROM CURRENT SERVICES							
Budget Authority	—	33	184	317	266	225	201
Outlays	—	37	428	698	652	542	488

Figures represent further savings now expected — reductions in budget authority and outlays for public housing operating subsidies, reductions in outlays alone for other subsidized housing programs (Section 8, Section 236, Rent Supplement) — in addition to those initially enacted under the 1981 Reconciliation Act. Only that portion of the outlays shown above which are associated with the subsidized housing programs are reflected in the table for the "HUD Subsidized Housing Overview."

Proposed Change

Rents charged to tenants in HUD subsidized housing are subject to a maximum ratio of rent to income ceiling. This ceiling was raised — from 25 percent of income to 30 percent of income — in the Omnibus Budget Reconciliation Act of 1981. That act also restricted the rate at which rents can be increased to 10 percent per year. At the time that the rent to income ceiling was raised by the Congress last year, the Administration announced its intention to raise rents by one percent of income per year for current HUD tenants.

Although the Administration plans to implement rent increases at the rate of one percent of income per year, beginning in 1982, as earlier announced, additional steps will be taken that will further raise rent contributions required of certain tenants in HUD subsidized housing:

- All new occupants of HUD subsidized housing will have their rents set at 30 percent of income.
- In calculating the required rent contribution, the cash value of Food Stamps will be added to cash income. This action will require a legislative change — included in the Administration's entitlement reform legislation — in the statutes governing the Food Stamp program.
- Tenants whose monthly utility bills exceed 25 percent of their adjusted income will no longer receive monthly payments from HUD for the amount in excess of the rent ceiling.
- Certain tenants will experience rent increases in excess of 10 percent per year under the above proposals. Also, a significant number of present tenants pay rents that are way below 25–30 percent of income. For these reasons, legislation will also be proposed to increase the limit on the rate of annual rent increases from 10 percent to 20 percent.

Rationale

- Many low income tenants of HUD subsidized housing have been required to pay very minimal rents because of local ceiling rents and excessive deductions taken from income before rent charges are applied. Thus, despite increases in their rent contributions, as permitted under the 1981 Reconciliation Act changes, many households would, without further changes in the law, be allowed to pay well below 30 percent of income for rent in the next few years. This is especially true because of the effect of the 10 percent limit on annual rent increases. Therefore, it is proposed that this limit be increased to ensure the attainment of greater equity across tenant households living in HUD subsidized housing as well as greater equity between subsidized and unsubidized low–income households. Comparable unsubsidized low–income renters already pay, on average, over 50 percent of (cash) income for rent.
- Counting Food Stamps as income will also help increase rent revenues and reduce Federal costs, while reflecting more completely the total cash and cash–equivalent resources available to low income households for purposes of assessing a fair rent charge.

- Reimbursing tenants who pay more than 25% of their income for utility costs undermines utility conservation and is an anomalous practice that should be terminated regardless of other changes that might be introduced with respect to rent charges.

Effects of the Proposed Change

- For those families receiving Food Stamps, counting Food Stamps as income will result in a rent increase from this step alone of almost 10 percent, or $13 per month in 1983.
- Monthly rent of Food Stamp recipients in subsidized housing is expected to average $145 in 1983, up from $115 in 1982. For comparison, the average rents paid by renter households in the lowest quarter of the income distribution of renters in 1980 is estimated at $184 per month.
- Similarly, new tenants in subsidized housing will pay rents expected to average $165 per month in 1983.
- For those households that receive reimbursement for utility payments, these payments would have averaged $36 per month in 1983.

Rent Supplement and Rental Assistance Payments Programs

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 604

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
SAVINGS FROM CURRENT SERVICES							
Budget Authority	—	1,750	1,445	2,390	−1,297	−1,253	−1,209
Outlays	—	20	123	210	244	192	128

Proposed Change

All 172,300 Rent Supplement and RAP units in FHA-insured projects will be converted to the Section 8 existing program as soon as possible. (The remaining 34,700 units are in State-aided projects. They will not be converted because any increased subsidy beyond that already provided will be the responsibility of the particular State.)

Rationale

The Section 8 existing program has provisions built into the subsidy mechanism that can be used to provide these units with needed subsidy increases. The conversion of Rent Supplement and RAP units to Section 8 existing units therefore provides a long-term solution for the inadequate funding mechanisms inherent in these programs. This is an appropriate step toward ensuring the viability of these Federally-insured or Federally-held projects where the Government has a direct financial liability.

Effects of the Proposed Change

- This change will consolidate similar HUD subsidy programs.
- The rent burden of those Rent Supplement tenants who currently pay in excess of the 30% of their income for rent will be reduced.
- The probability of defaults and subsequent claims against the FHA Fund will be reduced by providing a mechanism by which rents can be raised without imposing intolerable burdens on existing tenants or increasing tenant turnover and vacancy rates.

Housing for the Elderly and Handicapped

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 371

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	797	745	277	402	456	489	531	0	401
OUTLAYS*	817	711	286	-51	165	7	-213	0	549
DIRECT LOAN OBLIGATIONS	873	819	453	476	499	522	545	0	420

*Includes planned loan asset sales.

Proposed Change

The Administration proposes to continue the Section 202/Section 8 program at a reduced level of 10,000 units in 1983. The 1982 program level will be about 17,000 units.

Rationale

- If the 1982 Section 8/Section 202 program were continued in 1983 as it is currently structured, the average construction cost of a new housing unit would exceed $53,000. The Administration has proposed reforms that will eliminate unnecessary amenities in these projects, allow for competitive bidding in the construction of Section 202/Section 8 projects, and subject the Section 202/Section 8 program to the same cost controls as other Federal housing programs.
- Even with these efficiencies, the program still entails deep subsidies, e.g., units supported with 1983 funds will provide an average subsidy of $5,000 per tenant during the first year of occupancy. Providing large subsidies has resulted in HUD's serving only 40% of the elderly in need of housing assistance.
- In conjunction with the general effort to control Government spending, the Administration will direct elderly and handicapped housing funds away from the large subsidy new construction programs and toward a lower cost Modified Section 8 Housing Certificate Program (see fact sheet on the Modified Section 8 Housing Certificate Program) that will serve more individuals at a lower cost.

Effects of the Proposed Change

- The Administration proposal will continue to provide for 10,000 Section 8/Section 202 units each year. Even at the reduced program level, 100,000 newly–constructed Section 8 elderly or handicapped units will be made available for occupancy over the next 3 years.
- Many low income elderly and handicapped individuals who are able to live independently and do not need specialized housing assistance will be provided a subsidy under the Modified Section 8 Housing Certificate program. This will permit the elderly and handicapped to stay in their own units while at the same time reducing the portion of their income paid for housing.
- The Modified Section 8 Housing Certificate program, combined with the "shared housing" initiative (a housing arrangement whereby a group of residents share a common living area with the assistance of a live–in homemaker), will provide additional alternatives for preventing institutionalization of the elderly and handicapped.
- Under the Administration's housing proposals, the elderly will continue to benefit from nearly half of Federal subsidized housing outlays.
- The Administration's elderly and handicapped housing proposals will reduce cumulative 1983–1987 outlays $942 million below those associated with the current program level.

Public Housing Operating Subsidies

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 604

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	1,071	1,293	1,075	1,033	983	934	934	0	152
OUTLAYS	929	1,278	1,110	1,052	1,005	956	934	0	84

Program Description

Public housing, which includes 1.2 million units administered by 2,700 separate local housing authorities, is supported by the Federal Government in two ways:

— Full construction costs are paid by annual debt service installments, which averaged $1,200 per unit last year; and

— About 50 percent of operating costs are paid by operating subsidies, which averaged about $800 per unit last year.

Operating subsidies are necessary because, since 1969, tenant rent contributions have been inadequate to cover operating costs. As discussed elsewhere in this document, the Administration is proposing to hold down operating costs in subsidized housing through further increases in tenant rents over and above those authorized in legislative changes in 1981. Operating subsidies are determined on the basis of a formula that estimates the cost of operating a public housing authority's units, taking into account the size and location of the authority and the types of projects it operates.

Proposed Change

In addition to increased rents, other steps will be taken to reduce the level of Federal payments required to operate public housing:

- Utility costs will be reduced through reductions in the consumption levels funded by the subsidy formula; these reductions in consumption levels are feasible because of intensive efforts now underway to modernize public housing and make it more energy efficient, and because regulations governing tenant utility allowances are being revised.
- Rather than adding further to the inventory of public housing units, efforts will be made to cancel current construction commitments and sell or demolish some of the extremely high cost projects now in operation.
- Lease and grievance regulations will be revised to enable public housing authorities to collect delinquent rents more readily and to evict disruptive tenants.

Rationale

The success of the Administration's plan for achieving a sustained economic recovery will improve the housing conditions of low-income Americans to a far greater extent than this subsidy program has or could. As discussed in the fact sheet on "Modified Section 8 Housing Certificate Program," a recent HUD analysis of rental housing conditions indicates that greater reliance can be placed upon the existing rental market to meet the housing needs of low-income families and the elderly. Therefore, efforts will be made to strictly limit the size of the public housing inventory, and to obtain greater revenues from tenants to pay operating costs.

Effects of the Proposed Change

- The size of the public housing inventory will level off at nearly 1.3 million units over the next few years. The total number of subsidized housing units will, however, increase because units from other housing programs of the Department of Housing and Urban Development will be added.
- Rental receipts of public housing authorities in 1983 are expected to grow by 24% due to income growth of tenants and previously authorized rent increases, as well as those now proposed.
- As a result of energy conservation investments and modernization of the public housing inventory, the energy consumption level funded in 1983, as estimated by the operating subsidy formula, is expected to be reduced to a level 15–20% below the 1981 level.

Solar Energy and Energy Conservation Bank

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 272

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	.25	0	0	0	0	0	0	22	23
OUTLAYS	.25	0	0	0	0	0	0	7	29

Program Description

The Solar Energy and Energy Conservation Bank Act, enacted in July 1980, established a new program and organization within the Department of Housing and Urban Development. The program was intended to: 1) promote energy conservation in homes and in commercial and agricultural buildings; and 2) encourage the development of solar technology, particularly passive solar designs for new residences. Subsidies were to be provided through grants and below market-rate loans. Authorized funding was to grow from $300 million in 1981 to $1,025 million by 1983. Of the actual appropriation for 1981 of $121.25 million, $121 million was rescinded.

Proposed Change

The Administration proposes to rescind the 1982 appropriation of $22 million so that this new subsidy program will not be established.

Rationale

The Administration believes that market incentives should be relied upon to induce energy conservation in the residential, commercial and agricultural sectors of the economy. Specialized Federal subsidy programs that reward a fortunate few home or building owners should be resisted. Energy conservation should be a feasible investment decision best left to individuals and firms. In light of the expectation that owners of residential, commercial and agricultural structures will make energy conservation investments on their own, a Federal subsidy would be, at least in part, simply a financial windfall to many recipients of the below market-rate loans and grants.

Effects of the Proposed Change

If the $22 million appropriation for 1982 were to be used, a substantial portion of the funds would be absorbed in staffing and promotional expenses. Only 7,500 households nationwide would receive subsidized loans or grants for energy conservation, and only 1,800 purchasers of new homes with passive solar design features might have had their mortgage costs reduced.

Highways

AGENCY: Department of Transportation FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	9,117	8,630	8,058	8,484	8,484	8,484	8,404	9	1,211
OUTLAYS	9,131	8,313	8,370	8,293	8,437	8,495	8,491	—	436

Program Description

The highway programs provide grants to the States for the Federal share of costs to construct or rehabilitate highways included in these highway systems: Interstate, primary, secondary, and urban. Funds also are provided for rehabilitation or replacement of bridges, for highway safety projects, and for a number of small, separate categorical programs which provide special purpose grants such as billboard removal, railroad–highway grade crossing improvements, and funding of road construction in the territories.

Proposed Change

The Administration proposes to focus funding on the Interstate and primary highway programs — the programs of greatest benefit to the nation as a whole.

- Deteriorating Interstate highways will receive funds for rehabilitation, and certain existing Interstates that have experienced significantly increased travel will receive funds for improvement.
- Highway programs that fund projects that primarily benefit particular States or localities will receive lower priority.
- Specific earmarking of funds for the special interest highway categories will be eliminated.

Rationale

These changes are needed because:

- The primary Federal interest of supporting and providing for interstate commerce and the national defense is best served by the Federal Interstate and to a somewhat lesser extent by the primary highway programs.
- Highway programs designed to meet basically State or local concerns (e.g., secondary and urban) are properly the primary responsibility of these governmental entities. It is at these governmental levels that the real need, priority, and appropriate funding for projects designed to address particular State or local problems can be determined.

Effects of the Proposed Change

- The expanded Interstate rehabilitation (I–4R) program will enable States to address the growing problems — brought about by age and greater–than–anticipated vehicle weights and traffic volumes — of deteriorating Interstate highways.
- Reduced Federal emphasis on roads of principal interest to States and localities — secondary and urban roads — will require these governmental units to give increased attention to the most cost–effective use of funds for these highways.

Maritime Assistance and Regulatory Reform

AGENCY: Department of Transportation FUNCTIONAL CODE: 403

Funding

	1981	1982	1983	1984	1985	1986	1987	Savings From Current Services 1982	Savings From Current Services 1983
($ in millions)									
BUDGET AUTHORITY	488	415	407	529	529	529	529	—	35
OUTLAYS	543	625	508	453	466	496	511	—	34

Program Description

The Department of Transportation's Maritime Administration (MarAd) provides (1) direct ship construction differential subsidies (CDS) of up to 50% of the price of building new privately owned merchant ships in U.S. shipyards; and (2) direct operating differential subsidies (ODS) to offset the higher costs (primarily wages) of operating U.S.-flag vessels in the oceanborne foreign commerce.

MarAd also guarantees construction loans and mortgages on U.S.-flag vessels built in the United States. These guarantees enable eligible parties to obtain long-term financing at interest rates comparable to those available to AAA-rated corporations.

Proposed Change

For the construction differential subsidy program, the Administration proposes:

- For 1983, to continue the 1982 decision not to request funds for subsidies; and
- For 1984 through 1987, a tentative annual program level of $100 million.

For the operating differential subsidy program, the Administration proposes to:

- Meet the Government's obligation on existing contracts;
- Make administrative changes to hold down escalating costs; and
- Allow no additional ODS commitments.

For the loan guarantee program, the Administration proposes:

- $675 million in new loan guarantee commitments in 1982 and $600 million in 1983; and
- A tentative planning level of $600 million for 1984.

Rationale

- The MarAd proposals are part of the Administration's overall effort to apply sound economic criteria to economic subsidy programs. The reduction in new loan guarantee commitments is consistent with the Administration's efforts to control the volume of Federal and Federally-assisted credit and its adverse economic impact.
- The proposed CDS reduction will not significantly hurt overall employment because fewer than 5% of the workers employed in maintenance of a shipbuilding/ship repair mobilization base work on projects supported by CDS at current levels.
- Through better administration and a more incentive-oriented program, operating subsidies can be reduced for those operators now receiving them. The average subsidy per sea-going billet is over $60,000 a year.

- The Administration is proposing regulatory changes that will remove many of the constraints under which the maritime industry operates and will reduce the involvement of Government in the commercial practices of the industry. These reforms will put the U.S.-flag carriers on a more equal footing with their foreign competition. These regulatory changes will allow more flexibility to compete and enhance the position of the maritime industry.

- The Administration is conducting a full review of maritime policies including the need for subsidies, the importance of both the shipbuilding capability and the merchant marine to national defense, the impact of planned increases in naval shipbuilding, ways to increase commercial participation in military support functions, and the effect that new tax policies and possible trade agreements may have on improving the competitiveness of the U.S. merchant marine. The outcome of this study may result in major program changes and, in turn, a reevaluation of current budget decisions, particularly the projected funding of the ship construction program in 1984–1987.

Effects of Proposed Change

- Termination of the ship construction program will have little effect on the active shipbuilding base because of overall trends in ship construction, particularly Navy work. There are 26 shipyards in the base (involved with Government-subsidized (CDS), commercial, and Navy ship construction and repair). Four of these yards currently have CDS contracts. The yards in the active shipbuilding base employ 118,000 workers of which about 5,600 workers are associated with CDS construction. Navy construction employs about 77,600 workers (66% of all shipyard workers), with employment expected to rise as Navy ship construction increases.

- These proposals and changes will lessen direct Government support and will create a stronger, more competitive U.S. merchant marine.

- Loan guarantees will be targetted to those segments of the industry most essential to achieving the nation's merchant marine objectives.

Mass Transit Assistance

AGENCY: Department of Transportation FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	4,662	3,495	3,150	2,976	2,976	2,976	2,976	—	599
OUTLAYS	3,855	3,743	3,155	2,996	2,934	3,004	2,971	—	801

Program Description

The Federal Government currently provides grant assistance for mass transit through a variety of formula and discretionary grant programs. Funds are provided to grant recipients for capital projects, operating costs, planning activities, demonstration of innovative management techniques and advanced technologies, managerial training and university research. Direct Federal research is also conducted to improve mass transit facilities, equipment, and management techniques and methods.

Proposed Change

- Capital assistance grants would be continued in 1983 at approximately the 1982 level. Modernization and rehabilitation of existing, proven transit systems will be emphasized. The Administration would continue to postpone discretionary assistance for the planning and construction of new rail transit systems at least until the condition of the economy and the Federal budget improve. Some capital grant funds would be available for new rail system construction where such construction was underway in February 1981 or the local authorities have discretion in allocating funds made available by the cancellation of planned Interstate highways.

- The previously announced phase–out of operating assistance would be initiated in 1983 by reducing the formula grant funds available to urbanized areas for such purposes to 62% of the 1982 level. Further reductions to 27% of the 1982 level are proposed for 1984, with a complete phase–out scheduled by 1985.

- The formula grant program which made funds available for operating expenses in smaller towns and rural areas would be terminated in 1983. Capital projects in such areas could be funded by other programs and the large balance of previously appropriated but unused funds would still be available to phase out operating assistance to these smaller areas.

- Research and training efforts would be more narrowly focused on short–term, practical solutions to the more immediate problems facing the transit industry, e.g., service reliability and productivity improvement.

Rationale

- These changes are part of the larger effort to return responsibility and decision–making to State and local governments, to retarget public sector capital improvement programs, and to eliminate subsidies that encourage inefficiency in program operations.

- These specific changes are needed because:

  — Primary responsibility for mass transit should remain with State and local governments. Decisions about service levels, equipment and facilities, fares, wage rates and management practices are better left to local decision–makers. Excessive levels of Federal assistance unfortunately lead to excessive Federal interference in these local decisions. A case in point was the Department of Transportation regulations establishing specific, detailed requirements that mass transit systems be equipped for access by the handicapped. The Department has issued new regulations rescinding these regulations and giving State and local governments greater freedom to devise their own, more cost-effective approaches to serving the handicapped.

— Federal emphasis and funds should be concentrated on maintaining existing transit systems that have proven effective and are an essential part of a large urban transportation network rather than diluted through construction of expensive new rail transit systems.

— Federal subsidies for operating costs undermine incentives for efficient operations and responsible local policy making. As a result, Federal operating subsidies have been partially absorbed by lower productivity and reduced fares.

— Fares have generally not kept pace with inflation since the 1973 oil embargo, even though the cost of the main alternative means of transportation — the private auto — has increased even more than the rate of inflation. Although some systems have begun to raise fares significantly in the last year, many systems have not. In many areas, transit fares could be raised to cover the loss of Federal operating subsidies without losing many patrons.

— Federal funds in some areas help to support marginally effective, conventional transit services. Transportation needs could be better served by more cost effective and innovative alternatives such as carpools, vanpools, subscription bus and jitney services. By shifting more financial responsibility to local authorities, such low cost alternatives would become more attractive solutions to urban transportation problems.

— Federal subsidies and the Federal "strings" attached to those subsidies tend to drive up costs, e.g., labor protection, Davis-Bacon, procurement, planning and paperwork requirements.

Effects of the Proposed Change

- Transit operators and State and local governments may adjust to reduced Federal transit subsidies in a number of ways. They may increase fares, increase productivity, curtail services, and increase local and State tax revenues for transit. Fare increases are the most likely effect and would not be unduly damaging to transit. In real dollar terms, transit fares have declined since 1973, while the cost of the main alternative—the private automobile—has increased dramatically. Furthermore, transit riders nationwide generally pay less than half of transit operating costs, and a much lower percent of combined operating and capital costs.
- Reduced Federal subsidies may also spur greater efficiency in a number of ways. Labor productivity could be increased by local negotiation of improved work-rules. Marginally effective transit services with low ridership could be reduced or eliminated.
- A gradual phase-out of Federal operating subsidies by 1985 provides time for cities and States to adjust to the absence of Federal operating assistance. An effort will continue to be made to concentrate transition funds in the transit-intensive cities.

URBAN MASS TRANSPORTATION ADMINISTRATION
BUDGET AUTHORITY

	($ in millions)				
	1982	1983	1984	1985	1986
CAPITAL GRANT PROGRAMS					
Discretionary Grants	1449*	1561	1575	1825	1875
Formula Bus Grants to Urbanized Areas	330	375	375	400	425
Interstate Transfer Grants	538	400	400	400	400
Washington METRO Grants	—	100	275	275	200
Subtotal Capital Grants	2317	2436	2625	2900	2900
FORMULA GRANTS TO URBANIZED AREAS (AVAILABLE FOR BOTH OPERATING AND CAPITAL EXPENSES)	1036	640	275	—	—
FORMULA GRANTS TO NON-URBANIZED AREAS (AVAILABLE FOR BOTH OPERATING AND CAPITAL EXPENSES)	69	—	—	—	—
RESEARCH, TRAINING AND ADMINISTRATION	75	74	76	76	76
WATERBORNE DEMONSTRATION RESCISSIONS	−2	—	—	—	—
TOTAL	3495	3150	2976	2976	2976

* **Additional $231 million available in 1982 from deferral of funds in 1981 and a transfer of previously appropriated funds into Discretionary grants.**

Federal Railroad Assistance

AGENCY: Department of Transportation FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	100	61	20	—	—	—	—	—	84
OUTLAYS	193	155	144	47	5	—	—	—	18
GUARANTEED LOAN COMMITMENTS	8	135	—	—	—	—	—	NA	NA

Program Description

Federal Railroad Assistance has three components: Federal purchase of railroad preferred stock to finance specific improvement projects (especially track rehabilitation) and to assist reorganization of bankrupt railroads; loan guarantees for the same types of projects; and formula grant assistance to States for rail planning and for rehabilitation of track and associated facilities on low-traffic branchlines.

Proposed Change

The Administration proposes to:

- Terminate the preferred stock program and the loan guarantee program in 1983.
- Phase out formula grant assistance to States by the end of 1983; 1983 funding ($20 million) would be approximately one-half of the 1982 level ($35 million).

Rationale

- This is a good time to make the change. The financial prospects for U.S. railroads have improved significantly in the past several years, and therefore the need for special Federal aid has ended. This financial improvement is evidenced by substantially improved railroad profits in the past several years ($427 million in 1978; $837 million in 1979, and $1,337 million in 1980).
- Continued positive change for the railroad industry is expected because of the following factors: enactment of railroad deregulation legislation in 1980; tax advantages to railroads resulting from the Economic Recovery Tax Act of 1981; recent approval of major railroad mergers by the Interstate Commerce Commission; increased coal carriage for both domestic and foreign markets.
- These assistance programs originally were intended to be of temporary duration while solutions to the rail industry's problems were sought. As noted above, these solutions have now been largely achieved.
- These cuts are consistent with the Administration's views regarding returning functions to the private sector and to State and local governments.
- States and/or localities should support programs whose benefits are primarily local, as are the State grant program's for light traffic branchlines. Most of the lines being subsidized carry less than 3 million gross tons per mile annually.
- DOT's Inspector General issued a report in September 1981 supporting phase-out of the State grant program. He stated, "most lines will ultimately be abandoned and little benefit will be accomplished by continuing Federal support."

Effects of the Proposed Change

- The railroad industry's annual rate of return in 1980 was more than double that of the years between 1975–1979. Thus, elimination of the programs will have negligible effect on the overall financial health of the industry.
- Few applications for loan guarantee funding have been received, and therefore no adverse effects are anticipated from terminating that program.
- In those instances in which railroads seek to abandon unprofitable rail lines, shippers may need to seek alternative service.
- The trend of railroad consolidations and mergers is far more important to the financial future of the industry than is the continuation of the Federal subsidy programs.
- The decrease in Federal aid may be more than offset by financial benefits from the new tax laws. The railroad industry can take advantage of accelerated depreciation provisions and sale–leaseback provisions.
- Reorganization of certain bankrupt railroads in the Midwest and New England is proceeding at a satisfactory rate and will not be assisted by further Federal subsidy.

Federal Railroad Operations

AGENCY: Department of Transportation FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	20	13	—	—	—	—	—	—	14
OUTLAYS	12	17	13	—	—	—	—	—	11

Program Description

Federal Railroad Operations involve two elements: operation and ownership of the freight and passenger services of the Alaska Railroad which runs 500 miles from Seward, through Anchorage, to Fairbanks; and operation and ownership of the Transportation Test Center, a rail research and development (R&D) facility outside Pueblo, Colorado.

Proposed Change

The Administration proposes to:

- Transfer the Alaska Railroad to the State of Alaska (no 1983 funding provided).
- Transfer operation of the Transportation Test Center to the private sector (no 1983 funding provided).

Rationale

- The Federal Railroad Operations program provides benefits that accrue primarily either to private industry or a single State or locality. The Federal Government need not and should not be involved.
- The State of Alaska is fully capable of shouldering financial and operating responsibility for the Alaska Railroad. Alaska had more than a $1 billion budget surplus in 1980.
- Much of the R&D at the Transportation Test Center is directly intended to assist the railroad industry: increasing locomotive fuel efficiency, testing equipment durability, etc. It should be the responsibility of the private sector, especially the railroad industry, to fund R&D activities to improve its productivity. Indeed, the Economic Recovery Tax Act should stimulate R&D through R&D tax credits.
- Federal costs associated with the operation of the Transportation Test Center have been about $8 million annually. With railroad profits of $1.3 billion in 1980, assumption of this cost should not be overly burdensome to the railroad industry.

Effects of Proposed Change

- After more than a half century of Federal ownership and operation, with only limited and very recent State contributions to the cost of passenger service, Alaska will assume full control over railroad services in the State.
- While the Federal costs associated with the Alaska Railroad have been approximately $9 million annually in recent years, the financial prospects for the railroad are improving, thereby decreasing likely subsidy costs to the State. Railroad revenues for 1981 were up 52%, while expenses increased only 17%, resulting in a bottom-line, earned surplus of $3.3 million before depreciation.

- DOT will continue to contract for specific projects, especially railroad safety work, at the Transportation Test Center.

- The industry has questioned the value of some of the Transportation Test Center's R&D work. Only if the Center is under private sector control can it be fully responsive to railroad industry needs.

- The new tax law provides special tax benefits to encourage R&D by private industry. The benefits take the form of tax credits equal to 25% of incremental R&D expenses (wages, supplies, and charges for computer and lab equipment).

AMTRAK

AGENCY: Department of Transportation FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	881	735	600	500	525	550	575	—	185
OUTLAYS	851	820	610	500	525	550	575	—	155

Program Description

Amtrak provides intercity passenger rail service throughout the United States. In the Northeast Corridor, Amtrak operates over 35 trains per day in each direction. It operates 22 other short distance routes, with service ranging from one to seven round trips per day. Amtrak also operates 16 long distance routes throughout the nation, most with daily service.

Proposed Change

The Administration proposes to fund Amtrak at a reduced level, requiring labor, the States, and passengers to supplement the reduced Federal subsidy, and to terminate operation of the Cardinal (Washington, D.C., to Chicago). This will permit Amtrak to continue to operate a national system. In the absence of an acceptable collectively bargained agreement, legislation will be submitted to:

- Provide incentives for Amtrak to reduce 1983 costs through changes in inefficient workrules, or reduced salaries, or increased productivity;
- Alter labor protection from payments for six years at 100% of salary to dismissed employees to single lump sum payments at time of dismissal that will be much less costly to Amtrak; and
- Require States to increase the amount they pay for State and Federally funded service from 45%–65% of short term avoidable costs to 100% of long term avoidable costs.

Rationale

- The Federal government pays a higher percentage of the costs of Amtrak service than it does for any other mode of ground transportation. On average, each Amtrak passenger received a subsidy of $32 per trip in 1980 and the subsidy reached as much as $192 per ticket on the Sunset Limited (New Orleans to Los Angeles). Yet Amtrak service is in less demand than other modes, is less energy–efficient than buses and some cars, and often benefits a particular State or region rather than the nation as a whole.
- In 1980, the Federal subsidy per Amtrak passenger exceeded the cost of an economy airline ticket on the following routes: New Orleans to Los Angeles; Chicago to Los Angeles; New York to Miami; Chicago to Washington, D.C.; and Portland to Eugene. Amtrak's deficit increased from $153 million in 1972 to $755 million in 1981. Revenues increased 230% over that period, but costs increased 335%. The Federal Government should not continue to subsidize this huge deficit. Passengers, the States, and Amtrak labor and management should share the costs if Amtrak is to continue to operate a national system.
- In 1981, Amtrak's labor costs, which were approximately $730 million, represented 55% of total operating costs. These costs are high in part because of antiquated work rules and operating practices. In some cases, employees receive a day's pay for 100 or 150 miles travelled rather than for eight hours worked. On the Northeast Corridor, this means some employees can work for only 80 hours and receive a full month's pay. The Federal taxpayer currently pays over 50% of Amtrak employees' salaries.

- Amtrak employees are currently eligible for severance payments at 100% of salary and compensation for six years. The average salary including benefits is about $30,000. This practice is expensive for both Amtrak and the Government, reduces Amtrak's incentive to dismiss employees when service is cut, and reduces the severed employee's incentive to find a job. By comparison, Conrail employees now receive lump sum severance payments of $25,000 or less.

- States benefitting from Amtrak service pay less than one percent of Amtrak's total costs. Amtrak's 22 short distance routes provide service to only fourteen States and eighteen of these 22 routes serve essentially one State. This service is beneficial to particular regions rather than to the nation as a whole. The States should pay 100% of the long term avoidable costs ($37 million) of routes that are now jointly funded by the States and the Federal Government. This is $24 million more than the States currently pay.

- Amtrak operates the Cardinal only because Congress mandated operation of the route. The Cardinal was to have been terminated because its costs are higher and its load factor lower than the levels allowed in the law for certain Amtrak routes. The Administration opposes continued operation of this route because demand, as demonstrated by ridership, is too low to justify its high costs.

Effects of the Proposed Change

- The Federal subsidy of Amtrak in 1983 would drop $300 million (or one third) below the 1981 level.

- Amtrak's operating revenue/cost ratio would exceed 55%, an increase of 13 percentage points over the 1981 ratio.

- Labor and management costs would fall by approximately $75 million; terminating the Cardinal would save $5 million; and States would more than double their 1982 contribution.

- Amtrak would continue to operate a national system in 1983.

360-900 O - 82 - 5

Conrail

AGENCY: Department of Transportation and U.S. Railway Association

FUNCTIONAL CODE: 401

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	631	—	20	165	—	—	—	—	—
OUTLAYS	302	170	75	100	65	—	—	—	—

Program Description

Conrail provides freight and commuter rail service in the northeastern quadrant of the U.S. The Federal Government provides: (1) operating subsidies and capital improvement funds for Conrail and (2) funds to provide financial benefits (termed labor protection payments) to certain classes of Conrail employees whose service with Conrail is terminated.

The Administration proposes to:

- Adhere to the provisions and policies of the Northeast Rail Service Act of 1981 (part of the Omnibus Budget Reconciliation Act of 1981) for the sale of Conrail to the private sector as follows:
  - — The Administration can sell Conrail prior to June 1983, but only as a single entity.
  - — The U.S. Railway Association must make determinations on Conrail's profitability starting in June 1983. If Conrail fails to pass the tests, the Secretary of Transportation is instructed to initiate procedures to sell Conrail assets. If Conrail passes the tests, the Secretary must continue to try to sell Conrail as a whole until at least mid–1984.
- Provide no additional operating or capital assistance to Conrail in 1983.
- Provide funding for certain classes of furloughed Conrail employees, as required, up to the full level authorized by the Northeast Rail Service Act of 1981. For 1983, $20 million is requested; and for 1984, $165 million is preliminarily planned.

Rationale

- Conrail has not requested operating subsidies for 1983.
- Conrail's financial performance has improved significantly. Conrail broke even for the first time in calendar 1981, and it forecasts profits for 1982 and 1983.
- A total of $400 million is authorized for the newly revised labor protection program and $225 million has been provided to date. The 1983 request of $20 million is expected to meet all costs accrued through that year. This funding assists Conrail's efforts to become profitable by enabling it to trim its workforce.
- These proposals for Conrail are consistent with the Administration's views regarding returning private sector functions to the private sector. The government has already spent in excess of $6 billion in the past five years on Conrail.

Effects

- Elimination of operating subsidy will not affect provision of freight services by Conrail because Conrail has indicated it does not require additional funding.
- Conrail's commuter services will be transferred either to local jurisdictions or to an Amtrak subsidiary called "Amtrak Commuter." Funds have already been appropriated to assist the transition process. The transfer will have taken place by January 1983.

Appalachian Development Program

AGENCY: Appalachian Regional Commission (ARC)

FUNCTIONAL CODE: 452

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY*	302	153	—	—	—	—	—	—	163
OUTLAYS*	300	298	289	164	83	49	36	—	7

*Includes area development and highway programs through 1982. Beginning in 1983, the Appalachian Development Highway System funding is included in the Department of Transportation budget.

Program Description

The Appalachian Regional Commission provides grants to the thirteen Appalachian States for economic and community development and for improving highway access to and within Appalachia.

— The area (economic) development programs provide funding directly to the States, or through other Federal agencies, for community infrastructure, housing, economic development and job creation, resource development, and planning projects.

— The Appalachian highway program provides for construction of the Appalachian Development Highway System and for access roads to places of potential economic development.

Proposed Change

Federal funding for the non-highway programs, the access roads program, and for salaries and expenses for the Appalachian Regional Commission would be terminated at the end of 1982.

Funding for the Appalachian Development Highway Program from 1983-1986 would provide for completing ongoing Appalachian Development Highway System (ADHS) construction projects, for repaying those States that have used State funds in anticipation of later reimbursement from the Federal Government, and for an allocation to all States during the phase-out. Starting in 1983, these residual ADHS funds would be included in the Federal Highway Administration budget and funded from the Highway Trust Fund.

Rationale

As part of the Administration's effort to redirect responsibility for economic development programs to responsible State and local governments, the Administration proposed elimination of the ARC and non-highway programs at the end of 1981. Due to the need for additional time for State and local governments to adjust to the termination of Federal funding, appropriations were provided for an additional year, through 1982.

