major themes AND additional budget details

FY 1985

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.

2. Details in the tables, text, and charts of this volume may not add to the totals because of rounding.

3. In the tables, leaders indicate dollar amounts that are $500 thousand dollars or less, or percentages that are .05 percent or less.

4. Estimated future pay raises have been allocated to individual programs in this document.

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Introduction

Introduction

A salient characteristic of all the industrial democracies in the past quarter century has been a veritable explosion in Government spending for social welfare programs and for other domestic areas such as agriculture and public infrastructure. In the 10 countries of the European Economic Community, for example, total Government spending has risen from 32% of GNP in 1960 to 50% at present, and their defense spending burden is less than that of the United States. While Government spending in the U.S. remains a smaller share of the economy than in Europe (about 34% of GNP in 1983, of which 25% was Federal), the growth of domestic spending has been nearly as rapid here as elsewhere. In real terms—i.e., after adjusting for inflation—Federal domestic spending doubled from 1954 to 1961, doubled again from 1961 to 1971, and nearly doubled again from 1971 to 1981. Because this spending grew much faster than the economy, Federal domestic spending as a share of GNP rose from 7.3% in 1961 to 10.5% in 1971 and to 15.0% in 1981.

The Dramatic Halt in Domestic Spending Growth

Such upward spending momentum was not sustainable, if only because American taxpayers would not support it. One of the major accomplishments of the Reagan Administration, with the support of Congress, has been to bring this fast-moving train to a halt. Domestic spending (defined as all spending except defense, "national interest" programs such as space and foreign assistance, and net interest) in constant 1985 dollars rose from $57.5 billion in 1954 to $126.5 billion in 1961, to $269.9 billion in 1971 and to $526.6 billion in 1981, the last pre-Reagan year. It is estimated to be slightly *lower* in 1984, at $522.8 billion, and continue essentially unchanged at $523.1 billion in 1985 under the proposals in the 1985 budget.

After three budget rounds, the explosive domestic budget growth has clearly been contained. With Congressional action on the 1984 budget virtually complete, real domestic spending now stands below 1981. And if the policies proposed in the President's 1985 budget are adhered to, there will be essentially *no growth* in real terms for the rest of this decade, despite the fact that an aging population will require continued growth in real outlays for social security, medicare, and medicaid. Thus, after an era in which the real cost of Government *doubled three times* in less than three decades, the shift in national policy inaugurated by the Reagan Administration will result in a decade-long domestic real spending freeze.

With the economy now growing again, domestic spending in relation to GNP has already begun to tilt downward, dropping to 14% in 1984 and falling further to about 12% in 1989 under current services projections.

Moreover, the abrupt halt to the runaway growth momentum of domestic Government is now built into the structure of the budget—even if the modest additional savings proposed for 1985 and outyears are not fully implemented by Congress. The current services budget for domestic programs will rise only 6% in constant dollars between 1981 and 1989.

Programmatic highlights of this domestic spending freeze are as follows:

- Non-entitlement domestic outlays have been cut 24% in real terms from their 1978 peak and under the President's 1985 budget would be 40% lower by 1989.
- The massive growth of welfare costs has been halted. Constant dollar costs of low-income benefit programs will be nearly stable for the remainder of the 1980's, compared to the 11-fold increase in constant dollar terms between 1954 and 1981.
- The growth of social insurance has been slowed due to bipartisan reform. The annual constant dollar growth rate for the remainder of the 1980's is expected to be only 2.3% compared with an annual real growth rate of 8.8% between 1954 and 1983.

Another way to measure the accomplishment is to calculate the inherited "baseline" of domestic spending and compare it against the actual spending level of fiscal years 1982 and 1983, the estimated level for 1984 and current services estimates for 1985 and 1986, all in current dollars. For entitlements and other mandatory spending, the baseline represents existing law as of January 1981, adjusted for actual economic conditions (inflation, unemployment, etc.) through 1983 and forecast economic conditions through 1986. For discretionary spending, the baseline equals recommended amounts for 1982-86 in the outgoing Carter Administration 1982 budget, published in January 1981. The figures include off-budget outlays. The table shows that $318 billion has been saved, or an average of more than 11% per year of domestic spending.