The Appalachian Development Highway System program was initiated in 1965 to improve access to and travel within Appalachia. Although it has received separate, categorical funding, the Appalachian Development Highway System is part of the Federal-aid highway system, and eligible for those funds administered by the Department of Transportation. Beginning in 1987, all new construction for the ADHS is proposed to be funded from the States' available apportionments from this Federal-aid program. The Administration recognizes, however, that ongoing construction projects could be adversely affected by this change in funding source, and proposes continuation of the ADHS program in the Federal Highway Administration budget to finish these construction projects. Also, the

Administration recognizes that some States have relied on future Federal payments and accelerated some construction projects using their own funds. These States would be reimbursed for past expenditures. High priority projects in the states would also be funded to assure a minimum program in all states.

Effects of the Proposed Change

The proposed change will place responsibilities on Appalachian States and local governments to provide for the economic and social development of the Appalachian region.

- Non-highway funds provided in 1982 (i.e., $50M) will be used to complete existing ARC funded projects, primarily in the areas of community development, health care and education.
- The Appalachian Development Highway System phase-out funds will provide for completion of 126 miles of road, for a total of 1,857 miles completed (out of 3,025 miles of the planned system). The average cost per mile of the completed highway miles is about $1.7 million. The cost to complete the remaining mileage will be about $5.0 million per mile.
- Future funding for the ADHS should come from the States' Federal-aid funds. These roads should compete with other State Federal-aid roads, and Federal-aid roads in other parts of the nation, for funds from the Highway Trust Fund.

Student Assistance

AGENCY: Foundation for Education Assistance* FUNCTIONAL CODE: 502

Funding

	($ in millions)								
								Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	3,802	3,211	1,800	1,400	1,400	1,400	1,400	141	1,775
OUTLAYS	3,906	3,490	3,137	1,761	1,408	1,400	1,400	22	378

*Formerly the Department of Education.

Program Description

Pell Grants (formerly Basic Educational Opportunity Grants) provide awards to undergraduate students who can demonstrate need. It is the foundation upon which additional Federal education financial assistance is built.

Campus-based aid programs — Supplemental Educational Opportunity Grants (SEOG), College Work Study (CWS), and National Direct Student Loans (NDSL) — provide additional student aid to undergraduates who can demonstrate need. These program dollars are distributed at the discretion of school financial aid officers to meet individual student financial need.

Proposed Change

- Under the Administration's proposal, benefits to the highest income students will be eliminated. In the Pell Grant program, this will be accomplished by increasing the percentage of discretionary income (income remaining after a reserve for basic family expenses is subtracted) that families must contribute to the support of a student.
- Of the campus-based aid programs:
  - SEOG will receive no funds;
  - NDSL will receive no new funds but will use repayments to its current $5 billion loan fund to make new loans; and
  - College Work Study will be focused on the neediest students and funded at a reduced level.

Rationale

- Without these reforms, the Federal Government would provide financial assistance to nearly 50% of all undergraduate students attending two and four year institutions. The role of the Federal Government in student financial assistance is to help support those most in need — not one out of every two undergraduate students.
- The Administration believes that parents have the primary responsibility for the education of their children, with support from States, localities, and private institutions.
- Until the last few years, over 50 percent of Pell Grant recipients were from families earning less than $6,000. However, in recent years larger and larger segments of the population in the over-$15,000 income group have qualified and received awards. The increase in participation by these higher income families is explained primarily by eligibility liberalizations rather than by general inflation increases in nominal family income levels.
- College Work Study is the most appropriate form of campus-based aid.

Effects of the Proposed Change

- To ensure continued access to higher education by financially needy students, funds are requested to support the Pell Grant program at a level based on a maximum grant of $1,600 in 1983-84. This will maintain assistance to low and moderate income students. The request will provide grants to about 1.8 million students.

- The reduction in student financial assistance is offset by an increase in the assessment rate levied on family income. In 1981, only 10.5% of a family's discretionary income was expected as a contribution to a student's educational cost in the calculation of a Pell award. In 1983, it is proposed that families contribute a greater share of their discretionary income for such purposes.

- College Work Study will continue to be available to the neediest students.

Limit Legal Fee Awards

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	—	112	129	149	20	20	20
OUTLAYS	20	89	135	146	40	20	20

General Description

Many laws authorize or require the Federal Government to pay attorney's fees to prevailing parties in court or agency proceedings. Most of these fee-shifting statutes provide for an award of a "reasonable attorney's fee" based on a "prevailing market rate"; the latter is now largely pegged to private, commercial bar rates and often exceeds $100 per hour even where the applicant attorneys receive low salaries from law firms and attorneys representing parties not obligated to pay for their representation. A literal industry has arisen for attorneys dependent on federal fee awards.

Proposed Change

- While maintaining "core" recoveries to individuals and small business under the Equal Access to Justice Act ["the Act"], a maximum hourly rate for fee awards under other Federal fee-shifting statutes would be established. The fee cap would be primarily calculated on the basis of the mean hourly rate paid to Government attorneys, plus a constant factor to pay for overhead costs.

- "Core" recoveries under the Act would be exempt from the fee cap provision. The Act permits fees of $75 per hour to individuals and small businesses, and requires a showing that the Government was not substantially justified in the position it took in litigation.

- In all cases, the client would be required to certify that the fee is owed to the attorney, was determined on an arm's length basis, and will be paid to the extent not covered by the fee award.

- In all cases, the fee awarded must bear a reasonable relation to the result achieved in the proceeding.

Rationale

- Several Federal statutes authorize or require the Federal Government to bear attorneys fees for private parties. This reverses the standard "American rule," under which parties bear their legal costs, win or lose.

- Federal fee awards often exceed $100 per hour, invariably at multiples of the cost of the Federal attorneys involved in the same cases.

- In many instances, fee awards are based upon time spent by attorneys on the case and may exceed the amount recovered by the client in the case.

- Where damages are recoverable from the government, clients should pay their attorneys from the sums recovered.

- Oversubsidization of attorneys unduly encourages recourse to the courts; the cost to the Federal Government of defending suits without merit is substantial.

Effects of the Proposed Change

- Restricting attorney's fees will decrease Federal outlays and will reduce the Federal civil case load, which has grown over 100% since 1975.
- The proposal will restrict contingency fee litigation against the Federal Government, brought by and on behalf of attorneys whose "notational" clients bear no litigation risks or costs, and who are merely the means by which attorneys satisy nominal standing requirements.
- The proposal maintains protections for individuals and small businesses who have been subjected to overreaching Federal actions.

REDUCING LOWER PRIORITY SPENDING

Soil and Water Conservation

AGENCY: Department of Agriculture FUNCTIONAL CODE: 301, 303, 304, 453

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	831	796	573	562	562	562	562	—	270
OUTLAYS	849	828	721	624	598	584	578	—	147

Program Description

The Soil Conservation Service (SCS) provides soil and water conservation technical assistance to landowners, conducts soil surveys and collects national information on soil and water related conservation problems. It also assists sponsors of small water resource projects in planning and implementing works of improvement in small watersheds primarily to reduce flood damage in rural areas and small communities.

The Agricultural Stabilization and Conservation Service (ASCS) administers the Agricultural Conservation Program (ACP), a program of financial assistance to cost share with landowners the cost for installing soil and water conservation practices on private lands.

Proposed Change

The Administration proposes to restructure these programs to achieve soil and water conservation benefits at lower cost. This restructuring comprises:

- Concentrating assistance on resolving high priority soil and water resource problems.
- Maintaining the funding level for conservation technical assistance.
- Initiating a $10 million pilot program of matching grants to induce States and localities to accentuate and compliment existing Federal, State and local soil and water conservation activities.
- Significantly reducing the total funding level for conservation cost share assistance from the 1982 enacted level.
- Significantly reducing the total funding level for small watershed works of improvement from the 1982 enacted level.

Rationale

Basic changes in approach and funding levels are being proposed for soil and water conservation programs because:

- Conservation cost share assistance has not been effective in addressing the most severe soil and water problems. A recent USDA study of the Agricultural Conservation program found the following:
  - — Only 21% of erosion control assistance was directed to lands which account for 84% of all excess erosion.
  - — Less than 4% of water conservation assistance was directed to lands with high rates of water use acounting for over 33% of the total volume of water conserved.

- Careful concentration of a substantially reduced level of assistance on the most serious problem areas would achieve much of the conservation benefits achieved at present funding levels.
  - Conservation benefits would be achieved at lower cost.
  - State governments would exercise a significantly greater role in management of, and allocation of funds for, conservation programs. The relative benefits of land treatment measures and water impoundments can be compared, and State and local priorities more accurately reflected in funding decisions under this approach.
  - Planning and construction activity on lower priority watershed construction projects should be reduced because in many cases they are only marginally cost beneficial. Furthermore they frequently lack the urgency of higher priority erosion control measures.
- Federal technical assistance should continue to be available at recent year levels so that the latest conservation technology can be readily disseminated to and applied by private land owners.
  - State and local governments will continue to have access to the Federal nationwide network of local Soil Conservation Service offices as a source of technical guidance and information on soil and water conservation matters.

Effects of the Proposed Change

- State and local governments can take advantage of their proximity to local areas in identifying local problems and solutions.
- Increased local funding should lead to heightened awareness of the importance of achieving cost–effective solutions to soil and water conservation programs.
- Short–term practices may be more attractive to farmers. Individual producers will be encouraged to apply conservation management type practices which are readily applicable and more cost–effective than many structural type conservation practices. For example, the effective management by the producer of crop and surface residues on cropland through the application of conservation tillage and conservation management systems in appropriate situations provides an efficient and cost–effective means of controlling much excess erosion, and is economic for the producer to incorporate in his farming operation.

Summary of Smaller Items in the Department of Commerce

AGENCY: Department of Commerce FUNCTIONAL CODE: 376

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUREAU OF THE CENSUS:									
Budget Authority	235	145	155	116	130	145	145	—	8
Outlays	249	155	148	115	128	145	145	1	8
NATIONAL BUREAU OF STANDARDS:									
Budget Authority	104	120	104	102	104	104	104	—	13
Outlays	111	118	107	103	104	104	104	—	13
PUBLIC TELECOMMUNICATIONS:									
Budget Authority	20	18	—	—	—	—	—	—	18
Outlays	20	25	24	7	1	—	—	—	2
TOTAL:									
Budget Authority	359	283	259	218	234	249	249	—	39
Outlays	380	298	279	225	233	249	249	1	23

Program Description

The Bureau of the Census provides basic statistical information about the population and economy of the United States. Periodic censuses and programs provide benchmark data at specified 5-year or 10-year intervals. Current programs provide a broad base of monthly, quarterly and annual information for many areas covered by the censuses as well as official statistics on U.S. foreign trade.

The National Bureau of Standards (NBS) is responsible for the development, maintenance, and dissemination of the national standards for measurement. In addition to its primary standards and measurement role, NBS provides technical support for research to increase industrial productivity, develop Federal computer standards, and enhance the knowledge of fire science and engineering.

The Public Telecommunications Facilities Program (PTFP) provides grants for planning and construction of non-commerical telecommunications facilities to help in starting up new facilities and extending the delivery of public telecommunications services. This program was initially proposed for termination in the President's 1982 Budget Revisions transmitted to the Congress in March 1981.

Proposed Changes

Census: Data collection costs for the 1982 Agricultural Census would be reduced by $10 million in 1983. A special "area sample," first conducted in the 1978 Agricultural Census, would not be repeated. Data for the outlying areas (Guam, Virgin Islands, Puerto Rico) would not be collected, and follow-on surveys (e.g., farm finance survey, farm energy, etc.) would not be conducted.

NBS: Direct funding of some productivity programs (automated manufacturing and metals processing) would be reduced by $4 million, or 15% from the 1982 level, and the recycled materials progam would be terminated. Funding for development of Federal computer standards would be reduced by $5 million or 40% from the 1982 level. The fire science and engineering activity previously funded by the Federal Emergency Management Administration (FEMA), but performed by NBS staff, would be continued with directly appropriated funding of $3.5 million, 12% below the 1982 level.

PTFP: In 1983, the Administration proposes elimination of grants for assistance in the planning, constructing, and upgrading of public broadcasting stations.

Rationale

Census: The changes in the Census budget are also an integral part of the President's comprehensive plan to impose fiscal restraint on programs of national interest. The budget provides for data content and quality comparable to that published for the 1978 Agricultural Census. The number of farms enumerated would provide a sufficient base for the conduct of accurate follow-on sample surveys in the 5-year interval before the 1987 Agricultural Census.

NBS: The highest priority is given to assuring adequate staffing and funding for the *basic measurement programs.* These activities in the physical, chemical, mathematical, and engineering sciences would be continued at about the 1982 level. The programs designed to provide technical support to *industrial productivity* would be reduced because the Administration believes that it is possible to place greater reliance on the private sector for activities with near term commercial applications such as robotics and development of information for specific industrial processes. Activities related to the development of *Federal computer standards* would be reduced because the interests of the Federal Government can be protected with a lower level of effort which provides for Federal representation in voluntary ADP standards setting actitivites. This program is proposed for transfer to the General Services Administration in 1983. Funding for the *fire science and engineering program* is proposed for transfer from FEMA in order to improve the planning and management of this activity. The level of effort would be reduced because some of the research activities previously funded by FEMA (e.g., test methods for the flammability of fabrics) are essentialy complete.

The *PTFP* program has successfully extended, to a vast majority of the American people, public broadcasting radio and television programming. Latest estimates show that over 92% of the nation has access to public programming via the world's most sophisticated satellite newtwork. Further, the dramatic growth in the cable television industry will serve to extend public programming to a larger number of Americans in the coming decade.

Effects of the Proposed Changes

Census: Elimination of the area sample would result in loss of data for approximately 9% of the estimated 2.5 million U.S. farms identified in the 1978 census. This subset of farms, however, represented only 1% of farm sales in 1978. The quality of county level data would not be affected since the area sample contributed only to a refinement of state level estimates. Any follow-on surveys that may be considered essential by primary data users (e.g., USDA) can be conducted on a reimbursable basis at a later date. This arrangement can be used for data for the outlying areas as well.

The *NBS* core measurement and standards activities would be continued at the current level.

PTFP: The effects on the operation of the public broadcasting network would be negligible. Station managers would need to maximize the service life of their present equipment and devise new fundraising strategies to secure private sector support of equipment purchases and maintenance.

NOAA Ocean and Weather Programs

AGENCY: Department of Commerce FUNCTIONAL CODE: 306

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	840	849	776	829	858	809	899	16	142
OUTLAYS	877	963	849	812	868	908	905	3	109

***Offsetting fees going to Treasury not reflected. Outyear costs reflect increases for satellite procurement and launch services.**

Program Description

The National Oceanic and Atmospheric Administration's (NOAA) mission is to manage, conserve and monitor marine resources and to monitor and predict atmospheric and marine conditions for the protection of life and property.

NOAA supports a national weather service; civil environmental satellite remote sensing systems; fisheries research, management and development; ocean and atmospheric research and development (R&D); a hydrographic and ocean research fleet; aeronautical and nautical mapping and charting; national geodetic control points; coastal zone management; and, a national environmental data storage and retrieval system. (The mapping and charting program is discussed in a separate fact sheet in Chapter 7 — User Fees.)

Proposed Changes

- *National Weather Service* — Close 45 low priority weather service offices; eliminate agricultural weather services; and fund aviation weather services through the FAA airport and airway trust fund.

- *Environmental Satellites* — Reduce the polar satellite system to one satellite in orbit. NOAA will assume responsibility for the LANDSAT system from NASA and would begin to recover the system's operating costs through the collection of user fees from the sale of data and data products to Federal and non-Federal users. Systems changes required for compatibility with the NASA satellite communication networks will be funded.

- *Fisheries Research, Management, and Development* — Curtail fisheries funding by terminating State fisheries grants, industry subsidies, and the aquaculture research program; reducing funding for marine mammals, fisheries management and development, research and services, habitats, and coastal zone management coordination; and shifting partial funding responsibility for the Columbia River hatcheries and Pribilof Islands operations, in phases, to the benefitting States and industries.

- *Oceanic and Atmospheric Research and Development* — Reduce deferrable R&D programs (e.g., climate, global atmospheric research, solar terrestrial research, ocean buoys, and ocean pollution). Eliminate Sea Grant funding, most weather modifications programs, and the Great Lakes and undersea research programs.

- *Ship Support, Maps, Charts and Geodetic Control* — Stretch out marine boundary survey research activities and the geodetic vertical adjustment program; reduce ship operations; and recover full costs of aeronautical and nautical maps and charts by 1985 (see user fees section).

- *Coastal Zone Management and Environmental Data Services* — Reduce the estuarine sanctuaries program, environmental data services, and overall NOAA administrative costs. Accelerate phase-out of the coastal zone management State grant program and coastal energy impact assistance.

Rationale

- National Weather Service — Lower priority weather stations would be closed as part of an overall restructuring effort by the weather service to streamline services and reduce excess personnel. Adequate services would be provided from other stations. Agricultural users would still be provided with general forecasts. Recovery of aviation weather service cost is consistent with Administration policy to recover the cost of services which provide special benefits to identifiable recipients above and beyond those which accrue to the general public.

- Environmental Satellites — Moving to a single polar orbiting satellite would not seriously degrade U.S. weather forecasting capability. LANDSAT user charges are consistent with the Administration's effort to relieve the general taxpayer of the burden of subsidizing specific program beneficiaries.

- Fisheries Research, Management, and Development — Fishing industry subsidies are terminated to allow the industry to develop as demand dictates. States, localities, and industries would be expected to continue funding programs which benefit them.

- Oceanic and Atmospheric Research and Development — To reduce expenditures, noncritical or deferrable research would be reduced. States and localities which benefit from some of these programs could undertake this research if it is of sufficient priority.

- Ship Support, Maps, Charts and Geodetic Control — Ship support is reduced commensurate with other activities. Completion of marine boundary and geodetic surveys would be decelerated to reduce annual expenditures. (See user fees section for discussion of maps and charts fees.)

- Coastal Zone Management and Environmental Data Services — Coastal Zone Management rescissions are consistent with the phaseout policy established in 1982. Lower priority, data-archiving functions are reduced to achieve savings.

- While imposing fiscal restraint on programs of national interest, these policy/program changes would allow NOAA to continue priority service programs for the protection of life and property, as well as for the management and conservation of marine resources. Research and development to support essential NOAA services and to provide a scientific basis for analysis of environmental protection issues is continued. Priority services that would continue include, but are not limited to: weather services, mapping and charting; acid rain and climate research; weather stations with upper air observations or radar coverage; development of doppler radar, severe weather information system, and automation of surface observations; satellite data necessary for weather warning and forecasts — primarily related to hurricanes and tornados — for key areas of risk; and management of the national fisheries.

Effects of the Proposed Change

The proposed changes shift funding responsibility for certain NOAA activities to States and private industry, reduce R&D activities, and decrease the scope of lower priority activities. The following impacts are illustrative:

- The remaining weather stations (about 210) would assume the services of stations being closed.

- Global coverage by the polar satellite would occur once every 12 hours, rather than once every 6 hours.

- Optimum utilization and development of fisheries resources would be remanded to the fishing industry; Regional Fisheries Management Council's attention would be focused on higher risk fisheries; and

- Priority fisheries, oceanographic and charting and mapping activities would be supported by 20 vessels instead of 22.

Fish and Wildlife Service

AGENCY: Department of the Interior FUNCTIONAL CODE: 303

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
NATIONAL WILDLIFE REFUGE SYSTEM									
Budget Authority	62	65	74	74	74	74	74	—	—
Outlays	60	63	72	72	72	72	72	—	—
NATIONAL FISH HATCHERY SYSTEM									
Budget Authority	20	22	20	20	20	20	20	—	3
Outlays	19	21	19	19	19	19	19	—	3
OTHER FEDERAL OPERATIONS									
Budget Authority	222	190	164	160	160	160	160	—	26
Outlays	256	201	162	156	156	156	156	—	13
FEDERAL AID TO STATES									
Budget Authority	124	145	158	172	191	209	229	—	—
Outlays	131	127	133	143	160	175	191	—	—
TOTAL PERSONNEL									
FTE	7,383	7,060	6,516	6,516	6,516	6,516	6,516	—	—

Program Description

The mission of the Fish and Wildlife Service is to conserve, protect, and enhance fish and wildlife and their habitats. The Service administers programs for migratory birds, threatened and endangered species, certain marine mammals, international resources, and wildlife on lands under Service control.

The Fish and Wildlife Service operates 410 wildlife refuges containing 89 million acres, 68 fish hatcheries and related production and training facilities, 9 research laboratories, and funds numerous planning and monitoring activities.

Proposed Change

- The Administration proposes to save $3.7 million by closing or transferring to States those fish hatcheries that produce fish for sports fishing within State waters. Since the fish produced by these hatcheries are for local recreation, the continued operation of each of the hatcheries will be a State decision.
- Funding for nationally significant hatcheries would be increased by $1.6 million.
- A $7 million savings would be achieved by streamlining the organizational structure of the Fish and Wildlife Service and eliminating unnecessary overhead costs associated with 547 full-time-equivalent personnel.
- The 1983 request includes increases in support of the new refuges authorized by the 1980 Alaska Lands Act. It also disburses to the States $158 million in Federal excise taxes collected on fish and wildlife sports equipment for support of hunting and fishing.

Rationale

- The Fish and Wildlife Service is streamlining its internal operations, simplifying cumbersome organizational arrangements and administrative procedures, focusing on activities of national priority, and reducing overhead expenses wherever possible.

- The changes in fish and wildlife programs are consistent with the desire to develop balance between the Federal Government and the States. States collect the revenues from licenses for sports fishing and are in the best position to determine the types and volume of fish produced for stocking their waters.

- The Fish and Wildlife Service has reaffirmed the priorities of the National Fish Hatchery System. Primary areas of Federal responsibility include:

  — international waters such as the Great Lakes;

  — waters essential for spawning of anadromous species such as Atlantic and Pacific salmon;

  — waters in which the fishery resource has been altered by the construction of dams or other Federal projects; and

  — waters on Indian lands.

  Federal involvement in these areas is necessary because of Federal law, action of the courts, and the need to supplement individual State efforts to adequately support and maintain interstate or international fishery management programs.

- Over the years, hatcheries that do not serve Federal or national needs have been added to the Fish and Wildlife Service. Thirty-one of these federally funded fish hatcheries, which produce fish primarily for recreation activities in intrastate waters, are scheduled to be transferred to the States or closed.

- The International Association of Fish and Wildlife Agencies, which represents the States, has previously recommended reductions in operations of the National Fish Hatchery System in the same magnitude as the Administration proposes in the 1983 Budget.

Effects of the Proposed Change

Within limited funding, the Fish and Wildlife Service would continue to ensure effective operation of essential progams:

- The reduction in administrative overhead would result in more efficient management and administration of fish and wildlife programs.

- The Fish and Wildlife Service would focus its fish hatchery programs on national needs and concerns. Reductions in nonessential activities make it possible to devote the necessary resources to improvements in the national refuge and hatchery system.

- Grants to States for fish and wildlife projects financed from federally collected revenues would increase by $13 million in 1983.

- The proposed $9 million increase for refuge operation and maintenance reflects an increase in emphasis on maintaining the integrity of the National Wildlife Refuge System.

- The $6 million increase for facility rehabilitation construction would correct safety hazards, protect wildlife habitat, complete pollution abatement facilities, and restore diminished production capability at national fish hatcheries.

- Federal land acquisitions would be limited to the most important acquisitions for recovery of endangered species.

National Park Service Programs

AGENCY: Department of the Interior FUNCTIONAL CODE: 303

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
OPERATIONS/CONSTRUCTION									
Budget Authority	524	619	677	679	679	679	679	—	—
Outlays	607	665	675	654	669	679	679	—	5
GRANTS									
Budget Authority	198	33	—	—	—	—	—	—	33
Outlays	363	385	244	124	61	—	—	—	21
LAND ACQUISITION									
Budget Authority	63	103	60	60	60	60	60	—	50
Outlays	106	173	72	60	60	60	60	—	33

Program Description

The Department of the Interior, through the National Park Service, operates 333 park and historic areas comprising about 74 million acres. In addition, the Park Service administers three categorical grant-in-aid programs: Land and Water Conservation Fund State grants, Historic Preservation Fund State grants, and Urban Park grants. These grants assist States and localities in acquiring and developing recreation areas and facilities and administering State historic preservation programs. Under the Land and Water Conservation Fund, the Park Service acquires land from private owners to create new park areas or expand existing areas.

Proposed Change

A $525 million, five-year initiative to restore and improve existing national parks was begun in 1982, with an initial $105 million request above the Carter 1982 Budget. This initiative would continue, with the Administration again proposing that funding be derived from receipts deposited into the Land and Water Conservation Fund.

The Administration would continue its basic policy of not proposing funding for the three narrow categorical grant programs. The Congress accepted the Administration's position on the Land and Water Conservation Fund State grants in 1982, but did provide funding for the other two categorical grant programs. No funds would be requested for the private, nonprofit National Trust for Historic Preservation, in keeping with the Administration's belief that the private sector should play the major role in historic preservation. The Department of the Interior would have added resources to ensure continued certification of properties eligible for Federal historic preservation income tax credits.

Land acquisition would be limited to parcels subject to condemnation awards, emergency purchases, and high-priority conservation areas.

Rationale

- The park improvement initiative, termination of the three State grant programs, and a restricted land acquisition budget are integral components of the Administration's overall effort to eliminate low-priority Federal spending and use available resources more effectively.
- The park restoration and improvement initiative is an investment in the nationally significant resources held in trust for all Americans by the National Park Service. Many facilities in the Park System were built during the 1930's and have simply worn out. However, past funding generally focused on expanding the number and types of units in the system. Recent GAO

reports document such problems as road deterioration, hazardous visitor accommodations, and inadequate water and sewer systems — all resulting from the lack of sufficient maintenance and repair funds.

- Grants to States and localities for recreation and historic preservation primarily produce local benefits. Such activities should compete for local tax dollars on the same footing as other local services and are low priority for Federal funding.

- Most buildings listed on the Park Service's National Register of Historic Places are not nationally significant; in fact, many are only locally significant. Registration will continue, but at a slower pace if each State provides the total funding of its historic preservation program.

- The Economic Recovery Tax Act of 1981 provides a 25 percent income tax credit for historic preservation. Over $200 million in tax credits are estimated for 1983 and almost $300 million in 1984.

- The Federal government owns more than 760 million acres of land, more than one-third of the United States. State and local governments hold a small but growing share (6 percent), bringing public ownership to 40 percent. Reducing Federal land acquisition will slow this transfer of land from private to public ownership.

- The large backlog of authorized land acquisitions include many parcels that have no unique, nationally significant features that warrant their inclusion in the Park System. Acquiring these lower-priority tracts not only spreads the Park Service's operations thin and dilutes the quality of our National Parks, but also takes away from local decision-making control over recreational resources that are primarily local in use and service.

- The $60 million requested for National Park Service land acquisition in 1983 will be used to pay court awards on lands already taken or condemned by the United States and for emergency purchases. Also, the Forest Service, the Fish and Wildlife Sevice, and the Bureau of Land Management will continue to acquire some high-priority conservation areas.

Effects of the Proposed Change

NATIONAL PARK RESTORATION AND IMPROVEMENT PROGRAM:

- This initiative will focus on five major areas: correction of health and safety problems; cyclic maintenance, repair, and rehabilitation; historic resources preservation; natural resources preservation; and major capital improvements.

The following facilities are examples of those that will receive funding:

— Cape Hatteras National Seashore — lighthouse stabilization

— Scotts Bluff National Monument — water supply upgrading

— Great Smokey Mountains National Park — reconstruction of two bridges

— Mesa Verde National Park — stabilization of ruins

— Haleakala National Park — water and fire protection systems improvement.

STATE RECREATION GRANTS OF THE LAND AND WATER CONSERVATION FUND:

- Prior-year appropriations of over $350 million of unexpended balances will be available to States in 1983 and beyond. States and localities may continue to use their own funds for parks, as well as issue bonds or place zoning requirements on new developments.

HISTORIC PRESERVATION FUND:

- Through the efforts of States, localities and individuals, the number of properties identified eligible for inclusion on the National Register of Historic Places will continue to grow in 1982 and 1983.

URBAN PARKS:

- There will be no federally financed new starts in 1983, although some local governments will continue to fund improvements with their own funds. Also the Urban Park Program began 1982 with unexpended funding of over $100 million, which will be used for projects through 1985.

NATIONAL PARK SERVICE LAND ACQUISITION:

- The Congress appropriated funds in excess of the Administration's total land acquisition proposal in 1982, but did not fully cover the costs of ongoing court awards. The Administration's 1983 request will pay for those court awards received in 1982 and estimated for 1983 which were left unfunded by the Congress in 1982.

Impact Aid

AGENCIES: Departments of the Treasury, the Interior, and Defense* FUNCTIONAL CODES: 051, 501

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	757	456	287	287	287	287	287	—	205
OUTLAYS	753	645	403	311	289	287	287	—	154

*Includes activities formerly financed in the Department of Education.

Program Description

The Impact Aid program provides aid to local school districts whose local revenues are deemed to have been reduced by the presence of Federal property. Payments are made directly to local school districts and used for operating expenses and, in some cases, for construction and emergency repairs to school buildings. Payments are currently made to approximately 2,000 school districts on behalf of children who reside and/or whose parents work on Federal property or are in the military.

Proposed Change

The Administration proposes to transfer the largest part (maintenance and operations) of Impact Aid to the Treasury Department; portions of the construction program to the Departments of the Treasury, the Interior, and Defense; and the administration of federally operated schools to the Department of Defense.

In 1983, Impact Aid will:

- Pay school districts *only* for those children who live on Federal property *and* whose parents work on Federal property or are in the military. ("A" children; children with either but not both attributes are "B" children.)
- Provide for emergency repairs to school facilities only on Federal property.
- Payments will be made at approximately 80% of the level of payments made in 1982 for "A" children.

Rationale

- The 1983 proposal recognizes that, especially in a time of budgetary restraint, Impact Aid funds should be directed to those school districts most likely to suffer revenue loss as a result of Federal activities — school districts enrolling "A" children.
- In past years, payments have been made to as many as 3,900 school districts, primarily on behalf of "B" children, whose Federal connection does not interfere with their families' contribution to local school revenues. There is little rationale for any Federal contribution in such a situation.

Effects of the Proposed Change

- Payments will be made to approximately 1,500 school districts that serve 340,000 "A" children who live and whose parents work on Federal property, mostly military installations or Indian lands.
- Payments made on the basis of 1.7 million "B" children will be eliminated.

Education Grant Programs

AGENCIES: Foundation for Education Assistance* FUNCTIONAL CODES: 501, 502, 503, 506
Department of Health and Human Services
Department of the Interior

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	5,955	4,831	3,989	3,539	3,539	3,539	3,539	842	1,753
OUTLAYS	6,201	6,237	4,797	4,069	3,619	3,548	3,539	162	1,088

*Formerly the Department of Education.

Program Description

Chapter 1 of the Education Consolidation and Improvement Act of 1981 (ECIA) provides funds to State and local education agencies to finance supplemental compensatory educational services for the educationally disadvantaged. Chapter 1 replaced Title I of the Elementary and Secondary Education Act, which provided similar services.

Indian Education programs authorized by the Indian Education Act of 1972 help improve education for American Indians and Alaskan natives in public and Indian-controlled schools.

Vocational and Adult Education programs support a range of vocational training activities at the secondary, postsecondary, and adult levels.

Handicapped Education programs under the Education of the Handicapped Act aid States in educating handicapped children. Funds also go to States under Chapter 1 of ECIA to help educate handicapped children.

Rehabilitation Services and Handicapped Research activities include a wide array of services (e.g., counseling, vocational training, physical and mental rehabilitation, and transportation) to assist handicapped individuals to become gainfully employed or live independently.

Proposed Change

	(budget authority in millions)						
	1981	1982	1983	1984	1985	1986	1987
Chapter I, ECIA	2,959	2,365	1,942	1,500	1,500	1,500	1,500
Indian Education	82	71	51	43	43	43	43
Vocational and Adult Education	782	634	500	500	500	500	500
Handicapped Education	1,178	900	846	846	846	846	846
Rehabilitation Services	954	861	650	650	650	650	650
Total	5,955	4,831	3,989	3,539	3,539	3,539	3,539

Reduce the level of Federal funding from 1982 to 1983 by $842 million, or 17%, in budget authority:

- Reduce *Chapter 1, ECIA* funding by $423 million.
- Transfer the *Indian Education* programs to the Department of the Interior and reduce funding by $20 million.
- Consolidate *Vocational and Adult Education* authorities into a simplified grant to States and reduce funding by $134 million.

- Consolidate *Handicapped Education* authorities from the Education of the Handicapped Act and Chapter 1 of ECIA into simplified grants to States and reduce funding by $54 million.

- Transfer *Rehabilitation Services and Handicapped Research* to the Department of Health and Human Services and consolidate authorities into a simplified grant to States and reduce funding by $211 million.

Rationale

In response to the overall need for fiscal restraint, funding for these activities should be reduced because they represent lower priorities for Federal funding than other activities.

As part of the realignment of the Federal–State relationship in education, the scope of the Federal role in education should be constrained and its potential for intruding on State and local prerogatives should be limited.

Chapter 1 funding can be reduced and still provide important aid to help the most needy. Giving States and localities greater control over and flexibility in the use of funds is expected to produce administrative efficiencies and a corresponding reduction in average cost per pupil sufficient to avoid elimination of service to the most needy children.

Transfer of *Indian Education* to the Department of the Interior will allow all Federal funds for education of Indians to be administered by one agency, which will improve the opportunity for efficient administration of programs for Indians, allow better policy coordination among programs for Indians, and improve the effectiveness of resource allocation.

Consolidation of *vocational and adult education* authority is needed to increase State and local flexibility and control over use of funds and eliminate unnecessary recordkeeping.

Handicapped education programs are now provided under two laws containing a variety of categorical programs. Consolidating these into simplified grants to States is needed to allow more efficient use of funds, eliminate undue Federal burdens and limitations on State and local efforts, and reduce administrative costs.

Rehabilitation grant programs should be consolidated to give States greater flexibility in use of funds, reduce Federal administration burdens, and allow States to provide rehabilitation services more effectively to their handicapped citizens. The transfer of these activities to the Department of Health and Human Services places the program within an agency better suited to administer it.

Effects of the Proposed Change

Emphasis on using limited resources for populations most in need will be strengthened. Federal funds will be reduced.

- Over 4.3 million educationally disadvantaged children will be served in 1983 with Chapter 1 funds if the States can achieve an average cost of about $400 per child.

- About 310,000 Indian children will be served with Indian education funds at a cost of about $100 per child.

- Vocational and adult education funds will be more effectively programmed.

- About 4.3 million handicapped children will be aided at a cost of $180 per child, about $10 less than in 1982.

- About 900,000 handicapped persons will be provided with rehabilitation services, some 350,000 fewer than in 1982. About 142,000 of these people will be rehabilitated to employment, about 56,000 fewer than in 1982.

Program statutes and regulations will be simplified and funding procedures will be streamlined in order to improve the quality of services and to increase the proportion of funds spent on real service delivery rather than on unnecessary procedures, reporting, and recordkeeping.

Reduced Navigation Maintenance

AGENCY: Corps of Engineers/Tennessee Valley Authority FUNCTIONAL CODE: 301

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	510	565	465	485	510	535	555	—	150
OUTLAYS	510	565	465	485	510	535	555	—	150

Program Description

The Corps of Engineers and Tennessee Valley Authority operate and maintain a system of locks, dams, channels, and other facilities on the inland waterways of the Nation, principally for moving bulk goods, such as grain and coal.

The Corps also dredges harbor channels and maintains other facilities for ocean-going and Great Lakes traffic.

Proposed Change

- The Administration requests $465 million for inland and deep draft operation and maintenance, $150 million below the $615 million required to perform a moderate level of maintenance at all waterways and harbors.
- The appropriation request will be increased if adequate reimbursement is provided upon the enactment of user fee legislation.

Rationale

- Reduced funding is consistent with the Administration's policy position that maintenance and new construction should be a non-Federal responsibility paid for through user fees rather than by the general taxpayer.
- Most other types of completed Federal water resources projects are maintained by non-Federal project sponsors.

Effects of the Proposed Change

If Congress does not enact legislation for waterway user charges, the Corps of Engineers will have to restrict its maintenance to the highest priority operations.

Congressional inaction on user fees would cause the following serious problems:

- About 35 low volume inland waterways are expected to close while 13 moderate volume waterways will experience reduced hours of operation.
- About 40 high cost-low tonnage commercial ports where Federal costs exceed $1 per ton of commerce will not be dredged, resulting in light-loading of vessels or diversion to other ports. These ports handle only 2 percent of the deep draft tonnage, but are responsible for 20 percent of deep draft maintenance costs.
- Shallow draft harbors will not be maintained at Federal expense.
- The amounts cannot be calculated in advance, but the budget cuts should result in overall national savings because high unit-cost waterways and ports have been chosen for budget reductions.

- Some waterways may experience traffic diversions to other more cost-effective modes of transportation, such as rail, and there may be increased use of ports less costly for the Federal Government to maintain. These diversions may increase costs for some specific shipments.

- It is likely that the cost to users of low and moderate volume waterways will increase. Low-volume waterways like the Kentucky waterway and the Allegheny waterway will be closed, and moderate-volume waterways like the Arkansas will have reduced hours of operation.

- The shallow draft harbors which will not be dredged serve primarily fishermen and recreationists. Not dredging these harbors may cause channel closures or light loading and inconvenience.

- The Administration will request funds to rectify the above effects when adequate user fees to recover costs of maintanance dredging are authorized by Congress.

State Environmental Grants

AGENCY: Environmental Protection Agency FUNCTIONAL CODE: 304

Funding

	($ in millions)								
								Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	210	225	182	182	182	182	182	0	61
OUTLAYS	224	219	205	186	182	182	182	0	27

Program Description

EPA administers six categorical State grant programs, including: air quality, water quality, public water supply, underground injection control, hazardous wastes, and pesticides enforcement grants. These grants pay part of the costs of State personnel and expenses for regulation and enforcement under pollution abatement laws.

Proposed Change

Reductions in funding of 19% in 1983 are proposed as a result of significantly reduced Federal demands on State overhead and management responsibilities.

Rationale

The Environmental Protection Agency will initiate actions to increase State flexibility and control over their pollution abatement activities. These include:

- *Reduce program requirements on States.* One of the principal objectives of the Administration is to eliminate the many cumbersome and overly complex program requirements that have little, if any, impact on environmental quality. Changes needed range from lengthening the period of pollution permits, thereby avoiding unnecessary reviews, to reducing the number of *mandated* programs that States must administer, such as vehicle emission inspections, when States have preferred alternatives that achieve the same objective.

  EPA is also moving quickly, through regulatory reform initiatives, to reduce program requirements on States. A major effort to drop requirements that were not mandated by law but which EPA *itself* had imposed on States has already begun. In the waste treatment grant program, EPA recently proposed new, simplified regulations which reduce the information and paperwork burden on States by over one–third while maintaining all statutory requirements and those needed for effective program management.

  EPA has also initiated a new enforcement policy that will enable both the States and the Federal Government to concentrate resources on violations that could significantly affect environmental quality rather than "de minimus" technical violations.

- *Reduce Federal oversight of State permit and implementing actions.* States have consistently argued that Federal EPA oversight consists of far too much duplication, permit–specific approval and technical second–guessing. EPA is moving quickly to eliminate the enormous delays, of up to 2 years, in approving routine State implementing actions. These delays have been primarily due to layer upon layer of Federal bureaucratic review and approval.

  EPA has begun three pilot programs: 1) to consolidate Federal and State procedural requirements, such as public notice and comment provisions, rather than duplicating State actions at the Federal level; 2) to speed the review and approval of noncontroversial or technical changes in State regulations; and 3) to reduce the number of EPA internal reviews of State actions.

These initiatives will free States from having to spend inordinate time and effort defending State regulations before EPA and from having to initiate the lengthy process of changing State regulations to comply with EPA second-guessing.

- *Reduce Federal reporting requirements on States*, including reducing or simplifying the many "status" reports required of States and consolidating the procedural requirements in support of applications for Federal grant funds. States have been uniform in their opposition to the workload associated with responding to Federal "red tape" requirements.

- *Encourage user fees.* Sixteen States have already begun charging permit and license fees to offset the costs of operating air and water pollution control programs. These revenues pay for the costs of issuing permits, monitoring dischargers, and conducting inspections of dischargers to ensure compliance with permits. The charging of even modest fees by all States for issuing pollution-related permits will significantly reduce the need for Federal subsidies and would provide States with sufficient additional revenues to pursue pollution control activities which are either not covered by Federal funding or for which sufficient funding would not otherwise exist.

Effects of the Proposed Change

The actions initiated by EPA will not affect the substantive pollution control efforts conducted by State agencies. Instead, these initiatives will permit States to:

- reduce overhead and staffing requirements currently being devoted to managing the *process* rather than managing State *programs*;

- reduce the amount of staffing involved in negotiating and rewriting plans and regulations to suit EPA; and

- reduce staffing required to fill out and submit reports and data to EPA.

The increased State flexibility that will result from these actions will be further enhanced as States move to greater self-sufficiency and independence through the adoption of appropriate user fee mechanisms.

INCREASING INVESTMENT IN RESEARCH AND DEVELOPMENT

Nuclear Energy Programs

AGENCY: Department of Commerce FUNCTIONAL CODE: 271

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY*	1,889	1,567	1,458	1,686	1,675	1,823	1,988	0	319
OUTLAYS**	1,912	1,398	1,329	1,596	1,843	1,888	2,035	0	366

* Includes obligations from 1983 on for commercial waste disposal from fees on nuclear power generation as explained in Chapter 6.

** Includes costs from 1983 on for commercial waste disposal from such fees.

Program Description

The principal elements of the nuclear energy program (in the existing Department of Energy) are research and technology development, commercial nuclear waste management and uranium enrichment. The nuclear program also supports research and technology development to improve the safety of current nuclear powerplants (light water reactors); to evaluate spent fuel storage and reprocessing options (nuclear fuel cycle); and to advance nuclear space power technology (advanced nuclear systems).

Technologies for energy production now under development are chiefly fusion and the breeder reactor, focused on the Clinch River Breeder Reactor (CRBR).

Proposed Change

The 1983 budget provides for continuation of a strong nuclear program taking into account the appropriate role of the Federal Government and program priorities. Savings are proposed in 1983 for activities not in keeping with this policy.

The specific major changes are noted below:

- For *Magnetic Fusion*, the budget proposes to refocus the program toward resolving existing scientific and technical issues. The pace of engineering development, including funding for large demonstration facilities, has therefore been stretched out.
- For the *Breeder Reactor*, a significant increase is proposed for the Clinch River Breeder Reactor (CRBR) project and long range technology development in support of CRBR. This increase is more than offset by eliminating funding in 1983 for component development for the Large Developmental Plant (LDP) and through phase-out of the Light Water Breeder Reactor demonstration.
- For the *Light Water Reactor* program, budget funding will be focused on investigating the damaged reactor core from the Three Mile Island plant in order to obtain data that will be applicable generally to nuclear reactor safety. Funding in 1983 for the High Temperature Gas Reactor (HTGR) program is not requested, accounting for much of the reduction from 1982.
- Funding for *Nuclear Fuel Cycle* activities in 1983, which consist of reprocessing, waste form technology, and spent fuel storage technology, is at the same program level as 1982.
- For the *Commercial Nuclear Waste* program, the budget in 1983 proposes an accelerated program for site-specific activities leading to the development and operation of permanent disposal facilities for high level radioactive waste. The budget assumes enactment of legislation to impose user fees on nuclear power generation. This fee transfers the responsibility of paying for waste disposal service from the taxpayer to the utility ratepayer. (See Fees for Commercial Nuclear Waste Disposal paper in Chapter 6 for further details.)

The following table summarizes funding for the Nuclear Energy Programs:

Program	Budget Authority (in million $) 1981	1982	1983
Magnetic Fusion	394	454	444
Breeder Reactor	663	687	577
(CRBR)	(122)	(122)	(254)
Light Water Reactor	83	117	32
Nuclear Fuel Cycle/Spent Fuel*	21	7	59
Advanced Nuclear Systems	40	38	31
Commercial Nuclear Waste	246	263	315
Commercial Nuclear Waste Disposal Fund**	(---)	(---)	(185)
Other Waste Programs	(246)	(262)	(130)
Uranium Enrichment (net)	442	1	0
TOTAL Nuclear Energy	1,889	1,567	1,458

*Note: Nuclear Fuel Cycle program was formulated in 1983 from Spent Fuel, part of the Breeder Reactor program and part of Commercial Nuclear Waste program.

**Obligations from fees received from utilities on nuclear power generation.

Rationale

- Continued Federal support for Magnetic Fusion and Breeder Reactor programs is appropriate in light of the potential pay-off of these technologies to the nation and the inability of industry to make significant investments at this time.

  In the *Magnetic Fusion* program, funding for research is emphasized to assure that current scientific issues are adequately resolved prior to construction of large fusion engineering devices.

  In the *Breeder Reactor* program, breeder reactor technology will be effectively demonstrated by construction and operation of Clinch River Breeder Reactor (CRBR). No funds are requested for the Large Developmental Plant (LDP) in FY 1983 on the assumption that construction of an LDP is the responsibility of private industry. If any agreement to an international cooperative LDP effort materializes among Federal, domestic private and foreign groups, then funds for limited design activities can be provided within the program proposed for 1983 The Light Water Breeder Reactor (LWBR) has successfully completed its test program and therefore will be retired.

- For the *Light Water Reactor* program, research at the Three Mile Island (TMI) site has been increased to the extent that the Federal Government can support research of benefit to the nation as a whole. It is assumed the responsibility of TMI clean-up rests primarily with those who produce and use nuclear power. No funds are provided for the High Temperature Gas Reactor since the further deployment of this existing technology should be a private sector responsibility.

- In the *Commercial Nuclear Waste* program, commitment to a permanent waste facility commissioned by the end of this century is needed to support continued utilization of nuclear power. Without a program to meet this goal, continued licensing by the NRC of reactors is in question. User fees are a more appropriate form of financing for this business-like activity. Meanwhile, it is expected that nuclear plant utilities can provide for sufficient interim storage capacity.

Effects of the Proposed Change

- The nuclear energy program for 1983 has been reduced by $109 million in budget authority over 1982. This represents a shift in emphasis from multiple demonstrations to more long term, high risk R&D, and away from taxpayer subsidy of commercial nuclear waste disposal.

- The Clinch River Breeder Reactor will be supported consistent with a plant start-up before 1990.

- Commercial demonstration of current technologies such as the HTGR are left to the private sector for support.

National Aeronautics and Space Administration

AGENCY: National Aeronautics and Space Administration

FUNCTIONAL CODES: 250, 402

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	5,518	5,936	6,608	6,508	6,054	5,499	5,432	—	—
OUTLAYS	5,421	5,827	6,577	6,530	6,193	5,673	5,499	—	—

Program Description

Programs of the National Aeronautics and Space Administration (NASA) consist primarily of R&D activities in space transportation, space science, space and terrestrial applications, and aeronautics.

- Space transportation programs provide for procurement and operation of a fleet of Space Shuttle Orbiters and other space and ground hardware to meet the launch needs of civil, military, and foreign users.
- Space science programs investigate the Earth's space environment, the Sun, the planets and distant objects in the Universe—primarily through the use of unmanned spacecraft supported by ground-based research.
- Space and terrestrial applications activities support R&D to apply space technology to practical uses. Included, for example, are activities to improve understanding of Earth resources, climate, weather and pollution; to develop agriculture forecasting techniques based on satellite data; and to extend the range of satellite communications.
- Aeronautics R&D supports fundamental research in the aeronautical disciplines (e.g., aerodynamics and propulsion) and selected component technology development and demonstration efforts.

In addition to these specific R&D programs are general agency-wide support activities at NASA Headquarters and the field centers. Included primarily are satellite tracking and data acquisition support; all NASA civil service and administrative costs; maintenance of the agency's physical plant; and R&D addressing fundamental space technology problems and opportunities common to a broad spectrum of space programs.

Proposed Change

The 1983 Budget for NASA provides for an overall increase of $672 million. The overall increase is the net effect of increases for several high priority activities offset partially by decreases for lower priority activities, as detailed below.

- *For Space Transportation*, the budget provides increases for logistics and contractor support to assure timely transition of the Space Shuttle to an operational system; for development of a lighter weight solid fuel rocket for the Space Shuttle to permit carrying heavier payloads; and for the first demonstration of the repair on orbit of a disabled satellite. Savings would be achieved by not initiating the development of the Centaur upper-stage propulsion project.
- *For Space Science*, the Gamma Ray Observatory Mission would be continued, leading to a 1988 launch. Funding would be increased to continue as planned the Galileo project to Jupiter to be launched in 1985. Major cost savings would be achieved through not initiating the development of the Venus Orbiting Imaging Radar mission and by reducing other lower priority science projects.

360-900 O - 82 - 6

- *For Space and Terrestrial Applications*, savings would be achieved by placing greater reliance on the private sector for satellite communications R&D. Funding responsibility for future operational weather satellite improvements would be transferred to the National Oceanic and Atmospheric Administration of the Department of Commerce.

- *For Aeronautics R&D*, increases would be provided for fundamental research in aeronautical science. Offsetting savings would be obtained by reducing efforts in those areas of technology development and demonstration aimed primarily at relatively near-term civil aviation applications.

- *For Agency-wide Supporting Activities*, an increase is necessary to initiate lease payments for the new Tracking and Data Relay Satellite System.

The following table summarizes the proposed 1983 Budget for NASA:

	(Budget Authority in Million $)		
	1981	**1982**	**1983**
Space Transportation	2,729	3,090	3,468
Space and Science	542	568	682
Space and Terrestrial Applications	340	334	320
Aeronautics	271	233	232
Agency-wide supporting activities	1,636	1,711	1,906
TOTAL NASA	5,518	5,936	6,608

Rationale

- *For Space Transportation*, increases are needed to assure a timely transition to an operational Shuttle system that will meet, with a high level of confidence, the needs of civilian and military users. The Centaur upper stage development is being terminated because it is not essential to approved civil or military requirements.

- *For Space Science*, development of the Venus Orbiting Imaging Radar mission is not being initiated in order to provide adequate funds for the highest priority science missions (i.e., the Space Telescope, the Gamma Ray Observatory, and the Galileo mission to Jupiter).

- *For Space and Terrestrial Applications*, support would be curtailed for major satellite missions intended to accelerate commercial applications of space technology or to demonstrate new satellites for other civil agencies. Planning and funding for new major satellites with commercial value is more appropriately and efficiently pursued by the private sector. Where Federal agencies need NASA capability, the work is more appropriately done on a reimbursable basis.

- *For Aeronautics R&D*, research in aeronautical sciences and related facilities support would be increased to help sustain the knowledge base which underlies the long-term strength of the Nation in aviation technology. Federal support for technology development with relatively near term commercial application represents an inappropriate subsidy to industry and is being curtailed.

- *For Agency-wide Supporting Activities*, generic space research and technology would be maintained at a relatively constant level to assure a flow of new knowledge and technology to future programs. Personnel, facilities, and administrative costs would be kept to minimum levels.

Effects of the Proposed Change

- The NASA Budget for 1983 provides an increase of $672 million in budget authority over 1982, a real increase of about 4 percent.

- The decrease in NASA's budget in the outyears reflects the completion of several major space flight missions and the progress of the Space Shuttle from the costly development and orbiter production phase to revenue generating operations. Space Shuttle revenues, which include prepayments toward the cost of planned future launches, are estimated to rise from $59 million in 1982 to $135 million in 1983. These revenues will increase further in future years as the frequencey of Space Shuttle launches increases.

National Science Foundation

AGENCY: National Science Foundation

FUNCTIONAL CODE: 250

Funding

	($ in billions)							Increase Above Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	1,036	1,003	1,078	1,078	1,078	1,078	1,078	—	20
OUTLAYS	981	1,101	982	1,130	1,048	1,076	1,076	—	—

Program Description

The National Science Foundation (NSF) primarily supports long-term basic research in all scientific disciplines through grants, largely to scientists in academic institutions, and through support of major research facilities in areas such as ground-based optical and radio astronomy, oceanography, and atmospheric sciences.

Proposed Change

NSF programs would increase in 1983 by $75 million or 7 percent over 1982. This increase would compensate for cost increases due to inflation in research project support. The budget also includes partially offsetting reductions in some lower priority activities. Specifically, the 1983 budget would:

- Provide an increase of about 9 percent over 1982 in the support by NSF of research in the natural sciences and engineering, with particular emphasis on the mathematical and physical sciences and engineering.
- Continue U.S. activities in the Antarctic — managed by NSF — at approximately the ongoing level of effort. Includes $13 million in budget authority for icebreaker support in the Antarctic previously budgeted in the Department of Transportation.
- Continue NSF's research fellowship program, but not fund any other Science Education activities.
- Provide no funds to initiate the construction phase of the new Ocean Margin Drilling program, but continue the ongoing ocean drilling program for another year.
- Provide some additional funds in 1982 and 1983 over levels previously proposed for 1982 for behavioral, social and economic sciences, particularly to preserve high priority support of data bases and basic methodological research.

Rationale

The Foundation's support of basic research is of particular significance because it complements the basic research programs of mission agencies, such as the Department of Defense and the National Institutes of Health, and balances Federal support across all scientific disciplines. The Administration supports basic research because the private sector is unlikely to make investments in this area that are adequate for the long-term needs of the Nation.

In the 1983 budget for NSF:

- Emphasis is given to the physical sciences and engineering based upon the relative importance of these disciplines to the long-term technological advancement and economic strength of the Nation.

- Support of the Antarctic program is continued because of the importance of the Antarctic as an area where a number of nations conduct valuable research in peaceful coexistence under the terms of the Antarctic Treaty, of which the U.S. is a signatory.

- The research fellowship program is continued as a complement to the Foundation's support of research. However, other lower-priority Science Education activities previously supported by the NSF would be phased out by 1983 because education is more appropriately the responsibility of State and local governments.

- The construction phase of the Ocean Margin Drilling program would not be initiated because of inadequate industry support to continue the cost sharing arrangements earlier planned for the program and because full funding for this program by NSF would not be warranted on the basis of scientific priorities.

- Some increases are proposed in 1982 and 1983 over the previously reduced level of the Administration's 1982 (March) Budget for the social, behavioral, and economic sciences that would allow continued funding for relatively higher priority areas. Examples include the maintenance of long-term data bases, methodological improvements, and quantitative research that are important to the continued development of these disciplines as fields of scientific inquiry.

Effects of Proposed Change

- The phase-out in 1982 and 1983 of separate programs in Science Education would have a relatively small impact because past NSF support levels have constituted a negligible fraction of the approximately $150 billion that the Nation invests on education each year.

- The proposed increases for the natural sciences and engineering would provide a real growth in 1983 of approximately 2% above 1982 for these disciplines.

OTHER PROGRAMS

Enterprise Zones

AGENCY: Department of Housing and Urban Development FUNCTIONAL CODE: 451

Funding

	($ in millions)			
	1984	1985	1986	1987
BUDGET AUTHORITY	0	0	0	0
OUTLAY EQUIVALENT	310	620	930	930

Program Description

Enterpise Zones is an experimental, free market approach for dealing with urban problems. It has two purposes: to create jobs in depressed inner city areas, especially for disadvantaged workers; and to redevelop and revitalize the geographic areas themselves.

The Enterprise Zone concept is a new approach to urban problems, relying on market processes rather than direct Federal subsidies and central planning. It focuses on removing government barriers to economic growth — barriers to people creating, producing and earning their own profits and wages.

It would do this by:

- Providing tax relief at the Federal, State, and local levels.
- Reducing unnecessary red tape at Federal, State, and local levels.
- Improving local public services, possibly through experimentation with private provision of some of these services.
- Involving private, local, neighborhood organizations in the program.

The Secretary of HUD would be authorized to approve the designation of an area as an enterpise zone on the application of the State and city governments if the area met eligibility criteria as an area of pervasive poverty, unemployment, and general distress. Up to 25 zones per year, for three years, could be so designated, on a competitive basis. In evaluating applications, the Secretary of HUD would by law consider the contribution of non-Federal governments to tax and regulatory relief; improvement of local public services; and the involvement of neighborhood organizations and private sector groups.

Once designated by HUD as an enterprise zone, Federal tax incentives relating to investment, payroll, employee income, and capital gains would be applicable to activity in the zone. Zones would also fall under the provisions of the 1980 Regulatory Flexibility Act.

Rationale

- Our nation has a history of throwing money at urban problems. We have tried a variety of programs — the Federal Urban Renewal Program, the Model Cities Program, the Economic Development Administration — and have found our efforts not only a failure, but often inimical to the very goals we claimed we were trying to accomplish.
- We must seek another way.
- We should experiment with a new approach to reduce State, local, and Federal tax and regulatory burdens in specific geographical areas meeting predesignated criteria to provide the incentives for people, less restricted by the precepts and objectives of those who govern, to determine their own destiny.

Effects of the Proposed Change

The basic elements of the enterprise zones approach should provide the following incentives and opportunities:

- Incentives for employers to establish or expand businesses and create jobs in the zone areas.
- Incentives for people, particularly those currently unemployed or receiving low wages, to take jobs in zone areas.
- Opportunities for zone residents, including the disadvantaged, to participate in the economic success of the zones.

Thus, this approach should contribute to both increased employment and revitalization of depressed urban areas.

Minority Business Assistance

AGENCIES: Department of Commerce and Small Business Administration

FUNCTIONAL CODE: 376

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	279	245	160	176	183	185	185	0	100
OUTLAYS	231	267	194	179	183	185	185	10	79
PROGRAM LEVEL									
Non-credit assistance	75	101	101	101	101	101	101		
Credit assistance	485	495	495	495	495	495	495		
TOTAL PROGRAM LEVEL	560	596	596	596	596	596	596		

Program Description

Management, technical, and procurement assistance (i.e., non-credit assistance) is provided to minority-owned firms by the Department of Commerce and the Small Business Administration (SBA) through the following programs:

— The Minority Business Development Agency (MBDA) of Commerce contracts with public and private organizations to provide management and technical assistance to minority firms.

— The SBA provides non-credit assistance to minority firms by establishing minority procurement goals for Federal agencies, awarding non-competitive 8(a) contracts and Business Development Expense (BDE) grants to minority firms, and providing management and technical assistance through private contractors.

Credit assistance is provided to minority-owned firms through SBA's direct and guaranteed business loans and its Minority Enterprise Small Business Investment Company (MESBIC) program. MESBIC's are privately-owned companies, which are licensed, regulated, and supported financially by SBA, for the purpose of providing equity financing or long-term loans to small minority firms.

Proposed Change

MBDA's management and technical assistance program would be restructured to focus attention on the development of private sector market opportunities for minority businesses. Beginning in 1984, $6 million of MBDA's program level will be financed through private sector cost-sharing.

SBA would have the lead responsibility for ensuring that minority firms have equal access to procurement opportunities in the Federal sector. SBA would also allocate a greater proportion of its resources to management and technical assistance for minority firms.

Guaranteed loans would be used in lieu of direct loans to provide credit assistance to minority firms.

Rationale

The changes in minority business assistance reflect the President's commitment to ensure that minority-owned firms have an equal opportunity for growth and development.

- By assigning specific responsibilities to the Department of Commerce and the SBA for private and Federal sector promotional efforts for minority businesses, confusion over the relationship of MBDA and SBA programs would be eliminated.

- MBDA would have adequate resources to promote market opportunities for minority business in the private sector where the potential for sales is much greater than in the public sector. MBDA would finance 90 Business Development Centers, which will assist minority businesses to develop marketing strategies, package loan applications, and enter into joint ventures.

- SBA would focus its efforts on improving the ability of minority firms to compete for Federal procurement opportunities and, thereby, ultimately for private contracts. In conjunction with this effort, SBA would also attempt to increase the number of Federal contracts awarded to minority firms.

- The use of guaranteed loans for minority firms rather than direct loans would eliminate a tendency to depend on Federal subsidies for survival; would mitigate — over time — the perception of financial institutions that minority firms are higher credit risks; and would foster the development of sound relationships between minority firms and private financial institutions.

Effects of the Proposed Change

- MBDA contractors would provide services in 90 standard metropolitan statistical areas (SMSA's). Almost 80% of minority business are located in these SMSA's.

- SBA would maintain its 1982 level of credit and non-credit assistance to minority firms in 1983.

Community Development Block Grants

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 451

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	3,695	3,456	3,456	3,456	3,456	3,456	3,456	—	270
OUTLAYS	4,042	4,005	3,350	3,200	3,456	3,456	3,456	—	5

Program Description

The Community Development Block Grant (CDBG) program provides entitlement grants to all large cities and urban counties and discretionary grants to selected smaller communities. The discretionary grants are made either by the Department of Housing and Urban Development or by States, if they have elected to administer the program.

Funds may be used for a wide variety of community and economic development activities, largely at the discretion of recipient communities. These activities include housing rehabilitation, infrastructure improvement, public facilities, and public services, all to benefit principally low- and moderate-income people.

In 1981, about $2,659 million went to 669 large cities and urban counties and about $934 million was used in 1,830 smaller communities.

For 1983, the Administration is proposing a funding level of $3,456 million for the CDBG program, the same as the 1982 level.

Rationale

The level of funding requested for 1983 is an indication — in a year of many reductions — of the high priority the Administration assigns to this program. This program is consistent with the Administration's concept of federalism since it allows States and localities to determine their own community and economic development needs and address them in a manner which best suits them.

Effects

Generally, total 1983 grants to units of local government would be the same, at the requested funding level, as those to be received in 1982. This will assist communities in undertaking important community and economic development projects such as infrastructure improvement, rehabilitation, and public facility expansion for their citizens.

Urban Development Action Grants

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 451

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	675	440	440	440	440	440	440	—	34
OUTLAYS	371	525	550	525	522	480	440	—	1

Program Description

The Urban Development Action Grant (UDAG) program provides discretionary, competitive grants to units of local government to be used in conjunction with private and other public funds to promote locally determined and project-specific economic development. These projects are designed to increase private investment and jobs in distressed areas.

In 1981, about $697 million was awarded for 433 economic development projects.

For 1983, the Administration is proposing budget authority of $440 million for the UDAG program, an amount identical to the 1982 level.

Rationale

This program is an effective tool for leveraging private investment and helping to generate jobs in distressed areas, both of which are Administration objectives. Therefore, the Administration is requesting 1983 funding of $440 million to continue the efforts of this program.

Effects

Generally, the same number and size of grants would be awarded in 1983 at the requested funding level as are now anticipated for 1982. This will assist distressed communities in undertaking economic development projects in conjunction with private businesses in order to generate new jobs, increase tax bases, and promote economic revitalization in these distressed areas.

New Market-Based Savings Bonds

AGENCY: Department of the Treasury FUNCTIONAL CODE: 901

Funding

	INTEREST ON THE PUBLIC DEBT: ($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
EXISTING LAW	95,503	115,700	133,229	141,391	147,458	149,176	143,936
PROPOSED LEGISLATION*	—	—	-329	-691	-858	-976	764
TOTAL	95,503	115,700	132,900	140,700	146,600	148,200	144,700

*The proposal will increase Treasury interest payments to holders of savings bonds but substantially reduce Treasury borrowing costs for other marketable securities

Program Description

Savers wishing to invest in small denomination Treasury securities currently have two choices, the series EE savings bond, which continually accrues interest until the bond is redeemed, and the series HH bond, which provides payments of interest to investors twice a year. Both types were intended to provide a reasonable return to bondholders while protecting them against losses of their savings resulting from changes in credit market conditions.

The interest rates under the current bond program have been limited by law. As a result, increases in savings bond interest rates have lagged behind increases in rates on market-based instruments. This has penalized savings bondholders who wanted to continue in this savings tradition that started before World War II.

Proposed Change

The Administration is proposing legislation to modernize the savings bond program. The proposed legislation would enable the Treasury to link the interest rate on savings bonds to market rates of interest. Savers would be provided a "floating" interest rate on savings bonds in order to make them more competitive with alternatives during periods of generally rising rates. They would be guaranteed minimum rates, which would gradually rise through the fifth year. All bonds held for longer than five years would earn interest at a rate equal to 85% of the average market yield on five-year Treasury securities during the holding period, or the guaranteed minimum rate, whichever is higher. Existing savings bonds held for an additional five year period would also be eligible for interest payments under the new system. All other features of savings bonds — including denominations, tax advantages, payroll savings plans — would remain the same.

Rationale

The new proposal will make savings bonds more attractive to investors and thereby preserve a useful means of financing the Federal debt in a cost-effective manner. It will provide small savers wishing to continue their participation in the savings bond program with a unique Federal security that earns a market related rate of interest with an investment as small as $25.

Effects of the Proposed Change

The market based bond will enable a small saver — with an over the counter purchase or a payroll deduction — to obtain 85 percent of the average rate on five year Treasury securities if the bond is held for five or more years. Moreover, taxes will continue to be deferred at the holder's option until the bond is cashed-in, and not as interest is earned.

The proposal is expected to reverse the flow out of savings bonds that has occurred in recent years, when savings bond interest rates have been substantially below market interest rates. This reverse will reduce interest costs in the 1982–1986 period because Treasury borrowing through more costly marketable securities will be reduced.

THE NATIONAL SECURITY POSTURE

CHAPTER 5
THE NATIONAL SECURITY POSTURE

One of the most important tasks of the Federal Government — perhaps the most important — is to insure protection of national interests and security. This is an expensive task. However the ability of the United States to grow and prosper depends on the foundation of a strong defense to protect national interests. In turn, a healthy economy will support the defense expenditures that are required to maintain the nation's security. These objectives are mutually supportive.

Since the 1970's the United States has allowed its military power to decline relative to its expanding national interests and the growth in military power of the Soviet Union. The United States has been living off the substantial defense investment of the 1950's and early 1960's when defense expenditures averaged about 9 percent of the GNP. By 1978 defense spending declined to 5% of the GNP.

President Reagan's Defense program will reverse this unfavorable trend. It is expensive, but far less so than would be the case if there were further erosion in military power relative to that of the Soviet Union. The combined 1981 and 1982 increases in defense budget authority over 1980 is $71.5 billion. The 1981 and 1982 defense budgets now total $178.4 billion and $214.1 billion respectively. The 1983–1987 program of $1,640 billion will continue improvements needed to deter or, if necessary, respond to conventional and nuclear war. Such improvements will insure the best chance of deterring any challenge to national interests which could lead to military conflict.

National Security Objectives

The main national security objectives of the United States are to:

- Deter any attack on, and prevent the coercion of the United States and its allies.
- Protect U.S. economic interests and U.S. citizens abroad.
- Maintain access to critical resources.
- Maintain, in conjunction with U.S. allies, the military capabilities required to counter the expansion of the Soviet military presence, where the interests of the United States are threatened.

The Potential Threat

Although there are threats to American security interests independent of Soviet actions, the most demanding threats derive from the broad and growing military power of the Soviet Union. For example:

- Soviet military power has grown in virtually all categories. Diplomacy, military aid, proxies (such as Cuban troops in Africa and elsewhere), the support of terrorism, and implicit threats of force have all been used to expand Soviet influence and access throughout the world.
- Soviet challenges are particularly serious because they occur after a long–term decline in American, British and other allied access to bases and airspace in, or enroute to, many areas critical for the western alliance. The consequences of this deterioration of position cannot be easily or quickiy remedied.
- Throughout the 1970's the Soviet Union has allocated 12% to 14% of its gross national product to military programs and they are expected to continue to do so.
- The Soviet threat to the Persian Gulf is a particularly grave one. The economies of the West depend on the oil of this area. It is a region rife with political instabilities, and into which the Soviet Union has a superior capability to project military power.

Defense Objectives

It is the objective of United States defense programs to prevent war — particularly nuclear war. Programs are designed and forces are deployed to deter aggression at all conflict levels. To support deterrence, United States defense forces must be prepared to wage war — including nuclear war. If deterrence fails and aggression occurs, then war must be terminated in a manner that serves our political objectives and assures our survival as a free nation.

The U.S. defense posture must make it clear to the Soviet Union that war with the U.S. will result in unacceptably high costs to the USSR. The foundations of U.S. defense policy include:

- Availability of strategic forces capable of carrying out their missions.
- Maintenance of clear U.S. maritime superiority required for the projection of U.S. power to vital regions overseas, support of U.S. allies, and assuring continued access to vital resources.
- Use of superior military technology.
- Maintenance of a strong force posture in NATO and East Asia; and a mobile force capable of successfully blunting an enemy attack against other vital U.S. interests overseas.

The basic missions of U.S. nuclear forces and nuclear strategy are to:

- Deter a nuclear attack on the United States and its allies.
- Deter a conventional attack against our allies, especially NATO.
- Limit damage to U.S. population and economic assets if a nuclear attack should occur.
- Minimize the extent to which Soviet nuclear threats could be used in a crisis to coerce the United States and to coerce or intimidate our allies.

The Defense Program

To meet national security and defense objectives the Administration's program plans to strengthen U.S. military posture in four high priority areas, namely:

- Strategic Forces
- Combat Readiness
- Force Mobility
- Conventional Force Modernization

Restoring the Strategic Balance.

A thorough eight month review of U.S. strategic forces and objectives preceded the President's decision this past October to strengthen strategic force programs. The review found that:

- The relative imbalance with the Soviet Union will be at its worst in the mid–eighties and hence needs to be addressed quickly.
- There are deficiencies in force survivability, endurance, and the capability to exercise command and control during nuclear war. Current communications and warning systems were found to be vulnerable to severe disruption from an attack of very modest scale. Also, greater efforts are needed to provide for civil population protection and plan for postwar recovery.
- The multiple protective structure basing proposal for MX did *not* provide long term survivability since the Soviets could respond (at about the same or less cost) by simply deploying larger numbers of warheads.

The 1983 Budget funds programs to correct these deficiencies. The President's strategic program provides for both near term improvements and longer term programs. The Soviets now have more intercontinental ballistic missiles (1398 vs 1053) and submarine-launched ballistic missiles (950 vs 520) than the U.S. with the U.S.'s lead in warheads now diminishing. Further, the Soviets are expected to begin deployment of a new bomber. This situation makes the strategic balance most unfavorable in the near term. Therefore priority will be given to systems that can be fielded quickly as well as systems that are more survivable. Near term components of the President's strategic program include:

- Acquisition of a new bomber (the B-1B) to provide a continued capability to penetrate Soviet defenses, and development of an advanced technology (Stealth) bomber for deployment in the 1990's.
- Early deployment of cruise missiles on existing bombers and attack submarines to increase survivable weapons deployed at sea.
- Continued deployment of Trident ballistic missile submarines to strengthen the sea-based leg of our strategic deterrent.
- Deployment of new larger and more accurate MX missiles. The missiles will be deployed in existing fixed silos until a more survivable basing method is developed.