Domestic Program Savings Enacted Thus Far, 1982–1986

(Outlays in billions)

Year	Pre-1981 baseline	Savings enacted	Percent reduction	Savings as percent of GNP
1982	$489	−$36	7.4%	1.2%
1983	547	−60	11.0%	1.9%
1984	565	−66	11.7%	1.9%
1985	602	−70	11.6%	1.8%
1986	641	−86	13.4%	2.0%
Total	2,844	−318	11.2%	1.7%

Structure of the Document

These achievements were the consequence of countless individual program proposals, decisions, and legislative enactments over the calendar years 1981-83. Given the hundreds of Government programs affected, scholars—let alone ordinary citizens—might have difficulty keeping track of what has happened and making sense of the cumulative impact in any given policy area. To contribute to an understanding of the spending reductions achieved to date and those proposed in the 1985 budget, this budget volume divides domestic spending into eight analytical categories that group like-programs together:

- Community Development and Economic Subsidies
- Social Insurance and Retirement
- Low-Income Benefit Programs
- Human Development and Social Services
- Agriculture and Rural Programs
- Public Infrastructure
- Veterans Programs
- General Government

A chapter of this budget volume has been devoted to each of the eight categories. An overview essay for each chapter describes the category, provides an historical perspective on the growth of Government spending in the major program areas, and summarizes the accomplishments to date in curtailing excessive growth. The essay is followed by a series of "factsheets" on individual programs or groups of closely related programs, detailing the current status and the budget policy for 1985 with its implications for later years.

In addition, the volume contains separate chapters on defense and "national interest" program development, and a chapter detailing the Administration's extensive efforts to achieve savings through better management of the Government.

CHAPTER 1

Community Development and Economic Subsidies

Community Development and Economic Subsidies Overview

This component of the budget includes local fiscal subsidies—General Revenue Sharing (GRS); community development aid—the Economic Development Administration (EDA) and Community Development Block Grants (CDBG); industrial sector support—maritime, energy, trade adjustment assistance, export aid; and Federal commercial and financing activities—uranium enrichment and the Federal Deposit Insurance Corporation. Agricultural and rural subsidies are addressed in Chapter 5 of this volume.

The proposed savings represent a continuation of this Administration's long-standing efforts to eliminate or sharply curtail unwarranted and largely ineffective economic subsidies. The proposed savings amount to only 7% of the current services baseline over 1985-1989 (13% excluding off-budget outlays), reflecting two factors:

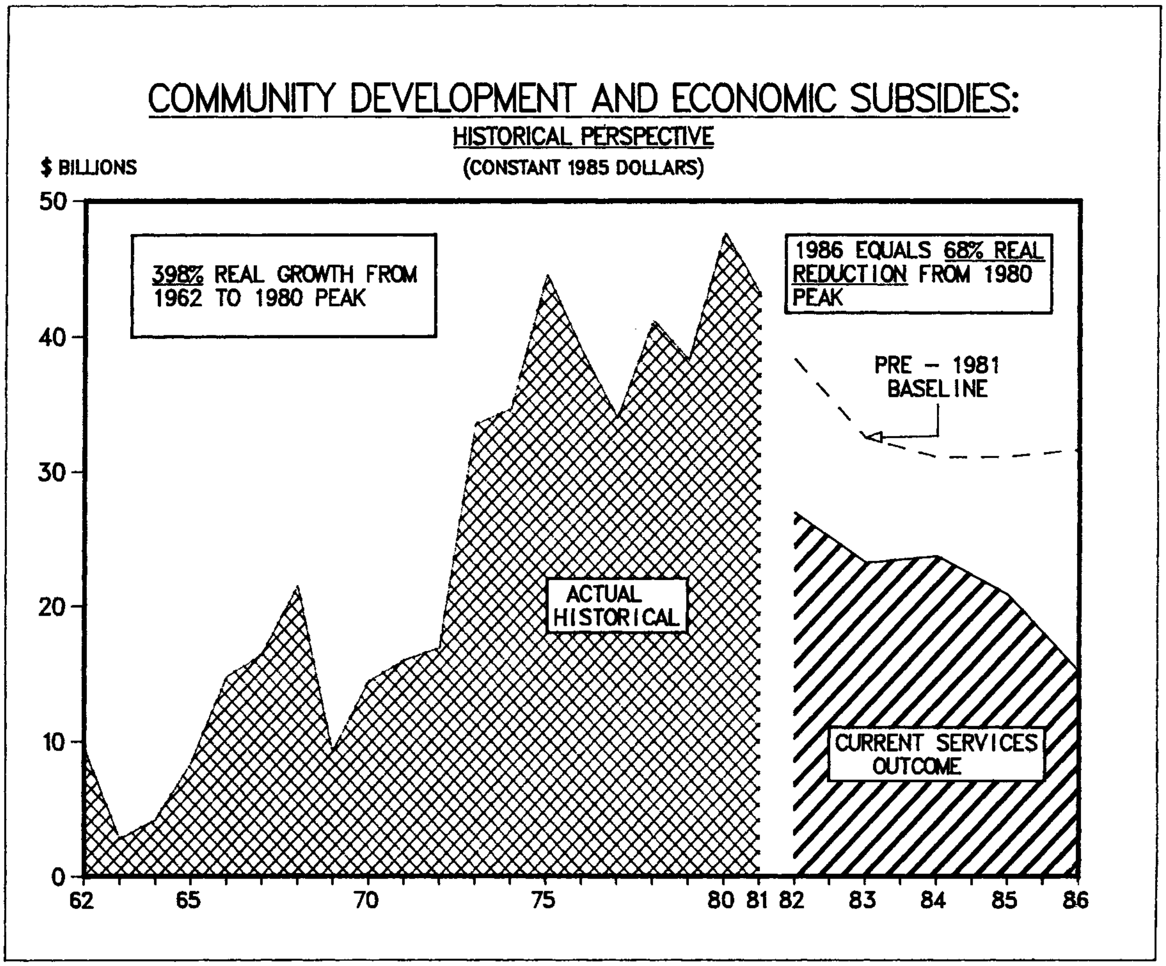
- The first three budget rounds have been enormously successful in eliminating entire programs (regional commissions and most of trade adjustment assistance, for example) or in substantially reducing constant dollar funding levels (EDA, Export-Import Bank, CDBG, Urban Development Action Grants (UDAG)). As a consequence, the constant dollar cost of this component of the enacted 1984 budget will have declined 50% from its 1980 peak. If the additional savings proposed in the 1985 budget are adopted, constant dollar spending levels by 1989 will be *80% below the 1980 peak*.
- The Administration is committed to maintaining general revenue sharing and modest aid levels, in the form of CDBG and UDAG, to urban areas and smaller communities. It also has proposed to maintain energy funding but to shift priorities away from expensive commercialization projects to research and development. Likewise, it has proposed to maintain minimum subsidy levels for the Small Business Administration (SBA), the Postal Service, health professions training, Amtrak, the Export-Import Bank, and the maritime industry.