The longer term programs are needed to solve the more difficult problems such as vulnerability of land-based ballistic missiles and communications, intelligence, and warning systems. Longer-term programs include:

- Development of a survivable deployment plan for the MX missile.
- Development and deployment of a new submarine-launched ballistic missile (which will provide better accuracy, range and more payload).
- Continued improvements to warning and communications systems, including bomber warning radars and missile warning satellites and radars.
- Improvements in strategic defenses, including development of an anti-satellite system and more effective civil defense programs (emphasizing city evacuation).

Assuring U.S. Force Combat Readiness

The world situation has changed so that a major conflict involving the United States could occur without adequate time to upgrade U.S. force readiness. Concerns about military readiness reflect both the long lead time required to procure sophisticated equipment (both parts and finished equipment) and past failures to provide support for combat units. The United States cannot wait for a period of rising tensions before bringing forces up to combat readiness. The Administration's program will continue to bolster combat readiness by correcting deficiencies in several areas.

- Spare parts are vital. For U.S. forces to exploit their more sophisticated weapon systems, they must be supported by sufficient spares to allow high operating rates for training as well as to provide for war reserves. Too often in the recent past spare parts procurement has been postponed in order to fund ships, aircraft and vehicles, and maintain force levels.
- Ammunition requirements are also a high priority. From bullets and artillery shells to sophisticated guided missiles, additional funding will provide for increased training as well as support war reserves.
- Providing the armed forces with adequate numbers of skilled, motivated and capable personnel continues to be one of the most important military objectives. A major boost in readiness was accomplished in 1981 when the military services all made significant gains in enlisting highly qualified people as well as retaining experienced personnel. The 1983 Budget will provide levels of military compensation that will improve the readiness and capability of the All Volunteer Force.
- Funding for the operations and maintenance of forces is being increased to provide required training, operating rates, and equipment support. There will be increased aircraft flying hours and supply inventories. In addition, backlogs of combat equipment and real property awaiting maintenance will be reduced.

Force Mobility and Capability in Remote Areas

The U.S. needs to plan for flexibility and mobility to offset inherent Soviet advantages due to their geographic proximity to potential areas of conflict.

- Sea control is of critical importance in maintaining U.S. ability to deploy and support combat elements in diverse locations, especially in areas beyond the reach of the traditional alliance network and basing infrastructure. Sustaining force deployments requires that the United States control the sea lines of communication to those areas. In wartime, over 95% of our military resupply will have to travel by sea.

- The importance of sea control requires that the U.S. pursue as a high priority a shipbuilding program that will result in acquisition of 133 new ships and conversion of 16 ships in 1983–1987, an increase of 53 new ships and $48 billion over the final five–year shipbuilding plan of the previous Administration. The Navy shipbuilding program includes funds for buying or converting general purpose battle forces, including aircraft carriers, attack submarines, escort ships and amphibious ships, to insure our ability to maintain sea control and to project power ashore.

- Pursuing the program mapped out in the 1983 Budget will result in a battle force of over 600 ships by the end of the decade. This force level will restore a margin of maritime superiority that is clear to both our friends and any potential foes.

- The U.S. is also gaining expanded access to bases adjacent to our sources of oil.

  — Diego Garcia, in the Indian Ocean, will have expanded port facilities and will continue to serve as a site for deployed prepositioning ships carrying combat material.

  — Access is also available in Somalia, which is strategically located near the outlet of the Red Sea.

- The most rapid method of deploying forces is by airlift. The Administration is proceeding with procurement of an updated version of the C–5 cargo aircraft and additional KC–10 tanker/cargo aircraft to supplement the existing fleet of C–5As and C–141s. In addition, new wings will be installed on all 77 C–5A airlift aircraft, extending their life beyond the year 2000.

- The Defense Department is also upgrading our fleet of KC–135 tanker aircraft by replacing their engines with newer, more fuel efficient models. These tankers are essential for the aerial refueling necessary to reach potential conflict areas halfway around the world and sustain the operation of combat aircraft.

- To improve our ability to bring forces to bear worldwide, the Administration is converting four more SL–7 fast logistics ships to provide vehicle roll–on and roll–off capabilities. Also, 12 to 15 maritime ships will be chartered and converted to provide the capability to preposition equipment and supplies in Southwest Asia.

All of these improvements are essential to offset Soviet geographical advantage. As a result of these initiatives, wide–body military airlift capability will about double, and prepositioning of equipment and supplies aboard ships will significantly reduce the time required for deployment of heavy forces to the Southwest Asia region.

Conventional Force Modernization

The Administration is also bolstering other conventional capabilities as well as anticipating future needs with strong research and development programs.

- Production rates and quantities of tanks, helicopters, air defense systems, and fighters have been increased to meet force level objectives at more economical rates. The Administration does not intend to match Soviet deployments weapon for weapon; the U.S.'s more capable weapons can sometimes offset their superiority in numbers. Similarly, cooperative deployments of allied forces can make up for some numerical disadvantages. Examples of weapon systems being purchased include: the M–1 Abrams tank which is more survivable and mobile than current U.S. tanks; the AH–64 attack helicopter which is faster and more survivable than existing helicopters; the LAMPS MK III anti–submarine warfare helicopter to increase the range at which enemy submarines can be attacked; the F/A–18 Navy tactical aircraft to increase air combat and ground attack capabilities; and improved precision guided missiles.

- Major improvements are planned in U.S. command, control, and communications capabilities. Also, technical improvements to existing systems will be made, including competitive development of new attack versions of the F–15 and F–16 aircraft. In addition, the Administration will develop an Advanced Medium Range Air–to–Air Missile to counter increasingly capable Soviet systems.

- Major efforts are being made to maintain vigorous research and development programs in other areas most likely to yield large improvements in weapon system capability. For example, the capability for fighting at night, in poor weather and in all types of climates is being increased. Also, lighter weight anti–armor vehicles are being developed to improve the ability to respond rapidly to crises in remote areas.

- Greater combat flexibility and force effectiveness will result from procurements of new advanced tactical command, control and communications systems, such as a new family of telephones and radios for battlefield use by all the services.

- To deter any adversaries from resorting to the use of chemical weapons, we are continuing to improve defensive and retaliatory chemical warfare capabilities.

- The U.S. is proceeding with plans to produce improved theater nuclear weapons including the Ground Launched Cruise Missile and Pershing II ballistic missiles. Deployment of these weapons in Europe will counter existing Soviet deployments of intermediate range nuclear weapons.

Efficiency and Economy in Spending

The Department of Defense is initiating a variety of changes in its funding and management practices to make significant savings.

- Weapon system acquisition costs will be reduced. For certain stable acquisition programs, additional budget authority is provided to allow system manufacturers to buy materials and produce components at more economical rates. This multiyear procurement approach will also encourage contractors to invest in productivity improvements and strengthen the defense industrial base. In addition, eliminating marginal programs will make more funds available to suport high priority programs at more economical production rates.

- The time needed to develop new weapon systems will be reduced by increased reliance on evolutionary improvements to current weapon systems and adequate funding of testing efforts.

- Reliability and maintainability of weapon systems will be emphasized, resulting in reduced operating and maintenance costs once the system is deployed. Further savings in operations will be made by consolidating services, reducing administrative overhead and contracting out to the private sector.

- Administrative costs will be reduced by streamlining the acquisition process. Initiatives include improving long–range planning and budgeting, decentralizing program management responsibilities, and reducing paperwork requirements.

- Increased efforts to combat waste, fraud and abuse include close monitoring and review of defense programs and policies and active follow–up of audit findings. To help accomplish this task, the new position of Assistant to the Secretary of Defense for Review and Oversight was created in May, 1981.

- Savings will result from the disposal of excess property.

Regional Defense Policies

The United States and its allies must be prepared to respond to Soviet aggression in many regions both by defending a given area and by exploiting Soviet vulnerabilities at times and places of our choosing. These regions include Europe and its supply lines, the Eastern Mediterranean, the Persian Gulf and Northeast Asia. Recognizing that the United States cannot and should not carry a disproportionate share of the burden of regional defense, policy will be aimed at:

- Increasing the effectiveness of existing alliances.
- Encouraging other like–minded nations to improve their ability to act jointly with us in defense of our common interests.
- Expanding efforts to improve the compatibility of U.S. and allied forces and substantially increasing joint planning and training exercises.

International Security Assistance

The Administration intends to take full advantage of international security assistance programs to increase the military capabilities of our friends and allies. Economic support will also be provided to nations of special security importance in order to foster stability. The United States must also assist a number of countries throughout the world whose policies, actions and military postures can further U.S. national security and related foreign policy objectives. The United States will provide aid to friendly countries that are:

- Resisting actual or potential aggression that may come directly from the Soviet Union or indirectly through Soviet proxies, such as Cuba, or through Soviet–inspired internal subversion.
- Allowing access to bases or other facilities for U.S. forces or granting transit or other rights.
- Contributing to peace and stability in areas of the world where conflict would directly impact on U.S. security, such as the Middle East.

Arms Control

Arms control efforts should support national security objectives but cannot substitute for necessary modernization of our forces. The U.S. can negotiate successfully with the Soviets only if it is made clearly evident that this nation is determined to redress the strategic balance and protect national security interests. Any agreements or treaties entered into, must insure maintenance of strong and capable U.S. forces necessary to protect our security and must be equitable and fully verifiable.

Strategic Forces

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in billions)				
	1981	1982	1983	1984	1985
BUDGET AUTHORITY	12.7	16.2	23.1	30.3	33.2

Program Description

Strategic forces are deployed to deter a nuclear attack against the United States and its allies and prevent coercion by the Soviet Union. Offensive forces currently consist of land-based intercontinental ballistic missiles (ICBMs), submarine-launched ballistic missiles (SLBMs) and bombers. In the future, they will include air- and sea-launched cruise missiles.

To defend against bomber attack, surveillance systems and interceptor aircraft are deployed. Systems for ballistic missile defense and space defense are being developed.

In addition to offensive and defensive components, warning and communications are essential strategic force components.

Proposed Change

The President's Strategic Modernization program consists of five elements:

- Improvements to warning and communications systems, including improvements to radars and satellites that warn of nuclear attacks.
- Deployment of a new bomber (the B-1B) and development of an advanced technology (Stealth) bomber for the 1990s.
- Development and deployment of a new submarine-launched ballistic missile (which will provide better accuracy and more payload) as well as early deployment of cruise missiles on attack submarines.
- Deployment of new larger and more accurate MX missiles. These missiles will be deployed in existing fixed silos until a more survivable long-term basing system is selected and deployed.
- Improvements in strategic defenses, including air defense interceptors, development of an anti-satellite system, and increases in civil defense programs.

Rationale

- The Soviet Union now has more ICBMs (1,398 vs 1,053) and SLBMs (950 vs 520) than the U.S. and our lead in warheads is narrowing. The Soviets are also expected to begin deployment of a new bomber. Since this could result in an unfavorable strategic balance in the near term, systems that can be fielded quickly are receiving priority — including air- and sea-launched cruise missiles and the B-1B bomber.
- Overall survivability of U.S. ICBMs is now threatened by the Soviets. Therefore, the Administration is bolstering the other components of the strategic triad including bombers, cruise missiles and submarines, and is making major efforts to strengthen the survivability and endurance of warning and communications systems.
- Multiple shelter basing for MX is *not* being pursued since the Soviets could defeat this system simply by deploying more warheads. Rather, a survivable, long-term basing mode for the MX will be selected for deployment.

- Given the threat posed by the current Soviet bomber force and indications of Soviet bomber modernization, the U.S., in conjunction with Canada, is modernizing and improving the North American air defense system.
- Past Administrations have allowed civil defense programs to decline. The new program (funded in the Federal Emergency Management Agency) will speed up efforts to provide for better protection of the population and aid post-war recovery.

Effects of the Proposed Change

- The Administration's strategic program will reverse the trend in the strategic balance favoring the Soviet Union and counter the recent Soviet advances in missiles, submarines and the current as well as expected new Soviet bomber deployments.
- The Soviets will be forced, at great expense, to improve further their defenses against manned bombers following introduction of the B-1B.
- Increased survivability of U.S. strategic command and control systems will insure U.S. capability to retaliate and hence reduce the probability of Soviet attack.
- The U.S. will negotiate arms control from a position of strength.

General Purpose Forces

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in billions)				
	1981	1982	1983	1984	1985
BUDGET AUTHORITY	68.8	88.2	106.2	114.0	139.0

Program Description

General purpose forces include Army, Navy, Air Force and Marine Corps tactical units. (Although their costs are included here, Navy ships and the operations and maintenance of general purpose forces are discussed in separate fact sheets.)

Proposed Change

- Production rates will be increased to provide for more rapid acquisition of a variety of new systems such as the M-1 Abrams tank, the AH-64 attack helicopter, the LAMPS MK III anti-submarine warfare helicopter, the F/A-18 Navy tactical aircraft, the F-15 Air Force fighter aircraft, and improved precision guided missiles. These new systems will provide significant increases in combat capability relative to current systems — in terms of range, survivability, and firepower.
- Selective use of multi-year contracting will allow for more efficient production rates to modernize the forces at reduced total cost,. Examples include procurement of 120 F-16's annually and the multi-year procurement of the Navy C-2 carrier-on-board delivery aircraft.
- The chemical retaliatory stockpile, as well as defensive capabilities, will be improved.
- Support equipment essential for the rapid deployment of combat forces will be procured. Such items include water purification equipment, fuel distribution systems and fork lift trucks.
- Command, control, and communications capabilities will be improved. For example, the TRITAC family of telephone and radio equipment will be more mobile and reliable, and harder for an adversary to disrupt.
- Technical improvements to existing types of systems will be made, including competitive development of new attack versions of the F-15 and F-16 aircraft.
- New weapons development to counter increasingly capable Soviet systems will be emphasized. An example is the Advanced Medium Range Air-to-Air Missile (AMRAAM) for use by both the Navy and Air Force.

Rationale

- Throughout the 1970's the Soviet Union consistently allocated 12% to 14% of its Gross National Product to military programs, with no signs of abatement. In the last decade the Soviets introduced large quantities of highly capable, new generation tactical equipment (e.g., tanks, armed helicopters, combat aircraft, submarines, air combat missiles, etc.), that need to be countered by modernized U.S. forces. Additionally, the traditional U.S. superiority in system quality has been considerably narrowed, making Soviet quantitative advantages more serious. The Soviet military force buildup has increased the risk that they may rely on military power to support their foreign policy goals.
- For the U.S. to maintain, in concert with our allies, sufficient conventional forces to deter potential aggression, our forces must be provided with adequate numbers of new, modern equipment.

- During the previous Administration, modernization was delayed, some production rates were held at inefficient levels, and critical wartime supplies were not procured in sufficient quantities.
- The U.S. must have a capability to deter any potential adversaries from resorting to the use of chemical weapons.
- There are deficiencies in U.S. capabilities to support the rapid deployment force in a desert environment and to communicate on the battlefield.
- To assure that the U.S. acquires weapons that are capable of countering the threat, a strong research and development program must be maintained, including improvements to existing types of equipment as well as the development of totally new systems.

Effects of the Proposed Change

Increased acquisition of modern, more capable weapon systems such as the M-1 tank and the F/A-18, AV-8B and F-15 tactical aircraft will enable U.S. forces to deter and counter Soviet aggression in any area of the world where it might threaten U.S. or allied vital interests.

- The capability for fighting at night, in poor weather and in all types of climates will increase.
- Lighter weight anti-armor vehicles will be developed to improve our ability to respond rapidly to crises in remote areas.
- More maintainable and reliable weapons such as the F/A-18 will be procured to achieve greater combat efficiency.
- Greater combat flexibility and force effectiveness will result from procurement of new advanced tactical command, control and communications systems.
- These U.S. initiatives should encourage allied nations to undertake complementary improvements in their defense capabilities.
- Production of new chemical munitions will reverse the deterioration of our chemical retaliatory stockpile and, by providing credible and reliable retaliatory capability, will reduce the risk that an adversary might be tempted to use chemicals against the U.S. or its allies.

Mobility Forces

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in billions)				
	1981	1982	1983	1984	1985
BUDGET AUTHORITY	2.9	4.0	4.4	6.6	6.8

Program Description

The major missions of the mobility forces are to move personnel and material during an initial deployment, and to move sustaining support during combat. Mobility is essential for effective and timely deployment of combat power for both NATO and non-NATO, e.g., Persian Gulf, contingencies. Current mobility forces include about 350 long range airlift aircraft and 21 cargo ships as well as several hundred civilian ships and aircraft which could be called up in case of a large scale conflict.

Proposed Change

- A fleet of fifty updated C-5 long-range wide body military cargo aircraft will be acquired.
- Forty-four more KC-10A tanker/cargo aircraft will be procured.
- New wings will be installed on all 77 existing C-5A airlift aircraft.
- Four more SL-7 fast logistics ships will be converted to provide vehicle roll-on and roll-off capabilities.
- Twelve to fifteen maritime ships will be chartered, converted and prepositioned, with equipment and supplies, in Southwest Asia.
- More support equipment, including loading devices, will be procured.

Rationale

- Current U.S. mobility forces cannot move the required combat or combat support units fast enough to effectively counter military aggression in Europe, Korea or in the Southwest Asia/Persian Gulf region. For example, at the present time only a small, light combat force could be rapidly moved to the Southwest Asia region.
- Major mobility shortages include wide-body, military cargo aircraft; fast logistics ships; prepositioned ships; and support equipment. Elimination of these shortages is an essential first step toward improving U.S. military capability during the first thirty days after the beginning of a crisis.

Effects of the Proposed Change

The overall effect of the proposed changes will be to significantly increase U.S. rapid deployment capabilities. For example:

- Acquisition of additional long range aircraft will almost double wide-body military airlift capability before 1990. The updated C-5 aircraft will provide about 65% of the increase with the KC-10A providing the balance. The KC-10A will also provide a significant increase in tanker capability.
- Rewinging of existing C-5As will extend their effectiveness beyond the year 2000.
- The converted SL-7 fast logistics ships will be capable of rapidly moving a heavy combat division.
- Prepositioning of equipment and supplies aboard ships in the Southwest Asia region will reduce the time required for deployment of heavy forces.

Navy Shipbuilding

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in billions)				
	1981	1982	1983	1984	1985
BUDGET AUTHORITY	7.6	8.9	18.6	12.5	16.8

Program Description

The Navy shipbuilding program includes funding for:

— Trident ballistic missile submarines, which will augment the sea-based leg of our strategic deterrent forces.

— General purpose battle forces, including aircraft carriers and their associated escort ships, which will insure our ability to maintain sea control and to project power ashore.

— Other ships that will support these missions or other missions of national priority such as movement and support of the Rapid Deployment Force.

Proposed Change

- The 1983–1987 five year shipbuilding plan includes 133 new ships at a total investment of $96 billion, which is an increase of 53 ships and $48 billion over the final five year plan of the previous Administration.
- Specific comparisons are:

	CARTER (82–86)	REAGAN (83–87)
Trident Strategic Submarines	6	6
Attack Submarines	7	17
Aircraft Carriers	0	2
Cruisers	16	18
Amphibious Ships	0	10
Escorts and Auxiliaries	51	80
TOTAL NEW SHIPS	80	133

Rationale

- Over the last two decades the Soviet Navy has been transformed from a basically coastal defense force into an ocean-going force. It is designed to perform tactical, and strategic missions in waters distant from the Soviet Union.
- In the mid-1960s, the Soviets had 260 major surface warships and amphibious ships. Today, they have 362. The Soviets have eight new classes of submarines and eight new classes of major surface warships, including nuclear-powered cruisers and new aircraft carriers, in existence or under construction.
- The United States, dependent on open seas for commerce and military resupply, must have the naval capability to maintain control of vital sea lanes. In the mid-1960s, the U.S. had more than 500 major surface warships and amphibious ships. Today we have fewer than 270.

- The defense budgets of the previous Administration, which emphasized NATO land combat capabilities, did not provide naval force improvements needed to guarantee sea control. Ships suited for escorting supply convoys to Europe were given high priority. Ships having more general application, such as aircraft carriers and amphibious ships, received little emphasis. Only one aircraft carrier and one amphibious ship were purchased by the previous Administration.

Effects of the Proposed Change

- The shipbuilding plan proposed in this budget recognizes U.S. dependence on maritime forces and reverses adverse trends by increasing the total number of ships and emphasizing procurement of the most capable ships.

  — Production of attack submarines will be more than doubled. The resulting increase in force levels will exploit an area where the U.S. holds a significant technological advantage over the Soviet Union.

  — Procurement of two nuclear-powered aircraft carriers will enhance our ability to control the seas and project power ashore in areas of vital interest.

  — Amphibious ship production will provide the Marine Corps greater capability to conduct amphibious campaigns.

  — Expanded production of other ships, such as escorts, mine warfare ships, and auxiliaries, will better support existing forces.

Operations and Maintenance

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in billions)				
	1981	1982	1983	1984	1985
BUDGET AUTHORITY	55.5	62.3	69.4	73.0	82.0

Program Description

Operations and maintenance includes pay for civilian personnel, fuel, utilities, maintenance of equipment and real property, purchase of routine supplies and equipment, and other day-to-day operations and support costs.

Proposed Change

The proposed funding will provide real growth of 6% in 1983 over 1982. This will provide for increased combat force readiness, fielding of new systems, and reductions in maintenance backlogs.

Rationale

- Real growth for operations and maintenance is required to correct existing deficiencies in the combat readiness of U.S. forces. These deficiencies include unacceptable numbers of units not ready for combat and too many weapon systems out of commission. In addition, individual combat skills, including pilot proficiency, are lower than desired. Needed improvements will be achieved by:
  - — increasing field training and aircraft flying hours;
  - — eliminating backlogs of equipment awaiting repairs;
  - — providing more resources for individual training.
- Additional funds are also required to field new, improved weapons systems that will be entering service in 1983. This involves training for crews, and extensive engineering, logistics, and personnel support.
- Increases are needed to reduce the backlog of real property in need of repair. This backlog grew substantially during the past Administration, particularly at Army posts in Europe.

Effects of the Proposed Change

The proposed changes will provide for:

- Full support for current force structure;
- Improved training;
- Improved capability of existing combat forces to engage in battle when called upon;
- Support for new equipment entering the force including:
  - — 680 M1 tanks
  - — 400 fighting vehicles
  - — 180 Blackhawk and AH-1S helicopters

— 4 attack submarines

— 11 frigates

— 2 squadrons of F14s

— 4 squadrons of F16s

- Elimination of backlogs of major equipment needing repair and reduction of backlogs of real property awaiting maintenance.

International Security Assistance

AGENCY: Funds Appropriated to the President FUNCTIONAL CODE: 152

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	2,543	3,486	4,663	4,689	4,703	4,618	4,480
OUTLAYS	3,131	3,485	3,835	4,496	4,787	4,650	4,478
GUARANTEED LOAN COMMITMENTS *(Off-Budget)*	(2,546)	(3,084)	(3,929)	(3,929)	(3,229)	(3,229)	(3,229)
DIRECT LOAN OBLIGATIONS	938	1,136	2,814	2,824	2,824	2,834	2,844

Program Description

Security assistance includes funds for the acquisition of modern military equipment necessary for defense, budget and balance of payments support, peacekeeping operations, and professional military education and training for foreign military personnel.

Proposed Change

- Funds will be provided for the acquisition of military equipment through loans at variable interest rates geared to the recipient country's ability to repay.
- Increases necessary for the renegotiation of base rights and facilities access agreements necessary for defense are included.
- Economic support is increased to provide assistance to countries with unstable economies threatened by outside intervention.
- Contingency funds are set at a level to enable rapid response to unforeseen situations requiring military and economic aid.

Rationale

- Soviet, Cuban and Libyan intervention in friendly nations and areas of security interest to the U.S. is increasing.
- Due to the worldwide economic downturn, few countries can afford to finance the procurement of defensive equipment at commercial or Federal Financing Bank (FFB) rates.
- Base rights and facilities access agreements in areas strategically important to the U.S. defense are due for renegotiation during 1983.
- U.S. involvement in and support of peacekeeping operations in the Sinai and Chad is essential for the success of these efforts.
- The rapidly changing nature of security situations around the world requires sufficient flexibility to be able to respond quickly to avoid confrontation or irreversible economic and political change.

Effects of the Proposed Change

- Loans for military procurement will be provided at rates to ensure the recipient country's ability to absorb the debt and repay the U.S.
- Sufficient funds will be available to allow successful renegotiation of base rights and facilities access agreements.
- Economic support necessary to stabilize countries threatened by external intervention will be provided.
- The President will have sufficient flexibility to meet unforeseen requirements around the world.

CONTROLLING FEDERAL CREDIT

360-900 O - 82 - 7

CHAPTER 6
CONTROLLING FEDERAL CREDIT

Federal Demands on Credit Markets

During the last decade, the rapid growth of Federal credit activity has helped to make the Federal Government the dominant consumer of the nation's financial resources.

- From 1955 through 1975, Federal and federally assisted borrowing, on average, absorbed less than 20% of available credit resources. (This includes borrowing by the Government to finance the budget deficit and off-budget spending, borrowing by individuals or private institutions with Government-guaranteed loans, and borrowing by Government-sponsored enterprises.)

- In the latter half of the 1970's, large deficits and rapid expansion in credit programs drove the average absorption up to 28%.

- The absorption levels reached in 1980 and 1981 (36% and 35%) have been experienced before only during the recession and recovery period of 1975-1976.

TABLE 1. BORROWING UNDER FEDERAL AUSPICES:
ABSORPTION OF DOMESTIC CREDIT MARKET FUNDS
(Fiscal years; in billions of dollars)

	Five-Year Averages						
	1955-1959	1960-1964	1965-1969	1970-1974	1975-1979	1980	1981
Total funds raised in domestic credit markets[1/]	35.5	50.8	80.6	148.6	301.7	342.5	407.8
Federal borrowing	2.1	4.5	6.4	13.0	56.8	70.5	79.3
Net guaranteed loans......................	4.0	4.3	5.1	13.9	13.6	31.6	28.0
Net Government-sponsored enterprise borrowing	0.4	0.7	1.0	5.0	12.6	21.4	34.8
Total funds raised under Federal auspices..........................	6.5	9.5	12.4	31.9	83.0	123.5	142.1
Federal absorption rate	18%	19%	15%	21%	28%	36%	35%

[1/] Funds raised by non-financial sectors, excluding equities. Source: Federal Reserve Board Flow of Fund Accounts, adjusted during 1955-69 for consistency with budget concepts.

Unprecedented Federal credit demands reduce the Nation's ability to improve productivity and output. Increasing demand for credit by the Government and the borrowers it serves saps the vitality of credit markets and hampers their performance in the critical task of allocating resources to the most productive uses.

- Many unsubsidized private borrowers are crowded out of the "credit queue" because priority is given to Federal and federally assisted borrowers.

- Federally assisted borrowers are frequently less productive than private borrowers because they are not chosen with regard to the highest expected return while allowing for risk. In this way, Federal intervention distorts the market's assessment of risk and return, causing a misdirection of investment and a decline in future economic growth and productivity.

- Interest rates are exposed to continual upward pressure. With Federal borrowing absorbing so much of the supply of credit, private borrowers are forced to bid interest rates up.

- Borrowers cannot obtain stable long-term financing, which frustrates implementation of long-term investment plans and further inhibits economic growth.

The Federal demand for credit has had a major effect on expectations of future inflation and interest rates because it is a crucial link between fiscal and monetary policy.

- Throughout the 1960's and 1970's, growing Federal deficits, combined with heavy Federal credit demands, were accommodated by faster monetary growth. This caused inflation to accelerate.

- Unless the burden of Federal and federally assisted borrowing is curtailed during the 1980's, prospects for permanent monetary control and inflation reduction will be substantially lessened.

The Supply of Federal Credit

A substantial portion of Federal and federally assisted borrowing results from its lending activities which supply credit to selected borrowers. On– and off–budget agencies make direct loans. They also guarantee loans made by the private sector. In addition, Government–sponsored enterprises serve credit markets. The table below shows trends in the lending side of Federal credit activity.

TABLE 2. NET LENDING UNDER FEDERAL AUSPICES
(Net lending, fiscal years; in billions of dollars)

	Actual					
	1976	1977	1978	1979	1980	1981
Direct Loans						
On–Budget	4.2	2.6	8.6	6.0	9.5	5.2
Off–Budget	6.7	9.0	11.2	13.6	14.7	20.9
Guaranteed Loans	11.1	13.5	13.4	25.2	31.6	28.0
Government–Sponsored Enterprises	4.9	11.7	25.2	28.1	24.1	32.4
TOTAL	26.9	36.7	58.4	77.9	79.9	86.5

Direct Loans

Direct loans, in which agencies lend Federal funds to selected borrowers, accounted for $26.1 billion in Federal outlays in 1981 for such programs as the Farmers Home Administration, the Export–Import Bank, and the foreign military sales credit program.

However, of this total $20.9 in direct loan outlays were excluded by law from the budget totals.

Off–budget direct loans: the Federal Financing Bank (FFB). The outlays of the off–budget Federal entities mostly arise from the use of the FFB as a source of financing by other agencies for direct and guaranteed loans. The FFB effectively converts certain on–budget direct loans and guarantees into off–budget direct loans. This activity creates an off–budget deficit that absorbs valuable savings and capital just as does the on–budget deficit. Off–budget lending increased threefold between 1976 and 1981.

Guaranteed Loans

Guaranteed loans, private loans for which the Government guarantees the repayment of principal and interest, accounted for $28.0 billion in net credit market activity in 1981 for such programs as Federal Housing Administration and Veterans Administration mortgage insurance, the Export–Import Bank, and the Small Business Administration.

Guaranteed loans are not budget outlays, because no Federal funds are used except in case of default. Many of their effects are nevertheless similar to the effects of outlays because they effectively reallocate economic resources from privately selected to federally selected uses. Borrowing for guaranteed loans absorbs funds available to credit markets in a manner similar to direct Federal borrowing.

Government-Sponsored Enterprises

The seven Government-sponsored enterprises made $32.4 billion of net loans in 1981. The seven enterprises consist of three that support housing — the Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corporation; the three Farm Credit Banks, which support agriculture — the Banks for Cooperatives, Federal Land Banks, and Federal Intermediate Credit Banks; and one that supports students obtaining higher education — the Student Loan Marketing Association. Most of these enterprises provide liquidity to the markets they serve through secondary market operations.

Because of their private ownership, the Government-sponsored enterprises are not included in the budget totals or controlled through the budget process. Nevertheless, Government sponsorship has provided these enterprises with advantages in the securities markets that completely private institutions do not have. This enables them to borrow at rates only slightly higher than those of the Treasury.

Steps for Control

Upon assuming office, the Administration took immediate steps to reverse the growth trends of Federal credit. An interagency Cabinet-level group was formed and undertook a comprehensive review of the Government's direct and guaranteed loan programs in order to shape a consistent credit policy. The credit budget was used for the first time to impose systematic discipline and policy control on the growth of Federal credit. The group also recommended modifying Government-sponsored enterprises into becoming completely private organizations. Additional policy changes will be recommended and implemented in the months ahead.

The Credit Budget

This Administration has worked closely with the Congress to strengthen the credit budget. Now in its third year, this framework is a major step toward full integration of credit into the budget process.

- The credit budget covers all direct and guaranteed loans, making no distinction between on- and off-budget entities. Government-sponsored enterprise loans are not included, because of their private ownership.
- The credit budget focuses decisions on gross program levels at the point of legal obligations, thereby facilitating control.

In its credit budget revisions just after taking office, the Administration proposed reduction in direct and guaranteed loan activity for 1982 of $21.0 billion below the level proposed by the previous Administration. Federal demands on the Nation's financial markets will be substantially alleviated in the years ahead despite temporarily higher Federal borrowing to finance the deficit. The 1983 credit budget marks the beginning of a steady downward path in the total burden of Federal credit demands on the nation's economy.

Under the President's credit budget proposals, significant progress is being made to reduce the Federal claims on financial resources, far below the level they would attain if the growth trend since 1976 continued unabated.

- For 1983, the Administration's credit budget proposals bring direct loan obligations down by $7.4 billion between 1981 and 1983 and substantially slow the growth in guaranteed loan commitments compared to previous growth trends.

TABLE 3. THE CREDIT BUDGET TOTALS[1/]
(In billions of dollars)

	1981 Actual	1982 Estimate	1983 Estimate
Direct Loan Obligations	57.2	56.4	49.0
Guaranteed Loan Commitments	76.5	87.1	98.4
TOTAL	133.7	143.4	147.3

[1/]The credit budget totals differ from totals shown in Table 2 because the credit budget is based on gross obligations and commitments for credit, while Table 2 shows the net change in outstanding credit.

Major programmatic changes in the credit budget include:

Government National Mortgage Association. Loan commitments for GNMA mortgage-backed securities are proposed to decrease by $9.6 billion between 1982 and 1983. Private mortgage-backed securities programs are now rapidly developing; the Administration's GNMA proposal would encourage and accelerate the success of these private efforts.

Export-Import Bank. Direct lending will be reduced by $0.6 billion between 1982 and 1983, and guaranteed loans will be held at the 1982 level. Because of the decline in demand for direct credit and the potential for the private sector to undertake increased insurance activity, these amounts will be sufficient to enable the Export-Import Bank to meet the requisite needs of exporters facing subsidized foreign competition.

Farmers Home Administration. The Administration believes that private lenders are increasingly able to fill rural credit needs adequately. Accordingly, program reductions proposed in FmHA total $2.6 billion in direct loans and $0.6 billion in loan guarantees. These changes include major decreases in direct loans for rural housing, and termination of the business and industrial, and alcohol fuels, loan guarantee programs.

International Security Assistance. The Administration plans to increase its military and economic assistance to friendly and strategically important nations in both 1982 and 1983. Direct loans will increase by $1.0 billion in 1983, and guaranteed loans, financed through the Federal Financing Bank, will increase by $0.8 billion.

Rural Electrification Administration. In 1983, REA guaranteed loans will be reduced by $0.5 billion and direct loans will be reduced by $0.4 billion. These reductions are proposed because a large number of REA borrowers can obtain credit from unsubsidized private sources at prevailing market rates.

Small Business Administration. The Administration is proposing to eliminate SBA direct loans beginning in 1983 and to reduce 1983 guarantees by 10% below the 1982 level. These reductions are proposed as part of the overall plan to control credit, because small businesses will benefit more from stable financial markets and lower interest rates than from Federal credit assistance for a few selected borrowers.

Public Housing. A decrease in direct loan obligations of $0.5 billion and an increase of $1.5 billion in guaranteed loan commitments between 1982 and 1983 result from financing transactions of prior year commitments for public housing notes.

Commodity Credit Corporation. Direct loan obligations for commodity price support programs are estimated to decrease by $2.0 billion between 1982 and 1983 due to provisions in the recently enacted Agriculture and Food Act of 1981.

Major increases in the credit budget are due to improved economic conditions for housing. As the housing industry recovers from its depressed 1981 levels, guaranteed lending increases are expected for:

Federal Housing Administration. Guaranteed loan commitments for FHA are estimated to increase by \$5.0 billion in 1982 and \$6.4 billion in 1983.

Veterans Administration. Increases in guaranteed loan commitments in the veterans loan guarantee revolving fund are \$7.8 billion in 1982 and \$2.9 billion in 1983.

Privatization of Government-Sponsored Enterprises

If their current links to the Federal Government are continued, the Government-sponsored enterprises should also be brought under closer scrutiny through the budget and credit budget process. The Administration prefers, however, to modify the special relationship between these enterprises and the Federal Government in order to transform them into completely private organizations. In particular, the Administration seeks to accelerate the development of a truly private secondary market for housing finance. Both the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) will be active in guaranteeing conventional mortgage-backed securities in the coming year, and it is expected that both institutions will be strongly supported by the expansion of private mortgage insurance activity. Moreover, it is anticipated that the competitive advantages now accorded to FHLMC and FNMA will be gradually eliminated.

Other Administration Proposals for Control of Credit Subsidies

In the coming months the Administration plans action on:

- *Interest subsidies.* The Administration is moving to develop a consistent policy on the provision of interest subsidies.
- *The Federal Financing Bank.* The budget treatment and portfolio oversight of the Federal Financing Bank will be reviewed and improved.
- *Debt collection and default accounting.* Substantial work is now in process to create standard accounting definitions and administrative controls.

Rural Electrification and Telephone Revolving Fund Loan Authorization

AGENCY: Department of Agriculture FUNCTIONAL CODE: 271

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	4,816	5,097	4,824	4,183	3,990	4,051	4,163
OUTLAYS	4,715	5,088	4,809	4,158	3,951	3,996	4,094
DIRECT LOAN OBLIGATIONS	1,260	1,285	885	885	885	885	885
GUARANTEED LOAN COMMITMENTS	5,131	4.245	3,760	3,760	3,760	3,760	3,760

Program Description

The Rural Electrification Administration (REA) of USDA makes direct and guaranteed loans for construction and operation of electric and telephone utilities in rural areas. By statute, direct loans are made by REA at very low interest rates — 2% or 5% — depending upon the project and the financial condition of the borrower.

Loan guarantees were authorized to attract private capital to rural electric and telephone projects, particularly in those cases in which utilities do not have the equity or cash flow necessary to attract private loans without Federal assistance. However, since the Federal Financing Bank (FFB) was established, REA borrowers have used REA guarantees to borrow almost exclusively from the Federal Treasury through the FFB.

Proposed Change

In 1982, REA guaranteed loan commitments will be reduced by almost $1 billion to $4.2 billion. In 1983, REA direct loans will be reduced by $400 million to $885 million, ($225 million for electric and $175 million for telephone) and guarantees will be reduced by an additional $485 million to $3.8 billion. These remaining levels of lending are projected through 1987.

Rationale

These reductions are possible under existing law through administrative changes because of increased ability of borrowers to obtain part of their financing needs from other sources:

- These actions are part of an Administration objective to control Federal credit and reduce Federal demands on private credit markets.
- Although these lending programs are "off-budget," they add to the total Federal deficit and to demands on financial markets. The Treasury borrows to finance the programs, and in most cases these long-term lending programs are being financed by Treasury short-term borrowing. For example, during 1981 the Treasury paid 14% to borrow funds lent by REA at 5% costing the taxpayer the difference, or $9 million per year for each $100 million lent.
- Most of the rural telephone borrowers (approximately 70%) are eligible for the tax benefits available to private companies provided in the Internal Revenue Code, including the latest amendments which permit sale and leaseback of facilities. Many of the largest electric borrowers are eligible for the same provisions and in fact are now taking advantage of them.
- A larger portion of total program needs can be obtained from non-Federal sources without REA guarantees. Generation and transmission of electricity as well as other REA financed projects will be expected to obtain a portion of their credit needs from unsubsidized private sources without REA guarantees.

- All borrowers do not need the same proportion of Federal assistance to obtain their financing requirements. Eligible purposes for Federal loans and guarantees can be limited to those which cannot be reasonably financed otherwise.

- These subsidies are not necessary because electric and telephone service can be provided in these areas at a profit using private capital.

- REA assisted cooperatives and companies lack incentives to improve their financial positions for the purpose of attracting private capital so long as these subsidies remain available.

Electric Loans

- This program has served its primary purpose of bringing electric power to the farm.
  - — When the REA electric program was established in 1935, only 11% of the Nation's farms had electricity.
  - — Today more than 99% of farms have electric service, and many of the areas are served by electric co-ops.

- Because interest on capital borrowed by REA co-ops is subsidized by the Federal taxpayer, customers of REA-financed electric utilities receive service at rates on a national average which are less than average rates charged by non-REA financed utilities.
  - — According to data published by the Department of Energy and REA in January 1980, customers of REA-financed systems on average paid 3.3 percent to 9.9 percent lower rates for electricity than customers of other utilities.
  - — Within some individual States, however, rural electric systems may charge more than other private utilities which have access to power from low-cost hydro projects and therefore provide electricity at even lower cost.

Telephone Loans

- This program has also served its primary purpose of bringing telephone service to the farm.
  - — When the program was begun in 1949, only 38% of American farms had telephone service, a large part of which was inadequate.
  - — Today, over 90% of all rural households have telephone service, most of which is comparable to urban service.

- The cost of REA telephone service to rural subscribers is lower on the average than the cost paid by urban dwellers because telephone companies and co-ops have used low interest REA loans to establish, maintain and upgrade this service.
  - — A recent REA study comparison of single-party residence monthly telephone rates for the Bell System and REA-financed telephone borrowers showed the following (CY 1978 data):
    - -- For the 45 States compared, REA borrowers in 12 States on average charged less than the Bell System; REA borrowers charged more on average in 33 States.
    - -- The weighted average monthly bill for all 45 States was $6.50 for the Bell System and $8.00 for the REA borrower systems. (The REA borrower average exceeded the Bell System average by 23%.)
  - — The Bell System rates used in the study exclude large metropolitan area exchanges where the largest numbers of phone subscribers paid monthly bills ranging from 30% to more than 60% higher than the small Bell System service areas selected for comparison. Using the average monthly bills paid by most urban subscribers to the Bell System, Bell System rates on average would exceed REA borrower rates for single-party residence service by approximately 25%.

Effects of the Proposed Change

The effects on consumers will not be significant because:

- Large amounts of private credit at market rates is available.
- Some $700 million in subsidized loans at 2% and 5% will still be available to utilities that warrant assistance.
- Additional telephone loans will remain available from the Rural Telephone Bank at a somewhat more favorable interest rate than private markets.
- Federal guarantees (72% of 1981 total) will still be available (for both electric and telephone) from the Federal Financing Bank which also includes a subsidy.
- Although a reduction in lending levels will cause some increases in subscriber rates, the impact on individuals will be reasonable when compared with rates charged by other utilities, and the relative cost of providing service in less densely populated areas.

Rural Housing Loan Progam

AGENCY: Department of Agriculture FUNCTIONAL CODE: 371

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	594	1,583	1,110	1,536	1,698	1,834	1,779
OUTLAYS	130	1,092	1,617	1,723	1,775	1,706	1,646
DIRECT LOAN OBLIGATIONS	3,487	3,727	1,145	1,145	1,145	1,.145	1,145
GUARANTEED LOAN COMMITMENTS	6	—	—	—	—	—	—

Program Description

The Farmer's Home Administration's (FmHA) homeownership, repair, rental construction, site development and farm labor loan programs are available in any rural community of 10,000 or less, and in communities of 10,000–20,000 outside standard metropolitan statistical areas (SMSA's). Loans are made at interest rates as low as 1 percent.

Proposed Change

In 1983, federally assisted rural housing loan programs are proposed to be reduced as follows:

	($ in millions)		Units	
	1982	1983	1982	1983
Single Family Housing	2,730	900	67,500	20,100
Repair and Rehabilitation of Single Family Housing	24	24	6,440	5,900
Multi Family (Rental) Housing	940	200	29,400	5,740
Housing Site Development	5	2	—	—
Farm Labor Rental Housing	26	19	1,340	1,090
TOTAL	3,727	1,145	104,680	32,830

FmHA will improve its efforts to ensure that truly needy households are the primary beneficiaries of the rural housing programs. It will enforce a credit–elsewhere test to determine eligibility for homeownership loans.

Rationale

- The Administration proposes to reduce FmHA direct lending programs for housing as part of a general effort to limit the growth of Federal outlays and to reduce dependence on the Federal Government as a supplier of credit. Reduced Federal involvement in credit markets should help to relieve pressure on interest rates, particularly in the housing sector.
- This reduction is consistent with trends in mortgage markets which suggest that rural areas generally are adequately served by private credit markets.
  - — Over the period 1960 to 1978, housing starts in rural areas increased at a faster pace than the population living in non–SMSAs.
  - — At the same time, there has been steady progress in eliminating substandard housing in rural areas. Between 1970 and 1978, the percent of all rural households living in substandard housing has declined from nearly 18% to approximately 8%.
- The proposed reduction will enable FmHA to improve its loan making and servicing responsibilities to low– and moderate–income borrowers. The Agency will be able to provide more individual assistance to loan applicants and more counseling and supervision to

borrowers. These actions should help to reduce the high rate of delinquent payments, which, for homeownership loans reached 27% in mid–October.

Effects of the Proposed Change

- FmHA is not and should not be viewed as the primary lending source for rural housing. In fact, in 1980, FmHA loans financed only about 10% of all home purchases in rural America. Therefore, the proposed changes will have minimal impact on rural home purchases.

Federal Housing Administration Credit Limits

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 371

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	412	252	134	189	283	233	235
OUTLAYS	182	−245	−1,179	−1,155	−1,142	−1,228	−1,309
DIRECT LOAN OBLIGATIONS	414	383	311	306	329	321	311
GUARANTEED LOAN COMMITMENTS	23,635	28,609	35,000	35,000	35,000	35,000	35,000

Program Description

The Federal Housing Administration (FHA) operates about 40 programs that provide insurance for home and project mortgages and property-improvement and mobile-home loans. Since its inception in 1934, FHA has insured mortgages and loans covering 17.3 million units with a value of $260 billion. FHA currently insures 5 million home and multifamily mortgages with a value of $151 billion. In fiscal year 1981, FHA insured 277,000 home mortgages with a value of $12.5 billion, 1,100 multifamily mortgages covering 116,000 units with a value of $3.6 billion, and 309,000 property-improvement and mobile-home loans with a value of $1.7 billion.

Proposed Change

FHA will be redirected to serve groups—such as first time and inner city homebuyers—that cannot obtain equivalent private mortgage insurance, and need insurance to purchase homes. By targeting FHA insurance towards these groups, the Administration will continue to encourage homeownership without interfering with private insurers. As a result of this redirection, the President proposes to reduce the current 1982 limitation of $40 billion to $35 billion in 1983 and each year thereafter.

Rationale

- This is an integral component of the President's plan to control the growth of Federal credit.
- FHA should provide mortgage insurance for only those segments of the market not adequately served by the private sector. For example, some homebuyers — particularly first time homebuyers who are able to make only very low downpayments — may be unable to obtain private mortgage insurance and thus require FHA mortgage insurance if they are to be able to purchase a home.
- The growth in the size of and capacity of the private mortgage insurance industry has provided a viable alternative to FHA mortgage insurance.

Effects of the Proposed Change

- Despite this proposed decrease in the amount of commitments FHA can make to insure mortgages, the amount of mortgages FHA will actually insure is expected to increase from $23.6 billion in 1982 to $28.6 billion in 1983. This will occur because of expected increases in both aggregate housing activity and in the rate at which commitments are used.
- More homebuyers will use lower cost private mortgage insurance; private mortgage insurors already insure about twice as many mortgages as FHA.

GNMA Mortgage-Backed Securities Credit Limits

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 371

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
OUTLAYS	−92	−118	−149	−175	−203	−228	−252
GUARANTEED LOAN COMMITMENTS	42,150	48,000*	38,400	—	—	—	—

*Reflects proposed supplemental calculation in currently enacted 1982 limitations.

Program Description

The Government National Mortgage Association (GNMA) Mortgage-Backed Securities program was authorized by Title VII of the Housing and Urban Development Act of 1968. The Act allows private lenders to pool mortgages guaranteed by FHA, VA, and FmHA and to issue securities backed by these pools. GNMA guarantees the timely payment of principal and interest of these securities. Thus, the GNMA program enables private lenders, primarily mortgage bankers, to finance their mortgage holdings by selling securities backed by the full faith and credit of the Federal government.

GNMA commitments grew from $231 million in 1970 to $42.2 billion in 1981. Loans guaranteed rose from $38 million to $16.9 billion during the same period. Outstanding GNMA securities totaled $105 billion as of the end of September 1981. This amount represents the equivalent of U.S. Treasury debt and absorbs available savings much like Treasury borrowing does.

Commitment limitations were first imposed on the program in 1981 as part of the government-wide Federal Credit Control program. The limitation was set at $64 billion in 1981. To help address current problems in financial markets, President Reagan proposed a target 25% reduction for 1982 in the GNMA Mortgage-Backed Securities program. The commitment limitation would, therefore, be set at $48 billion in 1982.

Proposed Change

For 1983, the Administration proposes a further reduction in the commitment limitation for GNMA mortgage-backed securities as a part of the effort to reduce overall Federal borrowing requirements and exert downward pressure on interest rates. Specifically, GNMA commitment authority will be limited to $38.4 billion, a 20% reduction from the 1982 level.

A second change involves increasing the fee charged for a GNMA commitment to a rate that will equal similar fees charged by private sector conventional mortgage-backed securities programs. In addition, a new fee will be charged to cover the costs of processing new GNMA issuers. The effects of these fee changes are discussed in the User Fee section.

Rationale

- The reduction in the GNMA commitment limitation is an integral part of proposed reductions in overall Federal credit programs. Federal credit reductions are designed to relieve pressure on interest rates and to open the way for sustainable and noninflationary economic recovery.
- Federal housing credit reductions will encourage and accelerate the development of a predominantly private sector housing market. In particular, both the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) have developed conventional mortgage-backed securities programs that will be operating in calendar year 1982. These programs will be strongly supported by the

expansion of private mortgage insurance activity, which is already larger than comparable government-insured activity.

Effects of the Proposed Change

The 1983 targeted reductions in the GNMA mortgage-backed securities program should:

- Positively affect aggregate credit markets and exert downward pressure on interest rates;
- Encourage the development of mortgage-backed securities programs in the private market for both conventional and government-insured mortgages; and
- Reduce budget outlays since additional income will be generated by the increase in user fees.

Export Credits and Guarantees

AGENCY: Export–Import Bank FUNCTIONAL CODE: 155

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	6,908	3,986	2,701	2,667	2,731	2,647	2,608
OUTLAYS	2,066	1,855	1,918	1,188	1,385	1,317	647
DIRECT LOAN OBLIGATIONS	5,431	4,400	3,830	3,830	3,830	3,830	3,830
GUARANTEED LOAN COMMITMENTS	7,416	8,000	8,000	8,000	8,000	8,000	8,000

Program Description

The Export–Import Bank provides credit support for the sale of American goods and services overseas in the form of:

— long–term direct loans on subsidized terms to purchasers of U.S. exports, and

— loan guarantees and insurance against defaults by foreign purchasers.

In recent years, programs were expanded rapidly, and rates and fees were reduced as part of a general effort by the Bank to promote exports through highly favorable financial policies.

Proposed Change

The Administration proposes to:

- reduce direct lending by $570 million in 1983 to $3.8 billion, and
- hold loan guarantee authorizations steady at $8 billion.

The proposed budget levels are supported by policy changes implemented by the Bank that will enable it to operate effectively at reduced programs levels. The Bank:

- is now targeting its resources more carefully to assure that it is supplementing and not competing with private export finance that is readily available,
- generally no longer provides direct credits 1) for sales to other industrial countries, with developed capital markets of their own, 2) for lines of credit which compete with commercial banking, or 3) for sales of older generation aircraft and other product areas where competitive products from other countries do not exist; and
- now charges a rate of interest that more closely approximates its cost of money in order to place the Bank's future financial condition on a sounder basis and limit the large losses that will occur in 1982 and 1983 because of the previous Administration's policies.

In the areas of loan guarantees and insurance, the Administration is examining new techniques for developing more independent private sector capability for servicing U.S. exporters:

- The resources of the domestic banking and insurance industry are enormous and should be capable of effectively supporting U.S. exports where competitive finance is not an issue.
- As these programs develop, the government will be able to concentrate its resources in those limited areas where activity is warranted.

Rationale

The changes support the Administration's policy to reduce federal subsidies that distort market forces. Such changes are needed because:

- The cost of interest subsidies on long-term loans is substantial; subsidized export credits transfer resources from domestic taxpayers to exporters or the foreign borrower.
- Subsidies distort trade and investment, result in a low rate of return on invested capital, and worsen the terms of trade, particularly in the short term.
- Economic gains to the general public have not been identified or measured in any rigorous manner.
- Claims that subsidized exports generate additional employment, income and Federal revenue while reducing expenditures for social programs fail to consider that credit diverted to exports must come at the expense of other sectors which will experience offsetting losses.

By limiting the size and cost of these programs, the changes that are being undertaken will reduce distortions in the economy. At the same time, the economic program being put into place by the Administration will improve the competitive position of U.S. industry generally by reducing inflation, providing generalized incentives for increased investment and improved productivity and by removing artificial restraints and disincentives to trade.

Effects of the Proposed Change

- The Bank's subsidy to foreign borrowers, estimated to be between $200 million and $1 billion in 1980 by the Congressional Budget Office, will be reduced.
- The Bank's losses, estimated to be $243 million in 1983 for the loan programs, can be reduced in future years as inflation and interest rates subside and recent international agreements to increase official export credits take effect.
- Impact on U.S. exports will be limited because:
  - Fluctuations in U.S. export performance result primarily from cyclical changes in the U.S. and foreign economies.
  - The Export-Import Bank's direct credits finance less than 2% of U.S. exports of goods and services.
  - The preponderance of Bank's loan guarantee programs are not competitive financial instruments for increasing exports and have limited ability, therefore, to generate additional U.S. exports.

SBA Direct Business Loans

AGENCY: Small Business Administration FUNCTIONAL CODE: 376

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	292	184	0	0	0	0	0
OUTLAYS	219	211	46	0	0	0	0
DIRECT LOAN OBLIGATIONS*	871	712	554	—	—	—	—
NEW LOAN APPROVALS	292	184	0	0	0	0	0

*This includes amounts for repurchases of defaulted SBA guaranteed loans.

Program Description

The Small Business Administration (SBA) provides subsidized loans to small business to construct, expand, or convert facilities; to purchase equipment or building materials; or to supply working capital. Except for a 3% interest rate on loans to businesses that employ or are owned by handicapped individuals, interest rates on direct loans were increased in 1981 to the Government's cost of borrowing money, which is currently about 15%. Since the interest rates have been increased, demand for such loans (which still have subsidized interest rates relative to market rates) has fallen off dramatically to an annualized rate of less than $150 million.

Pursuant to existing law, direct loan funds are allocated among the following program areas:

- general business assistance;
- aid to businesses that employ or are owned by handicapped individuals;
- aid to socially and economically disadvantaged business-owners; and
- aid for energy conservation or development.

Proposed Change

The Administration proposes to eliminate SBA direct loans beginning in 1983.

Rationale

- The proposed change is an integral component of the President's plan to apply sound criteria to economic subsidy programs.
- As a group, the nation's 14 million small businesses will benefit more from the Administration's efforts to stabilize financial markets, reduce interest rates, eliminate burdensome regulations, and lower inflation than from the fewer than 4,000 direct loans made by SBA annually.
- Subsidized direct loans are costly to the small business community:
  - They result in increased Federal borrowing and thereby reduce available private credit.
  - They create a competitive advantage for some small firms over others that are equally deserving.
- Elimination of subsidized direct loans would reduce the number of failures of marginal small businesses that are unable to compete in the marketplace without Federal subsidies.

Effects of the Proposed Change

- The elimination of direct loans will have a negligible effect on small business. At the end of 1981, SBA had 38,671 direct loans outstanding in its portfolio. This means that less than 0.3 percent of the 14 million small businesses identified by IRS receive direct financial assistance from SBA.

- Direct loans already approved will continue through their full term. No new loans will be made as of October 1, 1982.

- SBA will continue to provide guaranteed loans at a level of $2.7 billion in 1983 to small businesses that have difficulty obtaining private financing. SBA will also continue to assist:

  — new and/or expanding minority businesses by purchasing non-voting preferred stock and debentures of Minority Enterprise Small Business Investment Companies (MESBIC's); and

  — new and/or expanding non-minority small businesses through guarantees of Small Business Investment Company (SBIC) debentures.

SBA Guaranteed Credit Assistance

AGENCY: Small Business Administration FUNCTIONAL CODE: 376

Funding

	1981	1982	1983	1984	1985	1986	1987
	($ in millions)						
GUARANTEED LOAN COMMITMENTS	3.616	3.156	2.850	2.850	2.250	1.750	1.150

Program Description

The Small Business Administration (SBA) provides guaranteed credit assistance to small business through its:

— guaranteed business loan program, and

— 100% guarantee of pollution control equipment loans, which are financed from the proceeds of State pollution control bonds.

Proposed Change

The President proposes to reduce 1983 guaranteed credit assistance 10% below the Administration's proposed 1982 levels.

Rationale

- The proposed reduction in SBA guaranteed credit assistance is an integral component of the President's plan to control Federal credit.
- As a group, small businesses will benefit more from the Administration's efforts to stabilize financial markets, reduce interest rates, eliminate burdensome regulations, and lower inflation than from Federal credit assistance.
- Less than 1% of small businesses receive any type of financial assistance from SBA. This is particularly significant in view of the fact that Federal guarantee assistance has not been constrained heretofore.
- Since the vast majority of small businesses are obtaining financing without Federal assistance, aid should be limited to those businesses for which a valid case can be made that the market overestimates the risk of a project or underestimates its return in terms of achieving social objectives (e.g., counteracting discrimination or generating greater economic independence for minority communities).

Effects of the Proposed Change

- Reducing the level of guaranteed business loans will not have a significant adverse effect on small business. In 1981, SBA guaranteed 23,215 business loans and had a total of 100,604 guaranteed loans outstanding in its portfolio. This means that SBA provided guaranteed business loans to less than 1% of the 14 million small businesses identified by IRS.
- By better targetting assistance and assessing more realistic guarantee fees, SBA will be able to provide necessary assistance to those firms that suffer from market imperfections. Consistent with this philosophy, 17% or $410 million of SBA guaranteed business loans will be targetted to minority-owned firms.
- Guarantees for pollution control equipment contract repayments will be maintained in 1983 at the 1982 level of $150 million.

USER FEES

CHAPTER 7
USER FEES

The Federal Government provides numerous services that directly benefit narrow, clearly identifiable groups of business and private users. However, because these services evolved over time — the first navigation aids for ships began in 1789; permanent disposal sites for radioactive waste from nuclear power plants will begin operating nearly two centuries later — the Federal agencies providing these services recover widely varying proportions of their costs through fees on the users.

Last September, President Reagan announced that the Administration would apply uniform principles of cost recovery to the current patchwork of user fees for Federal services. The President directed all Federal agencies to:

- review their activities to determine the extent to which benefits accrue to clearly identifiable users; and
- seek to recover the cost of providing those benefits through the use of specific fees instead of placing the burden on the general taxpayer.

In the 1983 Budget, President Reagan has proposed to increase or institute 15 categories of user fees. Such fees are expected to reduce the revenue required from general taxes to support subsidized services by $2.5 billion in 1983 and $3.5 billion in 1984.

Inconsistency in Past Federal Policy

Past Federal policy toward the recovery of cost from clearly identifiable groups receiving program benefits has been inconsistent. In some cases, few if any costs are recovered; in others close to 100% of program costs are obtained. Without the changes the President has proposed, there will be continued subsidization of particular businesses and individuals who receive Federal services. Examples of inconsistencies include:

- The nation-wide system of barge canals and waterways is a service that the Federal Government provides without recovering more than a small fraction of its costs. In 1981, the Corps of Engineers spent $700 million to build and maintain inland waterways. The barge operators and other users of the system paid only $20 million in fees to offset these costs, approximately 3%.

  By contrast, the users of the Federal Highway system have been supporting its construction through a dedication of the Federal gasoline tax, diesel taxes, and other excise taxes on highway users since the Highway Trust Fund was established in 1956. Unlike the inland waterway users, highway users paid 100% of the cost of the Federal highway program in 1981.

- Another example of the inconsistency in current Federal user fee policy under current law concerns the services the Federal Government provides to the electric utility industry. Work on the disposal of waste from nuclear plants is currently funded entirely by the general taxpayer. In 1981 the Federal Government spent $174 million on developing commercial nuclear waste disposal facilities and brought in no offsetting receipts from the electric utility industry.

  Yet, at present, Federal agencies supply utilities with enriched uranium fuels for nuclear generating plants under arrangements that recover all of the costs of production over time. In 1981, the uranium enrichment program spent $1.59 billion and collected $1.25 billion in fees.

- In 1981 $7 million was collected from general aviation users for aeronautical charts purchased from the National Oceanic and Atmospheric Administration. Although they paid an average of $1.15 for each of these charts, it cost the Federal Government $4.00 per chart to prepare and distribute the charts. The general taxpayer thus picked up more than two-thirds of the cost of providing this service to the aviation industry. The general taxpayer also subsidizes in a higher proportion the sale of nautical charts to yacht owners and commercial shippers.

By contrast, the Federal Government collects 100% of the cost of providing consular services to U.S. citizens in foreign countries through user fees. Such consular services include notorization and authorization, copying and recording of documents, and preparing and sending of messages.

Advantages of User Fees

User fees have several important advantages over the use of general revenue financing for the provision of government services. The advantages include:

- enhanced equity;
- increased economic efficiency; and
- alleviation of Government's competitive advantage over the private sector.

Enhanced Equity. Those identifiable groups who directly benefit from the existence of a service should pay that portion of the cost of providing the service rather than the general taxpayer. The beneficiaries of the services for which the Administration is instituting new or increased fees consist in general of corporations or the relatively affluent. By charging these groups directly, we can avoid the necessity of imposing additional taxes on lower- and middle-income citizens. Examples of user fees which promote enhanced equity include:

- *Fees for NOAA Aeronautical and Nautical Maps and Charts.* Currently, the National Oceanic and Atmospheric Administration provides commercial and private owners and operators of all types of aircraft and vessels with maps and charts at a price that is less than one-third the cost of production and distribution. This proposal would gradually increase prices for maps and charts to achieve full cost recovery by 1985. Additional revenues generated by this policy amount to $14 million in 1983 and $44 million by 1985.

- *Coast Guard User Fees for Operating Expenses.* At present, nearly all services rendered by the Coast Guard for the general public are provided without charge, including issuing licenses, inspecting facilities, certifying vessel construction, maintaining aids to navigation, providing rescue assistance service, and other services. Boat and yacht owners and the maritime community are well defined groups benefitting directly from these services. Legislation will be proposed in early 1982 that would authorize the Secretary of Transportation to initiate fees for certain Coast Guard services. Fees for direct services involving a transaction (e.g., licenses and inspections) would be set according to the cost of providing the service. Other services (e.g., maintaining navigation aids and providing search and rescue services) would be financed by an annual fee or other type of charge. Revenues generated by this proposal amount to $200 million in 1983 and full cost recovery of $800 million in 1984.

- *Corps of Engineers Navigation User Fees.* Locks, dams, and channels are constructed and maintained by the Corps of Engineers and TVA for barge traffic on inland waterways. The Corps also dredges harbor channels and constructs and maintains other facilities for ocean-going and Great Lakes traffic. Construction and upkeep of both inland and deep draft waterways have traditionally been provided at near zero cost to commercial users. Such a benefit is a subsidy to the multi-billion dollar waterborne transportation industry. In the 1982 Budget, the Administration proposed legislation for user fees to recover new construction and maintenance expenses for commercial projects. Congress has thus far failed to enact such fees. Such fees would bring in $448 million in additional revenues in 1983.

- *Fees for Commercial Nuclear Waste Disposal.* The Federal Government is responsible for assuring permanent disposal facilities for high level radioactive waste resulting from the generation of electricity by nuclear power plants. The development of these facilities is currently being financed by the taxpayer. Legislation is now pending in Congress that will mandate a fee (one mill per kilowatt hour) on electric utilities that are generating nuclear waste. The income generated will be used to establish a fund for developing underground geologic repositories. Such a fund will support a business-like, self-sustaining operation for waste disposal. Revenues from the fee are expected to be $300 million in 1983.

- *Fees for Energy Regulatory Licenses and Services.* The Federal Energy Regulatory Commission (FERC) issues permits and licenses and sets rates for producer sales of natural gas, operation of oil and natural gas pipelines, development of hydroelectric power, and interstate wholesale sales of electric power. Fees are now charged for pipeline and hydropower activities. Under this proposal new fees will be charged to companies making license and other applications to the FERC. Fees will be extended to services such as electric and natural gas rate determinations not now under fees. For services such as pipeline approvals and hydropower licenses, existing fees will increase substantially. It is expected that these proposed changes will bring in an additional $35 million in offsetting receipts in 1983 if enacted.

Increased Economic Efficiency. Since government services are subsidized, the price paid by the consumer of those services is below the cost of providing the service. Subsidized prices promote over-consumption leading to increased government costs and burdened government resources. Further, subsidized benefits can lead to an inefficient allocation of available Federal Government resources. By providing direct benefits to one type of business (or group of individuals) at no cost, the government is in effect putting competing businesses at a disadvantage. Such a distortion leads to an over-allocation of resources to the subsidized business and an under-allocation of resources to the non-subsidized business. Examples of proposed user fees that can lead to increased economic efficiency include:

- *Patent and Trademark Fees.* The Patent and Trademark Office (PTO) assists and encourages the development of business and industry by providing protection to individuals for inventions and registering trademarks. PTO receives over 100,000 patent applications and over 50,000 trademark applications annually. A growing backlog of applications has resulted in ever-increasing turnaround time for the issuance of patents. This proposed change would increase fees charged from the current 50% to 100% of application processing costs in order to have those individuals who benefit from patent/trademark protection pay the cost of the service. Increased revenue from fees will result in a more prudent use of resources and permit enhanced program operations to reduce application processing time. Increased revenues resulting from this proposal are estimated to be $39 million in 1983.

- *User Fee for Grievance Arbitration.* Currently, the Federal Mediation and Conciliation Service (FMCS) provides lists of qualified arbitrators to parties in dispute over terms of a collective bargaining agreement. In 1981 FMCS issued about 33,200 lists of arbitrators. The National Mediation Board (NMB), in connection with railroad industry grievances under collective bargaining agreements, compensates and pays expenses of neutral referees, appoints neutral referees when parties do not agree to one, and maintains offices for the National Railroad Adjustment Board. Under this proposal, a general provision would be added to the Labor-HHS appropriation bill enabling and requiring both agencies, beginning in 1983, to charge users of these services a fee equal to the total costs of Federal services. Requiring parties to pay for these services is expected to slow the rate of increase in arbitration caseloads and lead parties to find less costly and more productive ways of handling grievances. Such a proposal is expected to bring in $1 million in 1983 to completely offset these program costs.

- *Veterans Housing Loan Guarantee User Fee.* The Veterans Administration's Loan Guarantee Program provides guarantees to lending institutions for residential housing loans made to veterans. An average of 330,000 loans are guaranteed each year. This proposal would require payment of a 0.5% funding fee at the time of settlement on each loan guaranteed. Such a fee would help decrease the cost of this program to the government. It is expected that this proposal will bring in an additional $95 million in offsetting receipts in 1983 if enacted.

- *Commodity Futures Trading Commission User Fees.* The CFTC is an independent regulatory agency whose purpose is to encourage the efficiency of the futures market, to assure their integrity and to protect participants against abusive trade practices, fraud, and

360-900 O - 82 - 8

deceit. The CFTC plans to initiate actions to recover the full cost of regulatory operations. Recovery of the cost of CFTC regulation (some $23 million in 1983) through transaction fees and licenses transfers the regulatory cost from the general taxpayer to the identifiable beneficiaries. Growth in the markets to be regulated increases demands on available resources for regulation.

Alleviation of Government's Competitive Advantage Over the Private Sector. When the Federal Government subsidizes services that are provided in the private sector it can lead to an unfair competitive advantage which can cause the private sector to under–supply such services. Examples of user fees that can lead to an alleviation of government's competitive advantage over the private sector include:

- ***Recreation User Fees.*** Several Federal Government agencies provide recreational facilities for the public at a fraction of the cost of providing them. Under this proposal existing entrance fees at Federal recreation areas will be increased, and the number of areas where fees are charged will be expanded. Increased recreational user fees for public facilities will lessen unfair competition with private recreation developments which have to recover all of their costs without direct subsidies. It is expected that increased fees will bring in more than $60 million in additional offsetting revenues in 1983.

- ***GNMA Mortgage–Backed Securities–Fees.*** The Government National Mortgage Association (GNMA) Mortgage–Backed Securities program provides Federal guarantees on securities backed by FHA, VA, and FmHA mortgages. GNMA now charges a commitment authority application fee of $500 per pool package of commitments. This fee has not increased since it was established in early 1971. Increased fees will bring in an additional $4 million annually in offsetting receipts in 1983 and help offset the competitive disadvantage of private sector mortgage–backed securities programs.

Additional Benefits Provided by User Fees

User fees can provide additional program benefits in that they generate revenues which can be used to enhance funding resulting in increased program development, operation, and efficiency. Examples include:

- ***Aviation User Fees.*** The Administration is proposing legislation that would increase the ticket tax on scheduled air carrier flights and general aviation fuel taxes and reinstitute other aviation taxes to their pre–1981 levels. Receipts from these taxes would be deposited into the Airport and Airway Trust Fund. Historically, the trust fund has paid for about 40% of FAA expenses including all FAA capital programs plus certain field maintenance costs. The increased user fees are coupled with an administration proposal to increase capital funding levels and finance 85% of total FAA costs from the trust fund — i.e., all FAA costs attributable to air carriers and general aviation. This proposal reflects the Administration's commitment to modernizing the National Airspace System if the users pay all allocable costs of development, acquisition, operation and maintenance. The proposal is expected to bring in almost $1.2 billion in additional offsetting receipts in 1983.

- ***Patent and Trademark Fees.*** The Patent and Trademark Office (PTO), which provides patent protection to individuals for inventions and registering trademarks, has experienced a growing backlog of applications resulting in ever–increasing turnaround time for the issuance of patents. Increased fees will be used to offset the costs of improved PTO service. Program expansion will permit a reduction of application processing time. Fee–derived revenue will also permit development of a fully–automated application processing system in subsequent years to further improve service and maintain or reduce costs.

Cases Where User Fees Will Not Be Applied

In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed. Further, in instances where collection of user fees is infeasible or not cost-beneficial, user fees will not be implemented. Some examples include:

- ***The Patent and Trademark Office.*** Patent protection serves the public by providing an incentive to disclose new technology. Disclosure of this information is a key to increased productivity and economic growth. Since the details of the invention are made public in the files of the PTO public search room, the cost of this and similar activities will be borne by general tax revenues.