This chapter contains 47 factsheets, which are arranged into six groups.[1] The remainder of this essay addresses the savings achieved to date, further savings proposed for 1985-1989, and the impact of this spending category on the budget totals.

Two Decades of Dramatic Spending Growth Reversed

The following chart depicts the dramatic growth of the community development and economic subsidies component of the budget from 1962 to 1980, and the extraordinary degree of spending restraint achieved over the last 3 years.

[1] Separate factsheets have not been written for fisheries and marine mammal commissions, travel and tourism, miscellaneous small commerce programs, medical facilities and Health Maintenance Organization loans, Overseas Private Investment Corporation (Federal Financing Bank (FFB)), miscellaneous FFB accounts, and territorial loan guarantee obligations. Thus, the sum of the amounts in the factsheets is not equal to the summary totals used in this essay.



Federal outlays for this component of the budget increased 398% in real terms between 1962 and 1980. The composition of this increase is displayed in the following table.

Two Decades of Dramatic Spending Growth

(Outlays in billions of 1985 dollars)

	1962	1980	Percent change	Peak year	Peak year outlays
Community Development and Fiscal Aid	1.4	19.5	1,283%	1973	22.8
Business and Commercial Subsidies	4.8	11.9	147%	1975	11.9
Transportation and Maritime Subsidies	1.6	5.0	223%	1981	6.3
Energy Programs	1.3	8.4	569%	1980	8.4
Housing Finance	1.9	3.3	75%	1968	9.6
Financial Institution Funds	−1.3	−0.4	71%	1975	1.0
Total, Community Development and Economic Subsidies	9.6	47.6	398%	1980	47.6

- Community development and fiscal aid increased by an astronomical 1,283%. These subsidies grew most rapidly during the 1970's with the establishment of general revenue sharing and community development block grants and the 1977-1978 local public works program.
- Other major growth areas included energy technology development and demonstration programs, Tennessee Valley Authority (TVA) nuclear power development, railroads, Export-Import Bank, trade adjustment assistance, flood insurance, SBA disaster loans, and Student Loan Marketing Association guarantees.