- ***Coast Guard Services.*** User fees will not be proposed for those services that benefit the public in general. Such services include military readiness, enforcement of laws and treaties, and marine science.

- ***Recreational Services.*** Appropriate fees will be raised and/or charged at those areas and facilities where they can be administered economically. It is not feasible to collect fees at every recreational area as many of the areas are too small, remote, or sporadically used. Many of the areas may have access through a large number of entry points and staffing the entrances would be uneconomic.

Summary of the 1983 Proposals

By instituting the fees described above, the Administration will:

- Reduce the revenues required from general taxes to support subsidized services to clearly identifiable groups by over $3 billion.

- Apply consistent principles of cost recovery to all agencies supplying services.

- Reduce subsidies to business and other private users of Federal services.

- Encourage a prudent utilization of Federal Government resources.

- Alleviate Government's competitive advantage over some private sector businesses.

- Enhance program efficiency and quality of service.

Patent and Trademark Fees

AGENCY: Department of Commerce FUNCTIONAL CODE: 376

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	116	121	155	167	176	182	182
Outlays	112	120	152	163	172	178	178
OFFSETTING RECEIPTS:	—	—	87	96	105	113	117
Current Law	—	—	48	53	57	62	64
Policy Increase	—	—	39	43	48	51	53
PERCENT RECOVERED (BA):	—	—	56	57	60	62	64
Current Law	—	—	31	32	32	34	35
Policy Increase	—	—	25	25	28	28	29

Program Description

The Patent and Trademark Office (PTO) assists and encourages the development of business and industry by providing patent protection to individuals for inventions and registering trademarks. PTO receives more than 100,000 patent applications and more than 50,000 trademark applications annually.

A growing backlog of applications has resulted in ever-increasing turnaround time for the issuance of patents. Without the changes described below, it will continue to take more than two years to process a patent application, with an average increase of two months per year for 1983 and beyond.

Proposed Change

The proposed change would increase fees charged from the current 50% to 100% of application processing costs. The purpose of the change is to have those individuals who benefit from patent/trademark protection pay the cost of the service. In the case of patents, 50% of the processing cost would be recovered prior to issuance of the patent and 50% would be recovered through maintenance payments over the 17-year life of the patent. Approximately 15 years after the fees are instituted, full cost recovery for patent processing would be achieved. Increased fee revenues would be invested in program operations to reduce processing time. The Federal Government would continue to fund the public search room and other nonprocessing functions such as U.S. representation at international patent meetings and the expenses of the commissioner's office.

Rationale

- These changes are proposed as part of the Administration's effort to impose or increase user fees where a service provides special benefits to an identifiable recipient above and beyond those that accrue to the general public.
- The 17-year monopoly provided by patent protection enables the patent holder to obtain exclusive and substantial returns from commercial application of the invention. Therefore, 100% of the costs of processing the patent is a fair charge for the benefits received. In addition, since 50% of cost recovery occurs through maintenance payments, the patent holder has the option of allowing the patent to lapse (by stopping payment) if the invention is not profitable.
- Patent protection also serves the public by providing an incentive to disclose new technology. Disclosure of this information is a key to increased productivity and economic growth. Since the details of the invention are made public in the files of the PTO public search room, the cost of that and similar activities should be borne by general tax revenues.

- By increasing fees and initiating maintenance payments, the U.S. system of fees would generally be in line with the systems in other industrialized countries. Therefore, no relative disincentive to using the U.S. system should result, especially in light of the size of the U.S. market.

- In the context of severe fiscal constraint, the goal of efficient and effective patent and trademark systems is not attainable without the increased fees proposed.

Effects of the Proposed Change

- In most areas, the user fees proposed will not even keep pace with past inflation. The average patent filing fee established by the Congress in 1965 was \$85. Simply escalated by the growth in the average salary of a patent examiner, that \$85 in 1965 is equivalent to about \$400 in 1984. The average filing fee projected under the Administration's proposal is \$330. The average \$145 patent issue fee in 1965, when similarly escalated, would be about \$700 in 1984, or roughly 42% more than the proposed \$500 issue fee. The proposed fees for other PTO services follow a similar pattern.

- Increased fees will be used to offset the costs of improved PTO service. Program expansion will permit a reduction of processing time to 18 months by 1987 for patents and 13 months by 1985 for trademarks. These are considered to be the optimum processing times for patent and trademark applications. Fee-derived revenue will also permit development of a fully-automated application processing system in future years to further improve service and maintain or reduce costs.

Fees For Commercial Nuclear Waste Disposal

AGENCY: Department of Commerce FUNCTIONAL CODE: 271

Funding	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority/Obligations	173	188	235	315	339	387	531
Outlays	174	192	235	315	339	364	458
OFFSETTING RECEIPTS:							
Current Law	—	—	—	—	—	—	—
Policy Increase	—	—	300	501	549	627	659
PERCENT RECOVERED (BA):							
Current Law	—	—	—	—	—	—	—
*Policy Increase**	—	—	128	159	162	162	124

*Fees exceed obligations in early years because major construction and operating costs for the geologic repository are not incurred until the 1990's.

Program Description

The Federal Government has assumed responsibility for assuring permanent disposal facilities for high level radioactive waste resulting from the generation of electricity by nuclear power plants. Lack of progress in this area is one of the main public concerns with continued use of nuclear power.

The objective of the current program (in the existing Department of Energy) is to plan, develop and implement the technology necessary to provide for such disposal. Potential sites in several States are currently being evaluated. Beginning in 1983, exploratory shafts will be sunk underground at three different sites.

Proposed Change

- In his policy statement (October 8, 1981) on nuclear power, the President stated that the Government had failed to meet its responsibility for nuclear waste disposal. He therefore directed that the Government work closely with industry and State governments to swiftly deploy means for storing and disposing of commercial nuclear waste.
- To provide sufficient resources for the identification and evaluation of several potential sites, for subsurface shafts and tests, and for construction and operation of underground geologic repositories, funding would be obtained through a user fee on electric utilities that are generating nuclear waste.
  - — It is assumed that pending legislation which the Administration supports will mandate this fee (now estimated at one mill per kilowatt hour) and that the income will be used to establish a fund to support a business-like, self-sustaining operation for waste disposal.
  - — A commitment to an accelerated fixed schedule for developing an operating repository would be made to enable industry to plan better for its short-term waste management needs.
  - — Ultimately, an independent single-purpose organization would be formed to reflect better the business-like nature of the program. This will ensure the availability of adequate management resources over the long time period required for development and operation of repositories.
- Direct Federal funding would be limited to generic R&D on alternative waste management concepts, continued investigations on the materials in which to solidify and encapsulate the waste, and development of models necessary to assess the safety of potential repository sites.

Rationale

- Commercial nuclear waste disposal is a service that will be provided to nuclear utilities. Those who benefit from the electricity should also pay for disposing of the waste that is being generated at the same time.

- The Nuclear Regulatory Commission has concluded that reactors cannot continue to be licensed unless the means for safe disposal will exist when required. A Commission rulemaking currently underway will determine whether there is sufficient confidence that repositories will be available so that this issue can be precluded from individual licensing cases. Without an aggressive waste program and the resources to provide a repository on a fixed schedule, the licensing of new reactors could be in jeopardy.

Effects of the Proposed Change

- The cost of nuclear-generated electricity will be increased by about two percent. The full cost of waste disposal will no longer be subsidized by the taxpayer.

- The program will be accelerated and sufficiently funded to cover contingencies.

- With firm commitment on permanent disposal capability from the Federal Government, utilities can plan interim storage needs accordingly.

- The lack of waste disposal capability will no longer be an issue in licensing new reactors.

Fees for NOAA Aeronautical and Nautical Maps and Charts

AGENCY: Department of Commerce FUNCTIONAL CODE: 306

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	58	62	67	71	71	71	71
Outlays	58	62	67	71	71	71	71
RECEIPTS:	20	22	40	56	71	71	71
Current	20	22	26	27	27	27	27
Policy Increase	—	—	14	29	44	44	44
% OF COSTS RECOVERED (BA):	34	36	60	79	100	100	100
Current	34	36	39	38	38	38	38
Policy Increase	—	—	21	41	62	62	62

Program Description

The National Oceanic and Atmospheric Administration (NOAA) provides the aviation and marine community (civil and military, commercial and private owners, and operators of all types of aircraft and vessels) with maps and charts.

This activity is funded by: (1) reimbursements from other Federal agencies; (2) direct sales to Federal agencies and the public (cost recovery is limited by Public Law 88–441 to printing and distribution); and (3) appropriated funds.

Proposed Change

Beginning in 1983, prices for maps and charts would be increased gradually to achieve full cost recovery by 1985. (In 1981, only 34% of the mapping and charting program costs were recovered.) Legislation to provide copyright protection and amend P.L. 88–441 will be proposed.

Rationale

- These proposals are part of the Administration's effort to impose or increase user fees where a service provides special benefits to identifiable recipients above and beyond those that accrue to the general public.
- The general taxpayer will be relieved of the burden of subsidizing the cost of these maps and charts to the aviation and marine community.
- Paying the full costs for such services would encourage their economical use.

Effects of the Proposed Change

- The present average charge for aeronautical charts is about $2 and for nautical maps is $5. By 1985, the average charge is projected to increase to $9 and $37 respectively.
- When compared to the overall costs of operating aircraft or marine vessels, the additional costs to the operators from this proposal should be accommodated easily.

GNMA Mortgage-Backed Securities — Fees

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 371

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Outlays	−92	−118	−149	−175	−203	−228	−252
OFFSETTING RECEIPTS:	4	5	.9	9	9	9	9
Current Law	4	5	5	5	5	5	5
Policy Increase	0	0	4	4	4	4	4

Program Description

The Government National Mortgage Association (GNMA) Mortgage-Backed Securities program provides Federal guarantees on securities backed by FHA, VA and FmHA mortgages. GNMA, as authorized by the Housing and Urban Development Act of 1968, guarantees the timely payment of principal and interest of the securities.

Two major types of fees are currently charged to securities issuers by GNMA. These are a commitment authority application fee of $500 per pool package of commitments and an annual guarantee fee for actual guarantees issued of six basis points based on the aggregate principal balance of outstanding securities. The application fee amount has not changed since it was first established in early 1971. The proposed change in this budget focuses only on the application fee.

Proposed Change

In the 1983 Budget, the Administration proposes to raise the fee for a GNMA commitment to be, on average, equal to $1,000 per pool package commitment. This is approximately equivalent to application fees charged by private sector conventional mortgage-backed securities programs for similar services. In addition, a new fee of $250 will be charged to new GNMA securities issuers, of which there are about 150 per year.

Rationale

- The change is proposed as part of the Administration's effort to increase user fees where a service or program provides special benefits to an identifiable recipient.
- GNMA's guarantee provides securities issuers (primarily mortgage bankers) with a subsidy not available to other financial market intermediaries.
- To encourage and accelerate the development of private sector mortgage-backed securities programs, the Federal Government advantage should be removed. Raising fees will help increase competition between GNMA and private market alternatives.

Effects of the Proposed Change

- Increased fees will help offset the competitive disadvantage of private sector mortgage-backed securities programs.
- Additional application fee revenue, which will total $4 million in 1983, will be generated from the proposed changes.

Recreation User Fees

AGENCY: Department of the Interior
Department of Agriculture
Department of the Army
Tennessee Valley Authority

FUNCTIONAL CODE: 303

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	916	1.016	1.089	1.096	1.100	1.105	1.125
Outlays	916	1.016	1.089	1.096	1.100	1.105	1.125
OFFSETTING RECEIPTS:	34	41	104	109	111	112	113
Current Law	34	41	41	41	41	41	41
*Policy Increase**	—	—	63	68	70	71	72
PERCENT RECOVERED (BA):	4	4	10	10	10	10	10
Current Law	4	4	4	4	4	4	4
Policy Increase	—	—	6	6	6	6	6

*Figures shown reflect minimum amounts to be collected; exact amounts will depend upon the legislative proposal sent to Congress.

Program Description

Seven Federal agencies in four departments provide recreational facilities for the public, including picnic areas, trails, campsites, visitor centers, exhibits, roads, boat ramps and lake and river access areas, swimming, marinas, concession operations, skiing sites, and wilderness areas.

At present the law imposes major restrictions on the collection of recreation user fees, such as:

— limiting National Park Service entrance fees to $3;

— prohibiting any fees at 82 percent of the recreation areas managed by the Army's Corps of Engineers, which provides more than 400 million visitor-days of recreation annually; and

— preventing collection of any user fees at 41 percent of the Forest Service's campsites.

Proposed Change

The Administation proposes to increase existing entrance fees at Federal recreation areas and expand the number of areas where fees are charged. Legislation will be proposed to adjust fees for inflation and set comparable fees for comparable areas and facilities. The fees collected by each agency will be used to finance recreational projects of that agency.

Rationale

This Administration believes that specific identifiable beneficiaries of Federal services should pay more of the costs associated with the provision of the benefit.

The cost of a Golden Eagle passport, which admits the car owner and all passengers to all National Parks and recreation areas for an entire year, has been $10/year since its inception in 1965. Just keeping up with inflation would require a $30 charge for the passport in 1983. Many other entrance fees have not been raised since the 1960's.

Broad-based support for increasing Park Service entrance fees has been expressed in editorials in Western newspapers and letters from private citizens to the National Park Service. The entrance fees are a small part of the cost of visiting the parks. Moderate increases is not expected to affect the annual 6% to 9% increase in attendance.

Effects of the Proposed Change

- The proposed increase in fees would more than double revenues from Federal recreation areas, lessening the subsidy from the general taxpayer to the user of public recreation sites.
- Fees will remain low even where increased, so that citizens will not be prevented from access to public recreation sites.
- Fees will be raised and/or charged only at those areas and facilities where the costs of collecting fees are not unreasonable compared to the resulting revenues.
- Increased fees for public facilities will lessen unfair competition with private recreation developments, which have to recover all of their costs without direct subsidies.

Aviation User Fees

AGENCY: Department of Transportation FUNCTIONAL CODE: 402

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	3,412	3,063	3,903	3,889	4,165	4,365	4,610
Outlays	3,158	3,073	3,375	3,653	4,195	4,202	4,295
RECEIPTS:							
Current Law	1,194	1,268	1,474	1,670	1,878	2,108	2,344
Policy Increase	—	131*	1,187	1,350	1,548	1,742	1,946

NOTE: During 1982–1985, user fee receipts coupled with a drawdown of the uncommitted Trust Fund balance would result in 85% cost recovery. In 1986–1987, user fee receipts alone would finance all allocable costs.

* Assumes July 1, 1982 effective date.

Program Description

Because of the expiration of statutory authority at the end of 1980, no revenues are currently being deposited into the Airport and Airway Trust Fund, and many aviation taxes have expired. Currently, a 5% passenger ticket tax on scheduled air carrier flights is being deposited into the general fund of the Treasury, while a 4 cents/gallon tax on general aviation gasoline and a tire and tube tax are being deposited into the highway trust fund.

Although the Congress has historically restricted use of aviation tax revenues, all FAA capital programs (grants-in-aid to airports, facilities and equipment, and research, engineering and development) plus certain field maintenance costs have been trust fund financed. The total annual trust fund share of FAA programs typically has been about 40%.

Proposed Change

In March 1981, the Administration proposed aviation user fee legislation that would reauthorize revenue deposits to the Airport and Airway Trust Fund and institute the following user fees: 6.5% passenger ticket tax; general aviation taxes during 1981–1986 of 12 cents/gallon increasing to 36 cents/gallon on aviation gasoline and 20 cents/gallon increasing to 65 cents/gallon on jet fuel; 5% freight waybill tax; $3.00 international departure tax; and a tire and tube tax.

The March 1981 user fee structure was coupled with a proposal to finance 85% of FAA programs from the Airport and Airway Trust Fund. This percentage represents the portion of FAA capital, operating and maintenance costs clearly allocable to air carriers and general aviation.

The Administration is proposing legislation that would revise the March 1981 proposal for the passenger ticket tax and general aviation fuel taxes to the following:

	1982	1983	1984	1985	1986	1987
Passenger Ticket Tax	8%	8%	8%	8%	8%	8%
General Aviation Gasoline Tax (Cents/gallon)	12	12	14	16	18	20
General Aviation Jet Fuel Tax (Cents/gallon)	14	14	16	18	20	22

Other tax rates proposed last March would remain unchanged. In addition to recovering 85% of FAA expenses from the Trust Fund, the Administration is proposing to use an additional $27 million of Trust Fund receipts, beginning in 1983, to finance the Aviation Weather Services Program administered by the National Oceanic and Atmospheric Administration.

Rationale

- This proposal is part of the Administration's effort to impose user fees where a service provides special benefits to identifiable recipients above and beyond those which accrue to the general public.

- Subsidizing users leads to economic inefficiencies and encourages over–use of the aviation system, thus resulting in continual pressure to expand the system's capacity. To help break this cycle, users should be held responsible for their fair share of the cost of operating as well as maintaining and improving the airways system. In the past, only small amounts of user tax revenues have been applied toward operating costs. But, clearly passengers and pilots are the beneficiaries of services provided by FAA employees such as those who man the air traffic control system and flight service stations.

- The proposed user fees are also necessary to finance increased funding for FAA–owned facilities and equipment and associated research and development. This increased funding will be used to modernize the National Airspace System and will benefit all aviation users by increasing safety while reducing fuel and delay costs.

- The gradual increase in the fuel taxes should prevent severe disruptions to general aviation activity. The 8% ticket tax restores the tax to the rate in effect during 1970–1980.

- Using the Administration's estimate of allocable costs, the 4 cents/gallon tax on aviation gasoline paid by general aviation users in 1981 covered only about 5% of their allocable costs. With the revised fuel taxes, general aviation users would pay about 15% of their allocable costs in 1983, increasing to about 30% in 1987. Even using an alternative cost allocation based on minimum services required rather than actual costs incurred by the FAA, general aviation would be paying less than 60% of its allocable costs in 1987.

- The higher tax levels on general aviation jet fuel reflect the fact that these aircraft place greater demands on the National Airspace System than do less sophisticated planes utilizing aviation gasoline.

- With only about 25% of general aviation activity and 45% of travel on air carriers classified as personal, the majority of the burden of the increased user fees will fall on the business sector where such expenses are tax deductible. Thus, the increased user fees reduce taxes payable, and the cost to most users is significantly less than the increased receipts into the Airport and Airway Trust Fund.

Effects of the Proposed Change

- The revised tax proposal coupled with the increased capital funding, including reauthorization of airport grants at $450 million annually, reflects the Administration's commitment to modernizing the National Airspace System if the users are willing to pay the allocable costs of development, acquisition, operation and maintenance.

- If the revised tax proposal is enacted, the Administration would support an increase of nearly $535 million above the 1982 enacted level for facilities, equipment and associated development. In 1987, about $1.4 billion would be authorized for the development and procurement of FAA facilities and equipment.

- The higher capital funding levels coupled with the revised tax proposal would result in an uncommitted trust fund balance in the range of $.8 to $2.3 billion during 1983–1987 compared to the $3.0 billion uncommitted balance at the end of 1981.

Coast Guard User Fees

AGENCY: Department of Transportation FUNCTIONAL CODE: 403

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
TOTAL COSTS							
Budget Authority	2,035	2,517	1,998	2,411	2,506	2,585	2,666
Outlays	1,854	2,136	2,253	2,338	2,432	2,536	2,632
ALLOCABLE PROGRAM COSTS*							
Budget Authority	800	800	800	800	800	800	800
Outlays	800	800	800	800	800	800	800
RECEIPTS							
Current	—	—	—	—	—	—	—
*Policy Increase***	—	—	200	800	800	800	800
% OF ALLOCABLE COSTS RECOVERED							
Current	—	—	—	—	—	—	—
Policy Increase	—	—	25	100	100	100	100

* Funds shown represent the Operating Expenses portion allocable to services which benefit the Maritime industry and recreational boaters.

** Level in 1983 reflects program start-up; for 1984 and out years, legislation calls for collection of 100% of allocable costs, estimated to be $800 in 1982 dollars.

Program Description

Currently, most services rendered by the Coast Guard for the public are provided without charge: issuing licenses; inspecting facilities; certifying vessel construction; maintaining aids to navigation; providing rescue and assistance service, and other services.

Proposed Change

- Legislation will be proposed in early 1982 that would authorize the Secretary of Transportation to initiate fees for certain Coast Guard services.
- Fees for direct services involving a transaction (e.g., licenses and inspections) would be set according to the cost of providing the service. Other services (e.g., maintaining navigation aids and providing search and rescue services) would be financed by an annual fee or other type of charge. Fees would be adjusted periodically to reflect changes in the levels of service provided and their associated costs.

Rationale

- Commercial and recreational boating users are well-defined groups benefitting directly from the services offered by the Coast Guard. Charging these users for the services they receive allows the tax burden to be shifted away from the general taxpayer.
- There are about 14 million recreational boats in the U.S. Commercial users include inland, domestic coastal, and international trade carriers, as well as domestic and foreign fishing vessels. Federal fees will recover the costs of special services provided for their benefit by the Coast Guard.

Effects of the Proposed Change

- Fees initially will be set at less than full recovery allowing a period of adjustment for the correction of errors, public review of schedules, and a review of appeals and protests. Proposed legislation will call for 100% of certain allocable Coast Guard operating costs to be recovered by the end of 1983.

- Legislation will reflect the concern of many private and commercial groups that those Coast Guard services subject to user fees will be made more cost effective. Coast Guard activities that can be more economically done in the private sector will be reduced or terminated, if and when commercial services are offered.

- Fees will be collected under arrangements to be made by the Department of Transportation. Revenues from user fees will be deposited into the general fund of the Treasury, and treated as proprietary receipts of the Department of Transportation.

- To avoid "double payment" by boat owners on inland waterways, Coast Guard costs will not be included in the base costs used to calculate inland waterway user fees proposed to be collected by the Corps of Engineers.

- User fees will not be proposed for those programs that serve the general public (e.g., military readiness, enforcement of laws and treaties, and marine science).

Commodity Futures Trading Commission
User Fees

AGENCY: Commodity Futures Trading Commission FUNCTIONAL CODE: 376

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	19	20	23	23	23	23	24
Outlays	19	20	23	23	23	23	23
OFFSETTING RECEIPTS:							
Current Law	1	1	1	1	1	1	1
Policy Increase	—	—	22	22	22	22	23
PERCENT RECOVERED (BA):							
Current Law	5	5	4	4	4	4	4
Policy Increase	—	—	96	96	96	96	96

Program Description

The Commodity Futures Trading Commission (CFTC) is an independent regulatory agency that administers the Commodity Exchange Act of 1936 as amended. The purpose of the CFTC is to encourage the efficiency of the futures market, to assure their integrity and to protect participants against abusive trade practices, fraud, and deceit.

Proposed Change

The CFTC plans to initiate actions, including proposed legislation if necessary, to recover the full cost of CFTC regulatory operations. Costs would be recovered through fees for futures transactions traded in the exchanges as well as fees for classes of persons regulated under the Act who are not members of an exchange. Fees collected would be paid to the Treasury.

Rationale

Regulations to prevent abusive trade practices, fraud and deceit in futures markets convey benefits to market participants and to futures exchanges that go beyond those accruing to the general public. Recovery of the costs of CFTC regulation through transaction fees and licenses transfers the regulatory cost from the general taxpayer to the identifiable beneficiaries.

Growth in the markets to be regulated increases demands on available resources for regulation. Since there are identifiable benefits that accrue to market participants, user charges for recovering the costs of CFTC regulation are both appropriate and desirable.

Effects of the Proposed Change

- A nominal transaction charge averaging about $.25 per contract on the current volume would generate adequate revenues to recover full CFTC costs.
- Such fees should not be a significant barrier to market participation.
- Since fees are related to transactions volumes, revenues will increase as volume increases.

Corps of Engineers Navigation User Fees

AGENCY: Corps of Engineers/Tennessee Valley Authority FUNCTIONAL CODE: 301

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	1,135	1,145	935	980	1,025	1,075	1,120
Outlays	1,135	1,145	935	980	1,025	1,075	1,120
OFFSETTING RECEIPTS:							
Current Law	20	58	67	82	90	110	110
Policy Increase	—	—	448	458	475	480	510
PRECENT RECOVERED (BA):							
Current Law	2	5	7	8	9	10	10
Policy Increase	—	—	48	47	46	45	46

Program Description

Locks, dams, and channels are constructed and maintained by the Corps of Engineers and Tennessee Valley Authority for barge traffic on the inland waterways. The Corps also dredges harbor channels and constructs and maintains other facilities for ocean-going and Great Lakes traffic.

Construction and upkeep of both inland and deep draft waterways have traditionally been provided at almost no cost to commercial users.

Proposed Change

- In the 1982 Budget, the Administration proposed legislation to recover new construction and maintenance expenses for commercial projects. The 1983 Budget also proposes that these Federal expenditures be repaid by commercial users or project sponsors.
- While Congress has not yet enacted navigation user fees, some progress has been made. A deep draft Bill (S.1692) has cleared full Committee. S.1692 is generally sound in concept, but maintenance revenues are too low — only about 14 percent of current Federal costs.
- Hearings have not yet been held on the Administration's inland waterway user fee proposal.
- The Administration proposes a reduced funding level for some navigation projects — see the fact sheet on navigation maintenance in Chapter 4. Additional funding will be requested when adequate reimbursement for navigation project operation and maintenance is available through establishment of user fees.

Rationale

- These navigation user fee proposals are part of the Administration's effort to require payment for government services when the users are clearly identifiable and the costs allocable.
- Federal deep draft dredging and operation of the inland waterway system is a billion dollar a year subsidy to the multibillion dollar waterborne transportation industry.
- Ports in the U.S. are a big business. Foreign payments for U.S. port expenses (does not include Federal dredging) were $4.6 billion in 1979, and the value of marine terminal facilities is currently in excess of $40 billion.
- 15 percent of intercity tonnage travels on the inland waterway system, while rail, its principal competitor, carries 35 percent.

360-900 0 - 82 - 9

- User fees would assure a source of funding for commercially viable development.
- Corps of Engineers construction funding in constant dollars is now about half what it was 20 years ago, and declining.
- Reducing navigation subsidies will create a more efficient and equitable transportation system.
- The waterborne transportation industry will still be largely subsidized since it will not have to pay for the construction of navigation projects already in place, which cost the Federal Government billions.

Effects of the Proposed Change

- Traffic on the majority of waterways is projected to continue to grow about the same amount — more than 50 percent — in this century, with or without Federal user fees. Only a small number of high–cost/low–volume projects, such as the Kentucky Waterway, may be severely affected.
- For the inland system as a whole, user fees would initially amount to about $1.10 per 1000 ton miles. This would be added to the current barge rate of about $8 per 1000 ton miles. In contrast, the current rail rate is about $25 per 1000 ton miles.
- The cost of shipping grain from river port to ocean port will increase less than 4 cents per bushel for most shippers. The increases will range from 1/2 cent to 10 cents per bushel.
- A 100 percent deep draft user charge would average only about one–half percent of existing port facility and service charges for break bulk cargoes, one and one–half percent for containers, and seven percent for coal.
- Deep draft harbor user fees would not appreciably affect the competitive relationships between ports, particularly if cost recovery on low tonnage/high cost ports were limited to 125 percent of the national average cost per ton of cargo (currently 23 cents), as the Administration suggested during Committee consideration of S.1692.
- With a 23 cent per ton maximum user fee payment in place, port maintenance user fees would add only 1/10 of one percent to the delivered cost of a ton of Montana grain to a customer in Japan.

Fees for Energy Regulatory Licenses and Services

AGENCY: Federal Energy Regulatory Commission FUNCTIONAL CODE: 276

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Budget Authority	75	76	93	92	89	87	88
Outlays	69	77	90	90	89	86	87
OFFSETTING RECEIPTS:							
Current Law	24	25	25	25	25	25	25
Policy Increase	—	—	35	35	35	33	34
PERCENT RECOVERED (BA):							
Current Law	32	33	27	27	28	29	28
Policy Increase	—	—	38	38	39	38	39

Program Description

The Federal Energy Regulatory Commission issues permits and licenses and sets rates for sales of natural gas, operation of oil and natural gas pipelines, development of hydroelectric power, and interstate sales of electric power.

Fees are now charged for pipeline and hydropower activities.

Proposed Change

- New or increased fees will be charged to companies making license and other applications to the Federal Energy Regulatory Commission.
- Fees will be extended to services such as electric and natural gas rate determinations, not now subject to fees.
- For services such as pipeline approvals and hydropower licenses, for which fees are now being collected, the fees will increase substantially.

Rationale

- Businesses should pay fees to cover the Commission's cost of processing license and other applications—just as motorists must pay fees to cover the costs of issuing and maintaining records for drivers' licenses.
- In the past, the fees charged have been too low to cover the Commission's cost of providing the regulatory service.

Effects of the Proposed Change

- Natural gas producers, pipeline operators and other developers and power companies will have to pay new or increased fees to cover the cost of Government services.
- Although some fees may increase substantially, they will be very small compared with the overall cost to these companies of developing, generating or transporting energy. To illustrate, the $60 million level of fees estimated for 1983 represents only 0.1 percent of the $44 billion of 1980 investment for the entire electric and gas utility industries combined.
- The $60 million in fees will also be very small compared with the total economic value received by energy consumers. As a measure of that value, 1980 sales revenues in the electric utility industry were $91 billion and those for gas utilities were $48 billion.
- Proposed fees cover roughly two-thirds of the cost of the Commission's programs.

User Fee for Grievance Arbitration

AGENCIES: Federal Mediation and Conciliation Service (FMCS) and National Mediation Board (NMB) — FUNCTIONAL CODE: 505

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL							
Budget Authority	31	29	25	24	24	24	24
Outlays	29	29	26	25	24	24	24
OFFSETTING RECEIPTS							
Current Law	*	*	*	*	*	*	*
Policy Increase	—	—	1	1	1	1	1
PERCENT RECOVERED (BA)							
Current Law	**	**	**	**	**	**	**
Policy Increase	—	—	5	5	5	5	5

* Less than $500,000.
** Less than 1%.

Program Description

The Federal Mediation and Conciliation Service (FMCS) provides lists of qualified arbitrators to parties in dispute over interpretation or application of terms of a collective bargaining agreement. In 1981 FMCS issued about 33,200 lists of arbitrators.

The National Mediation Board (NMB), in connection with railroad industry grievances and minor disputes under collective bargaining agreements, compensates and pays expenses of neutral referees, appoints neutral referees when the parties do not agree on one, and maintains offices for the National Railroad Adjustment Board. In 1981 about 7,400 grievance cases were received and about 6,100 were settled or withdrawn.

Proposed Change

A general provision in the Labor–HHS appropriation bill will be proposed that would enable and require both FMCS and NMB to charge users of these services a fee equal to the total costs of Federal services and require parties to pay the costs of the arbitrator or neutral referee beginning in 1983. The FMCS fee will be about $15 per list of arbitrators supplied to the parties. NMB fees for each party will depend on the volume of cases.

Rationale

- Since benefits of these services accrue directly and primarily to the parties, it is appropriate that they incur the costs as well.
- Except for the railroad industry, parties to these disputes now pay arbitrator or referee compensation themselves.
- Current free provision of this government service unfairly and unnecessarily undercuts private agencies which must charge a fee for similar services. The user fee will reduce this discrepancy in "prices" between the public and private sectors.

Effects of the Proposed Change

- This user fee is expected to have very little impact on the conduct of labor–management relations because of the relatively small charges involved.

- Increased costs of grievance arbitration may lead parties to find less costly and more productive ways of handling grievances.

- Requiring parties to pay for these Federal services is expected to slow the rate of increase in arbitration caseloads.

Veterans Housing Loan Guarantee User Fee

AGENCY: Veterans Administration (VA) FUNCTIONAL CODE: 704

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL							
Budget Authority	176	190	357	507	254	248	246
Outlays	176	190	357	507	254	248	246
OFFSETTING RECEIPTS							
Current Law	—	—	—	—	—	—	—
Policy Increase	—	—	95	105	110	112	113
PERCENT RECOVERED (BA)							
Current Law	—	—	—	—	—	—	—
Policy Increase	—	—	27	21	43	45	46

Program Description

The Veterans Administration provides guarantees to lending institutions for residential housing loans made to veterans. The amount covered by the guarantee is 60% of the loan, up to a maximum guarantee of $27,500. Guarantees are reusable, but the total of all guaranteed amounts may not exceed $27,500 at any point in time. An average of 330,000 loans are guaranteed each fiscal year. About 635,000 veterans have used the program since 1944 to purchase successive or additional homes.

Proposed Change

Legislation will be proposed to require the payment of a 0.5% funding fee at the time of settlement on each loan guaranteed.

Rationale

The user fee will help defray administrative and operating costs of this program without affecting mortgage interest costs paid by veterans. Since this program provides a benefit to a select group, it is reasonable to expect that this group bear a portion of the cost of providing the benefit.

Effects of the Proposed Change

The average housing loan that is guaranteed by VA is about $57,000. Each beneficiary would thus be required to pay a one-time funding fee of around $285. As a result, the administrative and operating costs associated with the loan guarantee program would be reduced. Benefits would remain available to veterans seeking housing loan guarantees.

MANAGEMENT INITIATIVES

CHAPTER 8
MANAGEMENT INITIATIVES

President Reagan has pledged to reduce the intrusion of the Federal government into the affairs of State and local government and the lives of U.S. citizens. There is now considerable potential for such intrusion, as the following suggests:

- Non-defense Federal employment levels have increased at twice the rate of population growth over the past two decades.
- Four new Cabinet Departments have been added to the nine that existed in 1965.
- The ownership of nearly one-third of the Nation's total land keeps many of the potential benefits of such land out of the economic mainstream.

The President is equally determined that the Federal Government improve the management of those assets and activities that are properly within the Federal realm and to reduce fraud, waste and abuses. There is much room for improvement:

- Fraud and waste in Federal Government programs probably cost the taxpayers billions of dollars annually.
- An estimated $33 billion of the $218 billion owed to the Federal Government on September 30, 1981, was either delinquent or in default.
- Patterns of wasteful spending have been uncovered in production and distribution of Government periodicals, pamphlets and audiovisual products; with travel by Federal employees; and in the ineffective and unnecessary use of consulting services.
- Federal procurement processes, involving more than one-fifth of the budget, are overly regulated, complex and restrictive of competition.

Reducing Federal Intrusion

The 1983 budget contains initiatives that would reduce the size and projected cost of the Federal workforce, eliminate organizational units that symbolize and provoke inappropriate extensions of Federal authority, terminate anti-competitive regulatory programs, and relieve private citizens and individuals of onerous paperwork and reporting requirements.