Savings achieved since the 1980 peak have reduced budget costs for this category to a more sustainable level. This is illustrated in the following table, which compares in constant dollars actual 1980 outlays to estimated 1984 outlays under current law:

Real Outlays in 1984 Are Half of 1980 Peak

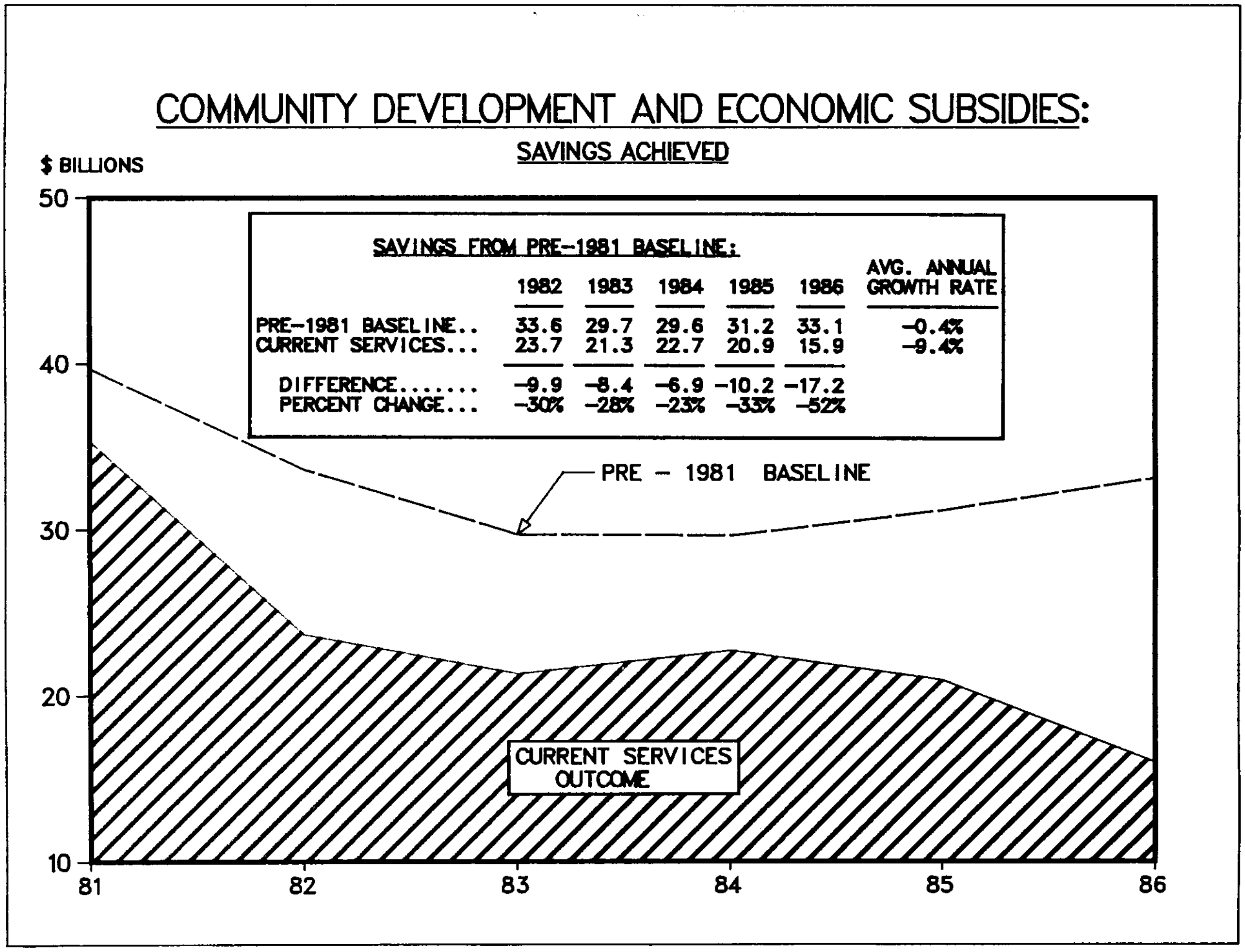
(In billions of 1985 dollars)

	1980 actual	1984 current services[1]	Reduction	Share of total reduction
Community Development and Fiscal Aid	19.5	11.7	7.8	33%
Business and Commercial Subsidies	11.9	5.7	6.2	26%
Transportation and Maritime Subsidies	5.0	3.2	1.8	8%
Energy Programs	8.4	4.1	4.4	18%
Housing Finance	3.3	1.6	1.7	7%
Financial Institution Funds	−0.4	−2.4	2.0	8%
Total, Community Development and Economic Subsidies	47.6	23.8	23.8	100%

[1] Spending levels based on current law.

Outlay savings of *50%* from the 1980 level have already been achieved in 1984.

Enacted savings.—The chart below shows that while 1982–1986 outlays under the pre-1981 baseline would have declined somewhat from the 1980 peak, this Administration has proposed, and Congress has enacted, substantial additional spending restraint totaling $52.6 billion over 1982-1986.