- The number of Federal employees will be systematically and steadily reduced to a target level in 1984 that is 75,000 workyears below the level projected in the revised 1982 Budget.
  - — The greatest reductions will be made in domestic agencies with the major regulatory and oversight social service programs.
  - — Defense and certain other clearly Federal responsibilities will be exempt or subject to reductions of lesser proportions.
- The budget contains the President's plan for the abolition of two Federal departments, each of which represents a major new extension of Federal authority during the last Administration:
  - — The Department of Energy, founded in 1977 on the concept of comprehensive national energy planning, will be dismantled. Its legitimate activities in weapons development, long-range, high-risk research, and resource management will be assigned to the Departments of Commerce and the Interior.
  - — The Department of Education, established in 1980 as the culmination of two decades of increasing Federal involvement in the affairs of State, local and private educational institutions, will be abolished.
- Several small agencies are also proposed for elimination:

— The U.S. Fire Administration, which involves the Federal Government in fire prevention and protection activities that have been local responsibilities since Benjamin Franklin's day. The U.S. Fire Academy will be continued, however.

— The Bureau of Alcohol, Tobacco and Firearms, whose activities can be absorbed into other elements of the Treasury Department.

— The U.S. Metric Board, whose appropriate functions can be better carried out by the Commerce Department.

— Other agencies, including the Appalachian Regional Commission, the Legal Services Corporation, and the Water Resources Council, which were first proposed for elimination in the revised 1982 budget.

- As part of the overall effort to reduce Government spending in support of the President's economic recovery program, the budget anticipates an October 1982 pay increase for Federal civilian employees of 5% (versus a current services increase of 8%).

- The President proposes a major new initiative to increase the sales amount of Federally held real estate assets:

  — A Government-wide review of real property holdings will identify and release for sale properties not essential to Government functions.

  — The Administration will propose the repeal of current laws that mandate property transfers at less than fair market value.

  — The sale of surface rights to selected lands held by the Bureau of Land Management and the Forest Service will also be accelerated.

  — The Administration's goal is to realize $4 billion annually from these initiatives by 1984, and to promote the most economic use of lands.

- Acceleration of leasing of Outer Continental Shelf (OCS) tracts that have promise of containing oil and gas.

- The President also proposes to eliminate or reduce a number of regulatory activities that involve the Federal Government in planning or controlling economic behavior that is more efficiently determined by the free market. For example:

  — The budget of the Federal Trade Commission will be reduced by 14% from the 1981 level, requiring the Commission to eliminate low-priority and redundant initiatives that impose unnecessary constraints on the private sector.

  — A two-year phase-out is proposed of the two Federal programs that support a complicated and ineffective array of health planning and regulatory institutions. Competition among health care providers will control health costs better.

- Other initiatives will also lessen the taxpayer's burden in supporting the Federal workforce. The overhead administrative staff of the Bureau of Indian Affairs, for instance, will be cut back to levels that will permit more efficient service delivery.

- A concerted, Government-wide initiative will be expanded to place strict and enforceable limits on the freedom of Federal agencies to impose paperwork burdens on American citizens — an effort that has already produced impressive results. This will reduce Federal costs involved in collecting marginally useful information and, even more importantly, will relieve State and local governments and private institutions and individuals of the costs of millions of hours devoted to filling out Federal forms.

- FHA-insured home buyers will be charged for insurance premiums in a manner which is more consistent with private insurance market practices. Instead of paying a premium equal to 1/24th of 1% of the outstanding mortgage balance every month, each FHA-insured home buyer will make a one time payment at time of settlement.

Fraud, Waste and Abuse

President Reagan has launched a major effort to fulfill his pledge to the American people to do something about fraud, waste, and mismanagement in Government programs. These efforts are designed to eliminate unnecessary expenditures, collect all debts owed, assure that every dollar collected by the Government is put to a proper and productive use, and restore confidence in the governmental process.

- President Reagan's anti-fraud efforts have already had a significant effect on the way the Federal Government conducts its business. Over $2 billion has been either recovered or represents expenditures that have been avoided during the latest reporting period covering April through September 1981.
- The President's Council on Integrity and Efficiency was established to coordinate the fraud and waste effort and the Inspector General program. This group of the Government's top investigators, auditors, and management experts has activities underway in dozens of important areas, such as:
  - — expanding the use of computer matching techniques to prevent losses in Federal grant and benefit programs;
  - — uncovering cases of fraud by providers of medical care in programs like Medicaid and Medicare; and
  - — developing effective internal controls over the use of Government property, travel by Federal employees, the use of consultants, and the production of government publications and audiovisual materials.
- The President's Council on Integrity and Efficiency and the Inspectors General will continue to focus the efforts of approximately 6,000 auditors and investigators on improving the operation of the Government's programs. Special emphasis will be placed on eliminating fraud and waste in Federal entitlement, construction, and housing programs.

Additional Management Initiatives

Several other initiatives are designed to secure additional value from current resources and assets held by the Government, building upon measures already underway:

- Reductions in operating expenses common to all Federal agencies:
  - — Actions to reduce the cost of travel by Federal employees, with projected savings of about $35 million in airfare discounts for the year ending June 1982 and an objective of annual savings of $200 million through the aggressive pursuit of airfare and other discounts, elimination of unnecessary travel, and reduction of the administrative expense of managing government travel.
  - — Elimination of audio-visual products and publications by Federal agencies will have saved over $20 million through 1982. On-going reviews of every periodical and pamphlet should produce additional savings in 1983.
  - — Reduction in the use of consultants in Federal agencies.
- Improved collection of debts owed the Federal Government also is a key element of the President's economic program and his philosophy of government. Goals have been established and responsiblities assigned by agency to collect as much as $4 billion of delinquent debts each year. The Administration has asked the Congress to enact legislation needed to eliminate disincentives in the Government's debt collection process; to make available essential tools and techniques used effectively in the private sector; and to provide for better control over the way the Government extends and services credit and collects debts.
- The Administration is committed to far reaching and fundamental reforms in the Federal procurement process. Federal procurement is a $130 billion-a-year business involving one-fifth of the Federal budget, more than 130,000 Federal employees and over 17 million contracting actions a year. Proposed reforms include:

— New concepts of competition that will permit the Government to attract the innovation and skills of the marketplace.

— Increased emphasis on the need for a skilled and knowledgeable workforce of career professionals to operate and oversee the Government's procurement programs.

— Simplification of contracting procedures by means of a single, Government-wide procurement regulation.

— Elimination of complexity by standardizing and streamlining the clauses used in Government solicitations and contracts; increased emphasis on using commercial practices for buying commercial products; and simplifying small purchase procedures.

REDUCING FEDERAL INTRUSION

Reducing Federal Employment

Executive Branch
Total Full-Time Equivalent Employment
(Excluding the Postal Service)

	(in thousands)				
	1981 estimate	1982 Revised Budget	1982 current	1983 estimate	1984 estimate
TOTAL	2,110.7	2,100.8	2,080.3	2,053.7	2,035.1
Defense	947.0	937.7	945.2	947.3	947.0
Non-Defense	1,163.7	1,163.1	1,135.1	1,106.4	1,088.1

Federal Employment in 1981

In 1981, the Executive Branch (excluding the Postal Service) employed the full-time equivalent of 2,110,700 civilian employees in 13 cabinet level departments and 94 agencies. Of these, 947,000 were in the Department of Defense.

Proposed Reductions

The Reagan Administration has taken a series of actions to reduce Federal employment. These actions complement the program reductions, the block grants, the devolution of Federal activities to State and local levels, and the regulatory relief program.

- On January 20, 1981, his inauguration day, President Reagan placed a freeze on Federal hiring.
- In March 1981, new and lower employment targets for 1981 and 1982 were established as a part of the Reagan Administration's revised 1982 Budget.
- On September 24, 1981, the President announced a further 75,000 reduction goal for the nondefense Federal workforce between the revised budget for 1982 and 1984. This required an 8–10% reduction in personnel in nearly all Federal agencies (except the Department of Defense), including the Executive Office of the President. Less stringent reductions or exemptions were provided for the State Department, Veterans Administration medical care, tax collection, and law enforcement activities such as the Federal Bureau of Investigation.

Rationale

Federal civilian employment in the Executive Branch reflects the increased emphasis that the Congress and previous Administrations have placed on programs in the nondefense sector. Total Federal employment increased only moderately between 1960 and 1980. Defense employment decreased by 8% but nondefense employment increased from 760,800 to 1,200,800, (or 58%), over the same period, more than twice the 26% increase in the U.S. population.

During this same period, employment increased in:

- The Labor Department by 230%.
- Health, education and welfare activities by 164%.
- The Justice Department by 82%.
- The Treasury Department by 64%.
- The Department of Housing and Urban Development (formerly the Housing and Home Finance Agency) by 53%.
- The General Services Administration by 33%.
- The Veterans Administration by 32%.

The primary reason for these increases were new programs and program expansions enacted by the Congress and supported by previous Administrations. The mandate the people gave to President Reagan in November of 1980 was to reduce the size of the Federal Government.

Effects of the Proposed Change

- 97% or 72,500 of the 75,000 full-time equivalent (workyear) reduction goal for the period 1982–1984 has been allocated to the departments and agencies. This will result in annual savings of $2.1 billion once the reductions are fully effective in 1985.

  If an increase of 9,300 full-time equivalents (workyears) required for Veterans Administration medical care is excluded, the remaining nondefense agencies are reduced by 81,800.

- Agencies have been encouraged to make the reductions in the programs in which excessive growth has occurred and in peripheral activities, e.g., public affairs, publications, audio-visual productions, and other overhead activities.

- The following are examples of specific reductions.

  — The Department of Agriculture (–12,100) — Programmatic reductions and increased efficiencies are planned in: the Forest Service (about one-half of the total reduction); the Animal and Plant Health Inspection Service; the Farmers Home Administration; the Soil Conservation Service; and in Science and Education Programs.

  — The Department of Commerce (–7,300) — A net decrease will result from completion of the Decennial, Economic and Agricultural Censuses, the termination of the Economic Development Administration, and the phasedown or elimination of National Oceanic and Atmospheric Administration weather and marine related activities. Additional reductions are associated with energy functions transferred to the department.

  — The Department of Health and Human Services (–16,800) — The Department will reduce employment by: converting categorical grants to block grants for health, social and community services programs; decreasing regulatory requirements for health and social services programs and eliminating overhead functions, closing (or returning to community control) Public Health Service Hospitals; contracting out services to be performed by the private sector where it is cost effective under OMB Circular No. A–76; and eliminating excessive overhead functions.

  — The Department of Housing and Urban Development (–1,600) — This decrease is due to reductions in departmental decisionmaking and oversight in favor of State and local discretion in those programs that directly affect them.

  — The Department of the Interior (–8,100) — Declining staff levels will be achieved through reductions in overhead (particularly in the Bureau of Indian Affairs), closing some facilities, streamlining regulatory processes, and use of less labor intensive methods of natural resource management.

  — The Department of Labor (–3,200) — Some reductions will occur in virtually all activities, reflecting both reductions in less essential programs and increased operating efficiencies. Major reductions will occur in the Employment and Training Administration and in the Mine Safety and Health Administration.

  — The Treasury Department (–2,200). Reductions will occur in selected activities with staffing held relatively constant in direct law enforcement and revenue collection functions. Decreases will be achieved through streamlining of current operations, increased efficiencies, and a major reorganization and termination of the Bureau of Alcohol, Tobacco and Firearms as a separate entity.

- The following table shows the estimated workyear changes by major agency from the 1982 estimates in the revised (March) 1982 Budget to 1984.

FULL-TIME EQUIVALENT OF TOTAL FEDERAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH 1/

(Excluding the Postal Service)

	Fiscal Year				
	1981 estimate 2/	1982 Revised Budget 3/	1982 current	1983 estimate	1984 estimate
Agriculture	117,300	121,000	117,000	111,000	108,900
Commerce 4/5/	52,600	45,500	45,600	40,500	38,200
Defense–civil functions	34,400	32,300	32,300	30,700	29,100
Health and Human Services 6/	148,400	154,400	147,600	141,400	137,600
Housing and Urban Development	16,100	15,700	14,900	14,400	14,100
Interior 5/6/	85,900	87,400	85,000	81,600	79,300
Justice 5/6/	56,900	55,100	56,400	55,800	54,400
Labor	22,600	21,600	19,200	18,600	18,400
State	23,400	22,900	23,000	23,300	23,500
Transportation 4/	58,800	69,300	60,100	61,900	62,500
Treasury 6/	123,900	124,400	122,200	123,000	122,200
Environmental Protection Agency	12,700	12,900	12,200	10,500	10,500
National Aeronautics and Space Administration	22,600	22,700	22,500	22,000	22,000
Veterans Administration	214,100	209,600	215,900	216,800	218,900
Other:					
Foundation for Education Assistance 6/	6,200	5,300	5,400	4,800	4,800
General Services Administration	34,000	32,800	32,300	31,000	29,500
International Communication Agency 6/	7,900	7,600	7,900	7,900	7,900
International Development Cooperation Agency	5,800	5,800	5,700	5,600	5,400
Nuclear Regulatory Commission	3,400	3,400	3,400	3,400	3,300
Office of Personnel Management	7,200	6,600	6,400	5,900	5,800
Panama Canal Commission	8,900	9,100	9,000	9,000	9,000
Small Business Administration	5,000	4,700	4,500	4,200	4,100
Tennessee Valley Authority	50,100	44,800	42,500	41,400	40,300
Other civilian agencies 5/6/	45,500	47,200	43,100	40,700	39,900
Undistributed Reduction	—	—	—	—	-2,500
Subtotal	1,163,700	1,162,100	1,134,100	1,105,400	1,,087,100
Defense–military functions 6/7/	947,000	937,700	945,200	947,300	947,000
Subtotal	2,110,700	2,099,800	2,079,300	2,052,700	2,034,100
Contingencies 8/	—	1,000	1,000	1,000	1,000
Total	2,110,700	2,100,800	2,080,300	2,053,700	2,035,100

1/ Excludes developmental positions under the worker-trainee opportunity program (WTOP) as well as certain statutory exemptions.

2/ Data are on an estimated basis, because most Executive Branch agencies were not reporting full-time equivalent (FTE) information prior to October 1981.

3/ As contained in the Revised 1982 Budget, transmitted to the Congress in March 1981.

4/ Reflects the transfer, during 1981, of the Maritime Administration from the Department of Commerce to the Department of Transportation.

5/ The budget proposes dismantlement of the Department of Energy (DOE), effective October 1, 1982. Employment data for activities previously performed by DOE are included in the agencies that are proposed to assume these activities.

6/ The budget proposes dismantlement of the Department of Education (DEd), effective October 1, 1982. Employment data for activities previously performed by DEd are included in the agencies that are proposed to assume these responsibilities.

7/ Section 904 of the 1982 Defense Authorization Act (Public Law 97-86) exempts the Department of Defense from full-time equivalent controls.

8/ Subject to later distribution.

Dismantling the Department of Energy

AGENCY: Department of Commerce, Interior and Others

FUNCTIONAL CODE: 270, 250, 050

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY*	11,203	11,511	10,224	11,350	12,222	13,723	13,061	195	768
*Energy**	7,048	6,309	4,117	4,338	4,588	5,529	4,442	195	1,334
General Science	504	529	601	629	652	674	695	0	–37
Defense	3,651	4,673	5,506	6,383	6,982	7,520	7,924	(0)	–529
OUTLAYS*	11,631	11,668	10,572	10,556	11.111	13,085	12,996	20	834
EMPLOYMENT (FTE)	19,330	18,375	14,541	14,278	N/A	N/A	N/A	N/A	N/A

* Includes in 1982 through 1987 off-budget funds for the purchase of oil for the strategic petroleum reserve as follows:

BUDGET AUTHORITY	—	3,684	2,074	1,935	2,440	3,299	2,197
OUTLAYS	—	2,834	2,774	2,297	2,196	3,546	2,818

** Full time equivalent work years

Program Description

The existing Department of Energy is an agglomeration of activities that support:

- Various *energy* programs related to nuclear and non–nuclear research and development, energy production and conservation, emergency preparedness (including the Strategic Petroleum Reserve) and policy planning and information;
- Fundamental *general science* programs, primarily in high energy and nuclear physics; and
- Nuclear *defense* programs, primarily weapons research and development and production.

Proposed Change

- The dismantling proposal fulfills the President's commitment to abolish the Department of Energy.
- Elements of the Energy Department are proposed for transfer to other agencies:
  - — Energy–related programs will be transferred principally to the Department of Commerce (e.g., energy research, emergency preparedness, and policy planning and information) and to the Department of the Interior (e.g., leasing policy, oil and gas production, oil storage, electric power marketing and transmission).
  - — General science and defense programs will also be transferred to the Department of Commerce.
  - — Within the Department of Commerce, a new Energy Research and Technology Adminstration will be proposed to manage the energy research, general science and nuclear weapons programs and to maintain the synergistic relationship among these programs.
  - — Continuing energy regulatory functions (e.g., interstate electric rate setting, pipeline and hydropower dam permitting) will be located in a separate and independent Federal Energy Regulatory Commission while remaining petroleum regulatory enforcement activities will be transferred to the Justice Department for completion and phaseout.

- In conjunction with the dismantling action, the Administration is reducing or phasing out programs that have subsidized industry and substituted for appropriate private sector investment and have thus inhibited or distorted energy producer and user behavior in the marketplace. These programs principally include:
  - Near term R&D and demonstrations to accelerate the introduction of new technologies into the marketplace, and
  - Energy conservation grants to State and local governments.
- The Administration is also proposing to continue to finance off budget the oil purchases for the Strategic Petroleum Reserve as directed by the Congress in the Omnibus Budget Reconciliation Act of 1981.

Rationale

- The Nation's energy problems will be resolved primarily by the American people, not by the government. The marketplace is the proper regulator of behavior by energy producers and consumers.
- The existence of the Department of Energy has sent the wrong signals to energy producers and consumers, deluding them into a sense of complacency and dependence upon central planning rather than encouraging aggressive, efficient economic behavior based upon realistic prices and clear tests of profitability.
- Instead of improving the nation's energy situation, Federal Government programs which were developed over the last decade actually reduced our ability to respond effectively to the energy supply disruptions and rapid price increases that occurred. Government controls, for example, contributed directly to creating the long gasoline lines in 1974 and in 1979.
- Therefore the Administration is proposing to abolish the Department of Energy and eliminate all unnecessary subsidy programs and burdensome regulatory activities.
- Those programs and activities that are appropriately a Federal responsibility are being retained and placed in departments and agencies that can most effectively administer them.

Effects of the Proposed Change

- Actions taken to reduce or eliminate Energy Department activities, together with the dismantling, will produce in 1983, estimated budget authority savings of $1.3 billion and employment reductions of 3,800 workyears from present estimates of 1982 levels.
- After reaching a low ($4.1 billion) in 1983, energy program funding increases in 1984 and beyond reflect largely the buildup of nuclear related projects now committed, the Strategic Petroleum Reserve, and energy production and distribution activities.
- The rising budgets for defense and general science programs in 1983 and beyond are consistent with Administration priorities for the Nation's security and future progress.
- Creation of an Energy Research and Technology Administration as a separate organization in the Commerce Department will allow for a better focused, more specialized management of the high technology weapons, science and energy programs than was possible in the Department of Energy with its broader and more diverse responsibilities.
- The Department of Commerce is also well suited to manage (1) energy information activities, in view of its current statistical functions; (2) remaining elements of domestic and international energy policy, in view of its role in economic and international trade policy; and (3) emergency preparedness planning and response, in view of its knowledge of and continuing contacts among businesses and State and local governments as well as foreign governments.

- The expertise of the Department of Interior in resource management will enhance the quality of executive direction for the Strategic Petroleum Reserve, the Naval Petroleum and Oil Shale Reserves, and the Power Marketing Administrations. Off-budget financing for Strategic Petroleum Reserve oil acquisition will assure continuity of funding to maintain a rapid build-up of oil stocks.

- Establishing the Federal Energy Regulatory Commission as a separate agency recognizes its regulatory independence as intended by the Congress as well as strengthens the Commission's ability to make management improvements relevant to its unique responsibilities.

- The Justice Department, with its expertise in litigation, is the appropriate location for cleanup and phaseout activities (largely litigation) of the petroleum regulatory regime terminated by the President in January 1981.

Dismantling the Department of Education

AGENCY: Foundation for Education Assistance* FUNCTIONAL CODES: 500,501,502,503,506,751

*Funding***

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	12,918	11,233	8,765	7,795	7,778	7,280	6,800	1,351	4,769
OUTLAYS	13,063	13,364	11,401	8,901	7,903	7,416	7,921	337	1,778
EMPLOYMENT (FTE)	6,165	5,386	4,828	4,828	4,828	4,828	4,828	NA	NA

*Includes activities formerly included in the Department of Education.
**Reflects the Foundation as it would be with enactment of the Administration's proposals.

Program Description

The Department of Education has provided assistance to local and State education agencies, higher educational institutions, other nonprofit groups and institutions and individuals. It has supported:

- Compensatory education programs for disadvantaged students, Indians, the handicapped, and children whose primary language is other than English;
- Direct grants to school districts whose property tax bases are adversely affected by the presence of Federal facilities;
- Rehabilitation programs to assist physically and mentally handicapped individuals to become gainfully employed or to live independently;
- Vocational and adult education programs;
- Assistance in the form of grants, loans, and work study to help students and their families meet the cost of postsecondary education;
- Special programs to assist economically disadvantaged students to enter, continue, and/or resume postsecondary education as well as assistance to developing colleges, such as historically black colleges; and
- Statistical information and research programs aimed at increasing knowledge of how students learn, data gathering and disseminating of information about educational research and successful educational practices.

Proposed Change

The principal elements of the proposal are:

- The Department of Education will be abolished;
- A Foundation for Education Assistance will be established;
  - — The Foundation will be headed by a Director, appointed by the President; and
  - — The Foundation will assume responsibility for block grants and consolidated aid for State and local educational agencies; student loans and grants; support for compensatory and equal educational opportunity programs; and a core of informational, statistical, and research services for education;
- Activities not directly related to education support functions will be allocated, as appropriate, to other agencies.

In conjunction with the dismantling action, the Administration is terminating programs which either have achieved their objectives or which are more appropriately the responsibilities of States, local governments, or private institutions. These programs include:

- Higher education graduate fellowships, where financing can be provided through institutions or private assistance, or from student resources;
- Library support programs, which are the responsibility of State and local governments or of colleges and universities;
- Veterans cost of instruction, covering expenses that institutions can meet through tuition and fees;
- Aid to land grant colleges, which subsidizes regular operating expenses covered by tuition and fees;
- College assistance for migrants, who are eligible for other forms of student aid; and
- Cooperative education, which institutions should arrange with business and industry where it serves their needs.

Rationale

- The primary responsibility for education belongs to parents, States, and localities. A Cabinet-level Department of Education symbolizes the preemption of appropriate State and local activities.
- Federal intervention in education has been intrusive, has imposed unnecessary administrative and regulatory burdens on education agencies, and is supported by too large a bureaucracy for the limited role the Federal Government should play.
- Federal dollars have distorted State and local, and private education policies by mandating priorities for local officials, and by taking many decisions about what and how to teach out of the hands of local boards, teachers, parents, and administrators.

Effects of the Proposed Change

- Actions taken to reduce, consolidate, or eliminate programs, the transfer of certain programs to other agencies, and the replacement of the Department of Education with the Foundation will result in savings of 1,411 workyears from the 1981 level for the Department of Education to the 1983 budget request (with annual savings of \$56 million). 644 staff are transferred with programs to other Federal agencies.
- The Foundation's organizational structure will be trim and efficient. Ninety-six existing Federal programs will be consolidated to 38 programs. Regional representation activities will be abolished. Eleven unnecessary Federal boards and commissions will be repealed. Twenty-three Federal education programs will be terminated.
- Twenty-eight Federal programs will be transferred to other Federal agencies where they can be more efficiently operated.
  - — Rehabilitation programs for the disabled will be transferred to the Department of Health and Human Services where they will be coordinated with similar programs.
  - — The special programs for Gallaudet College, the American Printing House for the Blind, and the National Technical Institute for the Deaf will be transferred to the Department of Health and Human Services and will be coordinated with other programs serving the disabled.
  - — Indian Education programs and Impact Aid construction on Indian lands will be transferred to the Department of the Interior to improve the coordination of programs serving Indians.

— International education programs will be transferred to the International Communications Agency to be coordinated with the Agency's other bi-national programs.

— Department of Defense Overseas Schools will remain in the Department of Defense, rather than be transferred to the Department of Education as scheduled. This will avoid a myriad of logistical and accountability problems.

— Impact Aid maintenance and operations programs will be transferred to the Department of the Treasury. Treasury will make payments based on a formula for Federal aid in lieu of taxes in much the same way as it administers general revenue sharing.

— The enforcement responsibilities of the Office for Civil Rights will be transferred to the Justice Department where, should Foundation efforts to achieve voluntary compliance fail, strong litigative actions to enforce civil rights laws that affect education will be pursued.

— College Housing subsidy and construction programs will be transferred to the Treasury Department. There is no new assistance available under these programs. The Department of the Treasury is better able to manage the Federal payments associated with long term loans made in prior years.

— The Minority Institutions Science Improvement Program will be transferred to the National Science Foundation where it will be administered in conjunction with other science support activities and where it can be evaluated by persons with technical and scientific knowledge.

- Resources for programs transferred to other agencies (excluded from table above) are:

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	1,957	1,590	1,154	1,139	1,139	1,138	1,137	104	608
OUTLAYS	2,028	1,774	1,336	1,092	1,075	1,063	1,062	80	489
EMPLOYMENT (FTE)	718	681	644	644	644	644	644	NA	NA

Market Value Sale of Excess Real Property

AGENCY: General Services Administration FUNCTIONAL CODE: 804

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
RECEIPTS	60*	60*	250	249	272	272	272

*Average level of receipts.

Program Description

The Office of Real Property Disposition manages disposal of real property. Excess real property refers to land and buildings no longer required to meet the operational needs of Federal land holding agencies. Property is disposed of in three ways:

— Discounted transfer to other Federal agencies.

— No-cost conveyances to State/local governments for public benefit purposes e.g. health, education, recreation.

— Negotiated and competitive sales to the public.

Less than 30% of the excess real property handled by GSA is disposed of through negotiated or competitive sale. Thus, the Federal Government would generate less than one third of the cash receipts possible if all properties excessed under current practices were sold at market value.

Proposed Change

The Administration proposes to eliminate all discounted transfers to other Federal agencies and all no-cost conveyances to State and local governments. Federal agencies would be required to pay 100% of fair market value. State and local governments would be permitted first right of refusal but would also be required to pay full market price. The only exception would be no-cost property conveyances to State and local governments for use as correctional facilities. This exception is being made because of the President's strong commitment to assist States and localitites in upgrading their criminal justice systems.

This fact sheet deals only with the effects of eliminating transfers below market value under current laws and procedures for excessing unneeded properties. The Administration is proposing other changes in Federal property management explained under "Real Property Management Program."

Rationale

This proposed change would ensure that the Federal Government would receive full compensation for disposal of real property assets. Requiring Federal agencies to seek appropriations for acquisition of property will improve asset management and expose acquisitions to budgetary review.

Eliminating no-cost conveyances to State and local governments would ensure efficient utilization of property. Some properties donated to State/locals have never been put to the intended public benefit use and the lack of effective reversion remedies in such cases has resulted in permanent losses to the Federal Government. This proposal would introduce price consciousness on the part of the recipients resulting in purchases being made only when needed. GAO and GSA have documented a number of cases in which donated Federal property has been underutilized or has been used for a purpose other than public benefit. For example, D.Q. University in Davis, California received a valuable parcel of land intended for educational purposes. That property has never been utilized for the intended purpose and although the University's non-compliance has been well documented by a number of Federal agencies, attempts to revert the land to Federal ownership have been unsuccessful.

The proposed change is also intended to increase receipts to the Treasury. Conservative estimates of the economic benefits are that sales proceeds will more than triple. Frequently, the most valuable excess properties are donated or transferred on a cost-free basis. Recently, a high value parcel consisting of 45 acres of land and 49 buildings was donated to the City of Los Angeles. If sold at competitive prices, this property could have yielded a minimum of $15 million to the Treasury. This is just one of many instances in which the Federal Government has forfeited the opportunity to increase cash receipts.

Effects of the Proposed Change

- The dollar value of sales of real property will increase considerably, resulting in greater cash receipts to the Treasury.
- Federal agencies will acquire properties excessed by other agencies only when they need these properties.
- Waste and misuse of excessed Federal property will be reduced.
- Highest and best use of property by purchasers will be ensured.
- Properties sold to the private sector will enhance the tax base of the community.
- As a result of this proposal, an increase in 1983 receipts is estimated to be $190 million.
- Increases in receipts from an *active* Federal property management program are expected to be much greater than those identified here. The fact sheet on the proposed Real Property Management Program explains the program and its expected results.

Real Property Management

AGENCY: General Services Administration
Department of the Interior
Department of Agriculture

FUNCTIONAL CODE: 954

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT LAW	—	—	—	—	—	—	—
RECEIPTS	—	—	1,000	4,000	4,000	4,000	4,000

Program Description

The General Services Administration manages about 36 million acres of land. This land is primarily developed property utilized by Federal agencies to carry out program missions. GSA disposes of Federal property which is declared by the holding agencies as excess to their program needs. Historically, GSA has disposed of excess property in one of three ways:

- Free transfer to other Federal agencies.
- Donation to State/local government for public benefit use.
- Negotiated and competitive sales.

The Departments of the Interior and Agriculture manage 650 million acres of Federal land, much of which is undeveloped. About 500 million acres of this property is managed by Interior's Bureau of Land Management (BLM) and Agriculture's Forest Service (USFS). BLM has responsibility for subsurface mineral rights and for mineral leasing on all Federal lands. Under limited authority the departments dispose of Federal property by:

- below market value sales and transfers to State and local governments;
- trading parcels with State and local governments or private owners to block together more efficiently managed contiguous tracts; and
- in the case of BLM, limited sales to the public

Additionally, the Army Corps of Engineers and Interior's Bureau of Reclamation manage lands contiguous to many of their water resource facilities which are not needed for the day–to–day operation of the facilities. With very few exceptions these lands have traditionally been retained and managed by the agencies.

Proposed Change

- The Administration proposes to undertake a concerted program to improve Federal asset management and to dispose of unneeded Federal property.
- Properties to be identified for disposal include:
  - — Assets excess to the needs of Federal agencies holding them;
  - — Property of significantly higher value in private rather than in public use;
  - — Public lands that cannot be efficiently managed due to the small size and location of the parcels;
  - — Public lands in urban or suburban areas that hinder local economic development; and

- — Lands acquired during the development of water resource facilities but no longer necessary to the day-to-day operation of those facilities.

- A White House/Cabinet-level Real Property Review Board will be established to ensure maximum coordination of the effort. This Board will perform the following functions:
  - — Develop and monitor policies for acquisition, utilization, and disposal of Federal assets.
  - — Establish practices that create economic incentives/disincentives causing agencies to manage property assets efficiently.
  - — Actively identify high value property that is not being put to highest and best use.
  - — Coordinate a selective appraisal of Federal property holdings.
  - — Mediate disputes that may arise regarding property identified for disposal or conditions applying to the property to be conveyed.
- The Administration's initiatives for 1983 call for discontinuing free transfers to Federal agencies and phasing out discounted and no-cost conveyances to State/local governments. Sales of real property will be at full market value.
- This proposal does not affect lands that are essential to protect for their unique characteristics and national values in areas such as national parks, monuments, historic sites, refuges, or wilderness areas. It also does not include lands set aside to be conveyed to the States, Indian tribes, or Alaskan Natives.

Rationale

- This proposed initiative will enhance the Federal Government's overall management of property assets. There is currently no government-wide mechanism for policy development or coordinated management of property acquisition, utilization or disposal. Additionally, there are no economic incentives in place to encourage agencies to manage property assets efficiently.
- In the case of Agriculture and Interior holdings, some lands should be in other ownership to permit optimum use.
  - — Some of the acreage in Federal ownership is located in or near urban areas. It is of no particular use to the Federal Government, yet limits community growth and takes property away from its best potential uses.
  - — Some other Federal lands consist of widely scattered, small parcels which cannot be efficiently managed.
  - — Other parcels may have potential for higher and better uses in private ownership, such as for raising crops or timber.
- Some of the lands managed by the Corps of Engineers and Bureau of Reclamation may have been purchased because they were needed during a construction effort or to round out parcel purchases from previous owners. These lands and others may not be needed for the efficient operation of the project, yet may have high value for private development.

Effects of the Proposed Change

- Sale of selected Federal properties will:
  - — Reduce Federal property management costs,
  - — Increase Federal receipts,
  - — Make property assets available for local economic development and homesites, and
  - — Increase the local tax base.

- Federal agencies will improve management of real property assets by having incentives to dispose of unneeded assets or those not being used economically.
- Highest and best use of property holdings will be promoted.
- Receipts of GSA managed property from sales are expected to total $1 billion in 1983. Receipts from a combination of the sale of GSA managed property and from sale of land held by Departments of the Interior, Agriculture, and Army Corps of Engineers are expected to total $4 billion annually beginning in 1984..
- Less than 5% of total Federal land will be sold over the 5 year period, but that will include parcels most important to local development.
- Sale of public lands is not expected to decrease Federal mineral leasing activities, the revenues from which are shared with the States.

FTC Deregulation Efforts

AGENCY: Federal Trade Commission FUNCTIONAL CODE: 376

Funding

	(Hours in millions)						
	1981	1982	1983	1984	1985	1986	1987
BUDGET AUTHORITY	70.8	68.8	60.8	55.1	54.6	54.2	54.2
OUTLAYS	70.1	68.1	61.0	54.0	53.5	53.0	53.0
FEE	1,671	1,455	1,310	1,199	1,199	1,199	1,199

Program Description

The Federal Trade Commission (FTC) is an independent regulatory agency with three primary missions: enhancing competition, protecting consumers, and performing economic analysis. The Bureau of Competition shares responsibility with the Justice Department's Antitrust Division in the enforcement of antitrust statutes. The FTC also seeks to protect the marketplace from deceptive practices.

Proposed Change

The proposed reduction reflects the FTC's intent to refocus, retarget and pursue the objectives set forth in antitrust and consumer protection statutes. The 1983 budget and employment would be reduced by 14% from 1981 actual levels in the competition, consumer protection and economic analysis missions.

Rationale

By imposing fiscal restraints and reduced staffing levels, the reductions will contribute to President Reagan's continued effort to reduce Government spending and to remove unnecessary regulatory burdens on the private sector.

Effects of the Proposed Change

As a result of the proposed funding and staff reduction, the FTC will:

- Reduce reporting and regulatory burdens on business. The reporting burden hours on business will be reduced by approximately 15% in calendar year 1982.
- Impose a moratorium on the collection of new data under the Line of Business program in order to analyze information already collected and to determine whether the program should be continued.
- Place greater reliance on preliminary economic analysis in carrying out FTC's enforcement of the antitrust laws.
- Emphasize horizontal mergers and price-fixing cases that could clearly lead to a lessening of competition and undermine competitive markets and consumers' welfare.
- Modify or eliminate regulations that have increased costs to consumers without providing commensurate benefits.
- Focus its interventions before regulatory agencies to reduce regulatory burdens and enhance competition in the private sector.
- Eliminate resources for public intervenor funding, a program that finances interest groups to participate in administrative and judicial legal proceedings.

- Close several regional offices in order to consolidate resources and improve the efficiency of operations.
- Reassess the advertising substantiation program; consolidate food and drug advertising into one program; monitor food and over-the-counter drug advertising; and continue to police false and deceptive advertising.
- Analyze special needs, and problems of small business.

Health Planning

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)								
								Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	127	64	2	0	0	0	0	—	67
OUTLAYS	159	116	67	17	7	4	3	—	20

Program Description

The health planning program provides support, primarily through formula grants, for 186 local health systems agencies (HSAs) and 57 State health planning and development agencies (SHPDAs). The program has a dual charge to assure equal access to quality medical care and to control costs. In 1981, the Federal Government provided 90% of HSA funds and 75% of SHPDA funds.

Proposed Change

The Federal health planning program is proposed for phase-out over the 1981–1983 period, consistent with a 2-year Administration timetable to develop and carry out health financing reforms that encourage competition in the health sector. The Congress has accepted, in the 1982 Budget levels for health planning, the first phase of the Administration's proposed funding reductions.

Rationale

- As part of the general effort to restrain health care costs by stimulating competition in the health care industry, the Administration proposes phasing out the Federal health planning program. This program represents an effort to impose a complex national health regulatory program on States and localities. Moreover, it has not proven effective in controlling costs on a national basis, and it inhibits market forces needed to strengthen competition and provide less costly services.
- If competitive forces are to restrain costs, free entry into health care markets is essential. Otherwise, high-cost providers can monopolize health care markets. The certificate-of-need review process, conducted under the health planning program, is a system whereby hospitals and other institutional providers must receive a Government franchise and government approval before beginning operations. This system inhibits free market entry, often propping up high-cost institutions behind a Government-created entry barrier. Elimination of this franchising system is a necessary element in the Administration's efforts to promote the effective functioning of private market forces in the health care sector.

Effects of the Proposed Change

- The elimination of the health planning/regulation program, in conjunction with other health financing and regulatory reforms, is expected to enhance competition, reduce costs and improve access to health services.
- If States or local entities believe individual planning agencies to be worthwhile, they can provide continued support, as warranted, from their revenues.

Professional Standards Review Organizations

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
OBLIGATIONS	145	24	—	—	—	—	—	48	78
OUTLAYS	156	92	—	—	—	—	—	17	76

Program Description

The Professional Standards Review Organization (PSRO) program provides funding for physician-sponsored organizations to review the quality and appropriateness of medical care provided to certain Federal beneficiaries.

The Omnibus Budget Reconciliation Act of 1981, in response to Administration proposals to phase-out the program, provides the Secretary of HHS with the authority to refuse to renew agreements with PSROs found to be ineffective or inefficient, but requires that no fewer than 130 PSROs will be funded in 1982. The Act also allows States the option to contract with PSROs on or after October 1, 1981 to perform utilization and medical review functions required under Medicaid.

Proposed Change

The Administration will propose legislation to phase-out support for PSROs by July 1, 1982. Under current law, the utilization review function must be performed by hospitals where PSROs are not active. Since these Federal regulations have also not proved effective, the mandate for utilization review would also be eliminated.

Rationale

- The PSRO program was established to provide a regulatory framework for Federal control of the health care system and health costs. Such a system is contrary to Administration policy directions which emphasize competition as a superior means of cost control.
- The program grants the review franchise on the basis of group sponsorship rather than on the criteria of cost, effectiveness, and competence, thus leading to funding inefficient and ineffective organizations.
- The program has not been cost-effective on a national basis. In 1981, the Congressional Budget Office provided evidence that the PSRO program expense–combined with PSRO ineffectiveness and simply shifting costs rather than saving money–actually raised national health care spending. A net loss of $.60 resulted for every dollar spent on the program.

Effects of the Proposed Change

PSROs will be able to contract their services with State Medicaid programs and private systems of care. This should allow the most effective PSROs to continue.

Bureau of Indian Affairs Administrative Staff

AGENCY: Department of the Interior FUNCTIONAL CODE: 302

Funding

	($ in millions)							Savings From Current Services	
	1981	1982	1983	1984	1985	1986	1987	1982	1983
BUDGET AUTHORITY	87	84	68	52	52	52	52	—	16
OUTLAYS	84	81	65	50	50	51	51	—	16
TOTAL PERSONNEL (FTE)	3,480	3,360	2,720	2,080	2,080	2,080	2,080	—	—

Program Description

The Bureau of Indian Affairs (BIA) provides services to Indians that non-Indians receive from all three levels of government. BIA's operating programs which are proposed to be funded at $781 million in 1983 include: education, social services, housing, economic development, welfare, natural resources development, and rights protection. $68 million is proposed in 1983 to administer these programs. BIA has a three-tiered administrative and program delivery structure with a central office in Washington, D.C., 12 area offices, and 85 agency offices. In 1983 17% of BIA's total personnel resources would be involved full time in performing administrative functions.

Proposed Change

- The Administration proposes to reduce administrative overhead throughout the BIA bureaucracy by a total of $16 million, through improved efficiency and elimination of overlapping activities while minimizing adverse impacts on programs and services for Indian people. The proportion of total BIA staff spending full time on administrative functions would be reduced from 22% in 1982 to 17% in 1983.

- The funds from the reduction in BIA overhead have been reallocated to two important Indian initiatives proposed in the 1983 President's Budget: (1) a $5 million program for tribal government development for small tribes; and (2) a $10 million economic development initiative to provide seed money grants to assist Indian enterprises in leveraging private sector funds.

Rationale

- BIA has approximately one employee for every 40 Indians living on or near reservations, with 5% of total personnel resources located at headquarters and 10% in the area offices. Over 40% of the area office personnel are involved in running the bureaucracy itself and do not provide any direct services to Indians.

- During 1981, in 5 of the 12 area offices the ratio between total area office personnel and the agency personnel they oversee was 1:4 or less, more overhead than effective program management should require.

- Some agency office personnel deliver and oversee the same functions carried out by tribal governments under contract. This is clearly a duplication of effort.

- There is no evidence that the BIA's large administrative structure contributes to either effective or efficient program management. In 1978 GAO reported that BIA had severe problems in administering and monitoring Indian programs and accounting for Federal funds. A follow-up report released in 1981 found that no progress had been made in correcting these deficiencies.

360-900 0 - 82 - 10

- The $16 million reduction in administrative overhead will force a reorientation of the BIA bureaucracy, sharpening accountability and reducing nonservice delivery personnel level to a more efficient size.

- The $5 million small tribes initiative is expected to reduce the need for some administrative work now done by the BIA.

Effects of the Proposed Change

- The Bureau has identified and is implementing cost reduction measures that will reduce administrative and program management costs. This effort, principally in the following areas, accounts for most of the $16 million cost reduction:

  — Consolidation and redefinition of roles and responsibilities for headquarters and field offices.

  — Disposal of existing real property holdings to reduce facilities and lands no longer required for program and administrative activities.

  — Improved efficiencies in equipment usage, e.g., motor vehicles.

  — Reductions in personal property, supplies and equipment and/or reallocation of existing holdings to avoid new purchases/leases.

- Reductions in Indian operating programs have been geared as much as possible toward reducing administrative overhead in the BIA rather than adversely affecting programs and services delivered to Indians. This is consistent with a resolution approved by the National Congress of American Indians in May 1981 asking that potential cuts in the BIA budget come from BIA administrative costs rather than from Bureau services.

- Despite the $16 million reduction, the key trust responsibilities of the Bureau for Indian–held assets will be maintained, and accountability will be sharpened.

- The BIA will emphasize contract management, vulnerability assessment, effective oversight of tribally operated BIA programs and elimination of duplication of BIA and tribal delivery systems to reduce costs.

- Improved efficiency in administrative and program management of the Bureau's service delivery system will result in significant cost savings in the implementation of Indian programs.

- The $10 million economic development initiative and the $5 million small tribes initiative are being proposed to strengthen tribal government management capabilities and reservation economies in an effort to make tribes more self–sufficient.

Federal Paperwork

AGENCY: Government wide FUNCTIONAL CODE: 000

Funding

	(Hours in millions)						
	1981	1982	1983	1984	1985	1986	1987
HOURS OF BURDEN IMPOSED ON THE PUBLIC	1.5	1.3	1.2	---	---	---	---

Program Description

The Paperwork Reduction Act of 1980 set a goal of reducing Federal paperwork from the level known to exist* when the Act was passed (by 25% — 15% by the close of FY 1982). The FY 1982 paperwork budget allowance reduces federally required paperwork known to exist when the Act was passed by 17% and by 13% from the level that was known to exist when this Administration took office. For 1983, the planning level anticipates a further reduction of about 10%.

Paperwork budget allowance levels are established through the Information Collection Budget on a cycle one year later than that of the fiscal budget. The difference in timing results from the need to establish program priorities through the fiscal process and then follow up with paperwork — information collection — implementation strategies. Hence, the data in the tabulation shown above are the allowance levels for 1981 and 1982 and the planning level for 1983.

Proposed Changes

Paperwork imposed by Federal agencies on individuals, business organizations and State and local governments, among others, is expected to be reduced to 1.33 billion hours (or a reduction of 196 million hours) by the end of fiscal year 1982 from the current level in place (1.53 billion hours) when President Reagan took office in January of 1981.

- Approximately 45% (602 million hours) of the paperwork burden to be imposed in FY 1982 will be generated by the Department of Treasury. An additional 14% of the total burden will result from information collections from the Department of Transportation. These Departments plus the Departments of Health and Human Services (8%) and Agriculture (8%) impose burdens exceeding 100 million hours. These four Departments, plus the Department of Labor, account for over 80% of the total Federal paperwork.
- In 1982, 75% of Federal paperwork will be mandatory, 19% will be required to obtain or retain a Federal benefit (such as a Federal grant) and 6% will be voluntary. When reporting and recordkeeping is viewed by category of purpose, 78% will be imposed for regulatory or compliance purposes, 13% for application forms, 5% will be for program evaluation or research, 3% for program management, and 1% for general statistical purposes.
- In fiscal year 1982, 57% of the total burden will be imposed on businesses and other institutions, 32% on individuals or household, 10% on State and local governments, and 1% on farms.
- The planning level for 1983 anticipates further significant reductions in paperwork Federal agencies impose on the public.

*The Paperwork Reduction Act brought the independent regulatory and bank supervisory agencies under OMB's paperwork authority. Adding the paperwork burden these agencies impose, plus some formerly undocumented burdens, to the previously known level of 1.3 billion hours, results in a 1.5 billion hour estimate of the Government's paperwork burden when the Reagan Administration took office.

Some of the major paperwork reductions that have taken place or will be completed by the close of 1982 include:

- Reduction in requirements for the Federal Communications Commission's (FCC) Radio Station Log (–17 million hours). During 1981 the FCC revised its regulations to relieve radio stations of requirements to maintain logs of programs aired. This requirement had been imposed originally to insure compliance with rules regarding the airing of a certain number of hours of public service broadcasting.

- Adoption of a common claim form for use by Medicare, Medicaid, and third–party payers (–11 million hours). Representatives of the Medicare and Medicaid programs have collaborated with representatives of the private insurance industry and the American Medical Association to develop a uniform claim form for use in outpatient physician visits. Instead of requiring separate forms, third–party payers will now accept a single form with resulting burden reductions on physician offices. Implementation should be completed by the close of 1982.

- Reducing the Internal Revenue Service's (IRS) Employers Quarterly Tax Return will have a beneficial effect (–12 million hours). During 1982 IRS will eliminate a number of items on the present quarterly tax return.

- Reducing the Department of Transportation's (DOT) Driver's Log (–9 million hours). DOT will relieve requirements imposed upon truck drivers in the trucking industry to maintain detailed daily records of their driving time, rest time, and off-duty time. New regulations will exempt certain drivers from the requirements with the effect of reducing the number of drivers that must maintain records.

- A significant portion of the paperwork reduction associated with Federal grants results from enactment of the Omnibus Reconciliation Act of 1981, which consolidated 57 categorical grant programs into 9 new block grants. The Department of Health and Human Services has responsibility for 7 of the 9 new block grants; Housing and Urban Development and Education each have responsibility for one of the other two block grant programs. As a result of this consolidation, paperwork associated with these programs will be reduced by 5.4 million hours or 83% in 1982.

Rationale

Information is a commodity which, like other commodities, has costs of production as well as benefits of use. The public has only a limited amount of time to supply, and the Federal Government only a limited amount of resources to assemble, process, and use this information. The Information Collection Budget process requires that agencies recognize these constraints and set information collection priorities accordingly. The objective of the Information Collection Budget is to limit the costs to individuals, private organizations, and State and local governments of filling out forms and records for the Federal government. Under the Paperwork Reduction Act, every Federal form and recordkeeping requirement imposed on more than nine individuals or organizations must be approved by the Office of Management and Budget. Agency requests for OMB approval must be accompanied by an estimate of the annual number of "burden hours" that would be assesed on the public. Through the OMB review process, unnecessary requirements are eliminated and essential ones are kept as short and simple as possible. At the beginning of the fiscal year, each Federal agency is given a budget of the total "burden hours" that it may impose as a result of all of its approved forms and recordkeeping requirements. The agency budgets are compiled in the government–wide Information Collection Budget.

Effects of the Proposed Change

- Federal paperwork will be cut by 17% from the level that was known to exist when the Paperwork Reduction Act of 1980 was passed and by 13% from the level that was in place when this Administration took office. As part of this reduction, paperwork associated with Federal grants is expected to be reduced by 25% in 1982.

- The 13% overall reduction is equivalent to savings of 95,000 workyears of efforts.

FRAUD, WASTE AND ABUSE

INSPECTORS GENERAL

Program Description

The Inspector General Act of 1978 created 12 independent offices of Inspector General (Agriculture, Commerce, Housing and Urban Development, Interior, Labor, Transportation, Community Services Administration, Environmental Protection Administration, General Services Administration, National Aeronautics and Space Administration, Small Business Administration, and Veterans Administration), and consolidated agency audit and investigation under IGs. Prior to 1978, separate statutes created IGs in Health and Human Services (then Health, Education and Welfare) and Energy. In 1980, statutory IGs were established for the Departments of Education and State and in 1981 for Agency for International Development. There currently are 17 IGs based on the 1978 model and legislation is pending to extend the concept to the Departments of Defense, Justice, and Treasury.

The Inspectors General are appointed by the President and also provide reports to the Congress. Their objectives are to detect and prevent fraud and abuse and to promote economy, efficiency, and effectiveness in the programs of their agencies.

Proposed Emphasis

During his February 19, 1981 address to the Nation on the Economic Recovery Program, President Reagan emphasized that the fight against fraud and waste in government programs is a top priority.

The Administration strongly supports the Inspectors General and continues to seek to make their operations as effective as possible, particularly within the context of the current necessary severe budget restraints on government programs. The Inspectors General will be making the best use of their resources by conducting joint management improvement projects with agency Assistant Secretaries for Management.

The Inspectors General and their agency Assistant Secretaries have already arranged to undertake two dozen specific management improvement and anti–fraud and waste projects covering a range of jointly identified needs concerning such matters as:

- Vulnerability of contracting procedures;
- Contracts and grants management;
- Cost reduction programs; and
- Administrative sanctions.

Rationale

There have been many allegations that fraud and waste are widespread in Government programs. Both certainly exist, but it is extremely difficult to pinpoint the magnitude of the problem. Most fraud, according to the General Accounting Office, is undetected, so projections based on known cases have little meaning.

- GAO has defined fraud as "willfull wrongdoing by individuals or public and private organizations that affects the government's interests." While Federal agencies are susceptible to hundreds of different types of fraudulent activities in a wide range of areas, four principal areas seem to be most vulnerable:

  — financial assistance to individuals;
  — inventory control and property management;
  — mail service; and
  — personal property management.

- Projections of waste are even less meaningful than those for fraud, in part because the very term "waste" is so subjective—one person's waste is another person's critical program. However, we can at least illustrate the magnitude of possible waste in Government programs: if the Social Security program were operating at 99% efficiency and only 1% of the funds involved in the program could come under the label "waste," the sheer size of the program would mean that over a billion dollars a year was being "wasted."

- The cost of fraud and waste to the taxpayers probably amounts to billions of dollars annually. In the last six months of 1981, the Inspectors General in the departments and agencies identified and saved the taxpayers over $2 billion in funds recovered and costs avoided.

Unfortunately, fraud and waste cannot be legislated out of existence. While significant improvements have been made in the laws to reduce Government program vulnerability to fraud and waste, the most effective strategy still remains vigorous management attention supported by strong audit, investigation, and enforcement programs.

Effects and Prospects

As a direct result of Inspector General efforts in the last six month reporting period:

- Over $406 million has been recovered by the Federal Government, a 46% increase over the previous reporting period;

- Over $1.7 billion in expenditures has been avoided;

- There have been 1,179 indictments, a 59% increase over the previous reporting period; and

- 657 convictions have been handed down, a 28% increase over the last reporting period.

The Inspectors General will continue efforts to reduce waste and mismanagement by identifying where it has occurred, recommending remedial actions, and suggesting systemic improvements to strengthen internal controls which will prevent problems from occurring.

- The key to long-term control of fraud, waste, and mismangement in Government programs is prevention. Inspectors General will use loss prevention studies and vulnerability assessments to spot potential problem areas before fraud, waste, and mismanagement can occur.

- The Inspectors General will continue to identify loopholes in legislation that could result in program susceptibility to fraud and waste.

- The Inspectors General will work across agency lines in cooperative audits and investigations on problems and issues of Government-wide or interagency concern such as benefit program recipient fraud.

- Individual agency-specific audits and investigations will continue to represent the major part of Inspector General operations during 1983.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

Program Description

To coordinate and emphasize the Government-wide anti-fraud and waste effort, President Reagan established the President's Council on Integrity and Efficiency in March 1981. The Council offers a direct means for providing continuing Administration leadership to the Inspector General program, which is focused on legislatively mandated Inspectors General who head the audit and investigation efforts in most Cabinet Departments and major agencies. The Council seeks to identify occurences of fraud, waste, and mismanagement; recommend remedial actions; and suggest improvements in internal controls to prevent problems from occurring in the first place.

The members of the President's Council include:

- Statutorily mandated Inspectors General from major departments and agencies (Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Labor, State, and Transportation as well as AID, CSA, EPA, GSA, NASA, SBA, and VA).
- Representatives from the Departments of Defense, Justice, and Treasury, the Office of Personnel Management, and the Federal Bureau of Investigation.

Proposed Emphasis

The Council will continue to lead the Administration's campaign to reduce fraud and waste in Federal programs and operations and to strengthen the Inspector General program by:

- Developing standards for the management and operation of Inspector General-type activities, through, for example, the preparation of standard audit guides for specific problem areas and the establishment and use of standard performance measures applicable to Inspector General operations.
- Developing policies and programs to assure a well-trained and highly skilled corps of auditors and investigators, through, for example, the creation and scheduling of special training courses for Inspector General employees in techniques for auditing and investigating white collar crime and fraud cases and in modern business management principles.
- Developing interagency audit and investigation programs and projects to deal with problems that exceed the capability or authority of individual agencies.

Rationale

The Council was created to coordinate and improve Government-wide anti-fraud and waste operations and is designed to develop and assure implementation of activities aimed at this objective. To this end, the Council is chaired by the Deputy Director of the Office of Management and Budget and meets regularly once a month. This is an effective strategy because it encourages the Inspectors General to consider Government-wide priorities that go beyond the concerns of individual agencies, assures the effective and timely exchange of ideas and techniques for fighting fraud and waste, and emphasizes the continuing priority that the Administration places on reducing fraud and waste.

Effects and Prospects

The Council operates through five standing committees:

- performance evaluation;
- investigations/law enforcement;

- administrative remedies and incentives;
- legislation; and
- training.

The Council also undertakes specific projects to reduce waste and fraud. Examples of currently active projects are:

- *Government Property.* This project involves examining the controls that agencies have set up to keep track of Government property being used by contractors and grant recipients and to prevent and detect wasteful or abusive activities involving such property.

- *Suspensions and Debarments in Housing Programs.* The objective of the Suspensions and Debarments in Housing Programs project is to provide better protection for the Government and the public from participants abusing Federal housing programs. Suspensions and debarments are actions to prevent individuals or groups from doing business with the Government or from receiving government program benefits for a limited period of time or indefinitely. These actions are to protect the Government from individuals or organizations guilty of abusive practices.

- *National Federal Employees Compensation Act.* The primary goal of the National Federal Employees Compensation Act (FECA) Project is to identify long-term disability cases that should be either terminated or have benefits reduced due to unreported income, fraud, or administrative deficiencies.

- *Computer Matching.* The Computer Matching Project will expand use of computer matching as a fraud and abuse prevention and detection mechanism in Federal and State program management and operations. The project will provide for exchange and dissemination of information on matching programs and on technical capabilities and developments. As an example, recent computer matches uncovered Social Security checks being sent to recipients who had already been reported as deceased under another Federal program. This will result in the recovery and saving of millions of dollars for the taxpayer.

- *Unliquidated Obligations.* The primary objective of this project is to see that outstanding commitments of Government funds are reviewed by program managers regularly and are cancelled if the supplies or services have not been received within a reasonable time.

- *Medical Provider Fraud.* This project is designed to uncover likely cases of fraud by providers of medical care and related services or products. Several Government agencies have sizable health programs, such as Medicaid and Medicare, which reimburse participating providers, such as pharmacists and physicians, on a fee-for-service basis. Since many of these programs appear to be vulnerable to substantial abuses, the Inspector General at Health and Human Services is leading a comprehensive review and assessment of medical provider fraud.

ADDITIONAL MANAGEMENT INITIATIVES

MANAGEMENT IMPROVEMENT

Program Description

In addition to Inspector General activities, the President's Council on Integrity and Efficiency, debt collection, and quality control efforts, the Administration is emphasizing several more management improvement actions. Some operating expenses of the Federal Government can be reduced significantly through the introduction of management improvements and increased emphasis on the application and maintenance of internal controls governing administrative activities. While there are many administrative activities which warrant special cost reduction efforts, areas that have recieved particular attention in this budget are aimed at:

- Eliminating wasteful spending for Government periodicals, pamphlets, and audiovisual products;
- Reducing the cost of official travel by Government employees; and
- Eliminating ineffective and wasteful use of consulting and related services.

Proposed Emphasis

- The imposition of strict internal control procedures for publishing and film-making projects, a moratorium on new productions during the latter half of calendar year 1981, and funding reductions in the Federal programs which generally give rise to new publications have combined to produce a downward trend in expenditures for the period 1981–83. During this period, government-wide funding of these activities since the beginning of this Administration through 1982 will drop by around 7% or over $20 million despite steadily rising production costs due to inflation. Ongoing reviews of every periodical and pamphlet should produce additional savings in 1983.
- In 1983, concerted efforts will be made to hold down the total costs associated with official travel, estimated at about $5 billion, by strengthened management controls including those aimed at elimination of abusive practices.
- Efforts by the President and the Congress to slow the growth in consulting and related services will be continued. Management controls will be strengthened to ensure the best use of available resources.

Rationale

The management improvements in these areas will result in greater control over expenditures for publishing, travel, and the use of consultants. They will permit the needed work to be done and, at the same time, save the taxpayers money by eliminating unnecessary, no longer important, or abusive expenditures.

Effects and Prospects

- Federal expenditures for Government periodical publications, pamphlets, film-making, and video-tape productions have declined steadily since the imposition of stricter management controls by OMB in the middle of 1981.
- In 1982–83, the Administration is implementing various recommendations of the OMB-led Interagency Travel Management Improvement Project to produce annual savings of $200 million. These savings will be achieved through simplification of travel regulations and the tightening of authorization policies, expanded use of discounts and improved travel services, expanded use of teleconferencing in lieu of travel, better budgeting and cost controls, and other management improvements.

- In addition to reducing the growth in funding for consulting services and three related categories of services — management and professional services, special studies and analyses, and management and support services for research and development activities — the Administration has emphasized the importance and promoted the development of internal management controls. These controls will ensure that only necessary and essential consulting and related services are performed by requiring that proposals be carefully reviewed by agency management before aproval, that contracts be closely monitored during performance, and that final products be evaluated for usefulness.

DEBT COLLECTION

AGENCY: Government–wide

Funding

	($ in millions)					
	1982	1983	1984	1985	1986	1987
EXPECTED SAVINGS:						
Distributed in Agency Accounts	1,310	1,350	1,375	800	775	750
Undistributed (Allowances)	—	1,000	1,000	2,000	2,000	2,000
*Tax Receipts**	230	1,660	2,040	2,040	1,093	565
Total Savings	1,540	4,010	4,415	4,840	3,868	3,315

*These are savings that represent increased recoveries of delinquent taxes owed the Internal Revenue Service.

Program Description

The amount of overdue and uncollected debts owed the Government is enormous. An estimated $33 billion of the $218 billion owed to the Government on September 30, 1981 was either delinquent or in default. An additional $8 billion in loans are in some form of rescheduled or stretched out status because of borrowers' inability to repay. Over $1 billion in bad debts are being written off each year and it is estimated that an additional $8 billion will be written off over the next several years.

This situation has resulted from years of inattention and neglect and from a pervasive attitude that the Government has a more legitimate role in the operation of debt than in its collection.

Proposed Emphasis

The President decided that an aggressive debt collection program must be pursued and has committed the Administration to recover as much as $4 billion each year in delinquent debt, including delinquent taxes owed the Internal Revenue Service. The program is a two–pronged effort, consisting of administrative and legislative initiatives.

- On the administrative side, the twenty–four agencies that account for over 95% of the debts owed the Government have begun comprehensive programs to improve their credit management and debt collection practices. These programs are designed to reduce the current backlog of delinquent debt, prevent unnecessary new delinquencies from occurring, and quickly recover new delinquencies. The following will be undertaken:

  — Loan origination and servicing programs will be examined and made more effective.

  — Collections officials in agencies will be better trained and held directly accountable for improved debt collection efforts.

  — The litigation process will be improved to allow for speedier and more effective action against debtors who have the ability to repay but refuse to do so.

  — New tools and techniques will be utilized. For example, contracting out certain debt collection functions, such as recordkeeping and billing, to the private sector may make the most sense in instances where the private sector already has greater expertise.

- On the legislative side, the Administration has asked Congress for legislation needed to eliminate some of the disincentives that presently exist in the Government's debt collection process; to make available essential tools and techniques used effectively in the private sector; and to provide for increased efficiency and effectiveness in the way the government goes about granting and servicing credit and collecting debt. This legislation would allow agencies to:

  — require credit applicants to furnish their Social Security numbers to insure the identity of the person to whom the Government is granting credit or trying to collect debt;

— contract for use of private sector debt collection agencies;

— assess interest, penalties, and administrative charges on nontax debts due the Government; and

— refer credit information on delinquent debtors to credit bureaus.

Rationale

Allowing debts owed the Government to go uncollected increases the cost of Government and is inflationary. This situation contributes significantly to the burden on responsible, honest citizens who pay their taxes and honor their obligation to the government.

- The interest alone on the $33 billion in delinquent debt is costing taxpayers about $14 million a day.
- The Government incurs substantial operating costs every year in pursuing the collection of delinquent debt.
- During times of fiscal restraint, dollars of debt *not* repaid either must be replaced by additional tax dollars or program levels reduced.
- When delinquent debts are not collected, debtors receive benefits to which they are not entitled. Loan and other programs become unauthorized giveaway programs.
- A well-run and effective program provides incentives for debtors not to be delinquent in the future.

Effects and Prospects

- The President's program is the first concentrated effort to improve Federal debt collection. The budget impact alone will be significant. The 1983 Budget includes as much as $4 billion in annual collections resulting from the measures being taken by the agencies. These collections will generally be achieved within existing agency resources.

  Debt collection activities include the following:

  — The Veterans Administration is developing an automated system for charging interest and administrative costs on over $1 billion in delinquent receivables. The system, which is scheduled for completion by the end of 1983, will also provide for the referral of credit information on delinquent debtors to credit bureaus.

  — By the end of 1983, the number of delinquent borrowers in Agriculture's Farmers Home Administration (FmHA) programs will be reduced by 70,000, a 20% reduction, through more aggressive collection action and faster resolution of delinquent accounts.

  — HUD, with over $1.5 billion in delinquent debt, is requesting the Congress to amend the Bankruptcy Act to exempt HUD projects from its provisions. If enacted, this will prevent defaulted debtors from delaying foreclosure by filing for bankruptcy.

  — The Department of Defense will be making changes to military service pay systems to provide for identification and recovery of $60 million in delinquent debts of service members by deducting them from separation payments.

  — In 1983, efforts of the Internal Revenue Service staff devoted to collection of delinquent tax accounts will be increased. This staff increase is expected to produce additional revenues of over $ 1.4 billion.

  — The 1983 Budget provides the IRS with funding to automate certain office functions involved in the collection of delinquent taxes. The planned automation provides for the use of computer terminals by collections employees to aid in placing phone calls, issuing letters and forms, and initiating most follow-up actions. It is estimated that the resulting accelerated collection efforts will increase the recovery of delinquent taxes by as much as $500 million annually.

- The Department of Justice will be automating the debt collection case tracking functions in the 94 U.S. Attorneys' offices. This will greatly accelerate the recovery of $3 billion in delinquent Federal debt currently being litigated by the Justice Department.
- The Treasury Department is initiating a comprehensive reporting system which will provide information on the amount and age of delinquent debt, the amount of bad debts, and other data needed to evaluate agency debt collection performance.

- The legislative initiatives proposed by the administration will result in the recovery of a minimum of $500 million in delinquent debt that otherwise would not be recoverable.
- In addition to the sizeable dollar savings, the President's debt collection program will produce other benefits important for good Government, although difficult to measure:
  - An increase in the efficiency of Government operations.
  - A significant reduction in the rate of new delinquencies since debtors will now know that the Government is serious about collecting its debts.
  - Restoration of faith in the Government's ability to use good business and management practices.

Federal Procurement Reform

The Administration is committed to far reaching and fundamental reforms in the Federal procurement process. Federal procurement is a $130 billion–a–year business involving one–fifth of the Federal budget, more than 130,000 Federal employees and over 17 million contracting actions a year. Despite its magnitutde, it is a process that has not received sufficient Government–wide attention. As a result, it is replete with unnecessary and complex regulations, outdated and inefficient procedures, crushing paperwork burdens, a lack of adequate competition in awarding contracts and too little professionalism in the contracting work force.

Proposed Emphasis

This Administration will propose specific remedies, including:

- New concepts of competition that will permit the Government to attract the innovation and skills of the market place, rely on proven commercial products and make business decisions based on total cost to the Government.
- Increased emphasis on the need for a skillflul and knowledgeable work force of career professionals to operate and oversee the Government's procurement programs.
- Simplification of contracting procedures by means of a single, Government–wide procurement regulation — in lieu of the multiplicity of overlapping regulations in existence throughout the Executive Branch.
- Elimination of complexity by standardizing and streamlining the clauses used in Government solicitations and contracts, increased emphasis on using commercial practices for buying commercial products, and by simplifying small purchase procedures.
- Creation of performance standards for procurement systems and personnel so that responsiveness, efficiency, and management control and accountability become the fundamental characteristics of the process.
- Increased emphasis on the Government's long–standing policy of reliance on the private sector for needed products and services, including janitorial functions, guard sevices and audio–visual services — in lieu of performing such functions in house.

Rationale

As a key component in the management of Federal programs, the Federal procurement process has failed to reach its full potential for effectively and efficiently supporting agency requirements. Too often, agency users do not receive the products and services they require when they need them and at a resonable cost. Less than half of Federal procurement dollars are spent competitvely — as competition is curtailed by complexity, funding constraints, restrictive specifications, lack of advance planning, and limited knowledge of the market place.

The problems of Federal procurement are further exacerbated by the existence of an outdated, fragmented statutory base, over 800 sets of agency procurement regulations, a diffusion of responsibility, and too few standards of performance. These factors, in turn have led to adversarial relationships between Government and its suppliers, and unnecessarily inhibited work force and an erosion in the naiton's industrial base. Implementattion of an integrated series of reforms — in law, in regulation, in procedure and in standard — is essential for correcting these deficiencies.

Effects of the Proposed Change

- In 1982–83, the Administration — through OMB's Office of Federal Procurement Policy — will propose a thorough, comprehensive series of reforms to make procurement more efficient and responsive. Where appropriate, implementation of these reforms will be achieved by administrative actions (e.g., issuance or revision of Executive Orders, OMB Circulars). In addition, the Administration will shortly propose to the Congress specific legislative remedies for those procurement management inefficiencies that have increasingly burdened the Federal Government's contracting processes. When implemented over the next five years, savings of over $5 billion annually are expected to flow from these reforms.

- The Administration has emphasized, and will continue to devote strong management attention, to the fundamental policy of relying on competitive private enterprise to supply the products and services needed by the Government. We believe that once the policy is fully and properly implemented, the Federal Government will save more than $1 billion annually — simply by utilizing the private sector to perform such functions as custodial services in Federal buildings, audio-visual services, building maintenance and repair, and data processing.

Federal Housing Administration Mortgage Insurance Premiums

AGENCY: Department of Housing and Urban Development

FUNCTIONAL CODE: 371

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
PROGRAM LEVEL:							
Outlays	182	-245	-1,179	-1,155	-1,142	-1,228	-1,309
OFFSETTING RECEIPTS:	—	—	745	714	674	625	563
Current Law	—	—	61	183	305	427	549
Policy Increase	—	—	684	531	369	198	14

Program Description

The Federal Housing Administration (FHA) operates about 20 programs that provide insurance for home mortgages. Since its inception in 1934, FHA has insured nearly 14 million home mortgages with a value of over $211 billion. FHA currently insures 4.9 million home mortgages with a value of $115 billion.

Proposed Change

This proposal will change the way FHA-insured homebuyers pay insurance premiums. Instead of paying a premium equal to 1/24th of one percent of the outstanding mortgage balance every month, each FHA-insured homebuyer will make a one-time payment at the time of settlement equal to the discounted present value of the monthly premium payments they would have otherwise paid.

Rationale

- This method of charging for insurance premiums is more consistent with private insurance premium payment methods.
- This change is consistent with maintaining the actuarial soundness of FHA home insurance programs.

Effects of Proposed Change

- The net amount of receipts that FHA receives from insured homebuyers will increase by $745 million in 1983 because homebuyers will make all of their premium payments at settlement instead of paying premiums equal to 1/24th of one percent of the outstanding mortgage balance every month for the life of the mortgage.
- The average amount of the premium payment will be about $1500. However, FHA will not require that this premium payment be added to the downpayment. Instead, FHA will allow the premium payment to be built into the mortgage: total monthly payments will be about the same as they were before this change.
- This change will not affect the basis for determining the insurance premium payment. To maintain actuarial soundness, the up-front premium charge will be determined using the same annual premium payment as is currenly charged — 1/2 of one percent of the outstanding mortgage balance over the life of the mortgage. The up-front premium charge will, however, assume an expected life for each mortgage to discount the expected stream of future monthly premium payments back to one single payment.
- The accounting and collection functions of both FHA and private lenders will be simplified.

INDICES

INDEX OF FACT SHEETS BY FUNCTION

550 Health

600 Income Security

700 Veterans Benefits and Services

INDEX OF FACT SHEETS BY AGENCY

Department of Housing and Urban Development

Department of the Interior

Department of Labor

Railroad Retirement Board

Others