	1982	1983	1984	1985	1986	AVG. ANNUAL GROWTH RATE
PRE-1981 BASELINE..	33.6	29.7	29.6	31.2	33.1	-0.4%
CURRENT SERVICES...	23.7	21.3	22.7	20.9	15.9	-9.4%
DIFFERENCE.......	-9.9	-8.4	-6.9	-10.2	-17.2	
PERCENT CHANGE...	-30%	-28%	-23%	-33%	-52%	

In addition, it is important to note that the pre-1981 baseline may be underestimated—i.e., the policies embodied in that estimate would likely have resulted in higher out-year estimates. Consequently, the enacted savings would actually be higher than estimated above.

Savings have been achieved in virtually every category of subsidy. The largest savings from the pre-1981 baseline are attributable to energy programs and business and commercial subsidies:

- Energy program savings come from a more limited Federal role in technology development and demonstration (e.g., large synthetic fuel demonstration plants), and from reductions in construction of TVA nuclear power plants as a result of lower load forecasts.
- Business and commercial subsidy reductions include outlays from Student Loan Marketing Association guarantees, Export-Import Bank, trade adjustment assistance, SBA, and loan programs which use the Federal Financing Bank. These savings are partly offset by an increase in net outlays (above receipts) by the Postal Service.

Proposals for Further Savings

The following table compares the President's 5-year budget plan to the outlays that would occur under current law. Net outlay savings of $6.0 billion are sought for the 5-year period. These savings represent 7.1% of the current services baseline (13.5% if off-budget outlays are excluded).

Further Savings Proposed

(Outlays in billions)

Major program areas	1985–1989 Current services	1985–1989 1985 request	1985–1989 Proposed savings
Community Development and Fiscal Aid	$54.1	$51.0	−$3.1
Business and Commercial Subsidies	20.8	15.8	−4.9
Transportation and Maritime Subsidies	11.8	10.0	−1.7
Energy Programs	14.2	12.8	−1.4
Housing Finance[1]	....	5.3	5.3
Financial Institution Funds[2]	−17.0	−17.0	....
Total, Community Development and Economic Subsidies	83.9	77.9	−6.0

[1] Current services for this program area include $9.4 billion in outlays for GNMA subsidized mortgage activity, elderly and handicapped housing, and low-rent housing. These amounts are offset by $9.4 billion in receipts from FHA and GNMA credit transactions. The 1985 request is largely current services except for a $5.8 billion increase for the Public Housing Loan and Liquidation Fund.

[2] This program area includes net receipts for the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

- The Administration's priority is to reduce direct aid to the private sector. The largest percentage reductions are sought for business, commercial, maritime and transportation subsidies.
- Additional savings would be achieved through the termination of community development programs which have outlived their mandate, namely the Economic Development Administration and the Appalachian Regional Commission. Under this Administration, community development programs have been altered to increase state and local discretion and private sector involvement. The Administration's enterprise zone program would continue these trends.
- Savings would be offset in part by a 5-year, off-budget outlay increase of $5.8 billion for the Public Housing Loan and Liquidating Fund. This increase would allow continued long term financing of public housing projects through the Federal Financing Bank. The outlay cost of this proposal would be offset by enhanced tax revenues, as tax-exempt financing is reduced.

Impact on the Budget Totals

Community development and economic subsidies make up a small part of *total* outlays, 2.2% in 1985, but are a more significant part of *domestic discretionary* outlays—the most "controllable" part of the budget. Outlays for community development and economic subsidies were 23% of total domestic discretionary outlays in 1980 and are estimated to be 15% in 1984.

The table below shows that this category of the budget accounts for *almost half* of the 24% real reduction in domestic discretionary outlays between 1980 and 1984.

Community Development and Economic Subsidies Share of Total Domestic Discretionary Outlays

(Outlays in billions of 1985 dollars)

	1980	1984 Current Services	Administration budget[1] 1985	Administration budget[1] 1989	1980–1984 reduction
Community Development and Economic Subsidies	47.6	23.8	21.0	9.4	23.8
Total Domestic Discretionary	207.4	158.4	153.8	122.8	49.0
CDES Share of Domestic Discretionary Total	23.0%	15.1%	13.7%	7.7%	48.5%

[1] Based on 1985 request.

The President's 5-year budget plan would further reduce this category's share of domestic discretionary spending—to 7.7% by 1989. The bulk of the savings would be achieved by further reducing subsidies to the private sector.

In 1980, the community development and fiscal aid share of this spending category was 41%, while the combined share of the other five subcategories—which can be roughly categorized as "private sector subsidies"—was 59%. By 1984, the relative shares were nearly equal—49% to 51%, respectively. The Administration proposes to continue this trend. By 1989, the private sector subsidies share would be reduced to 11%.

Community Development and Fiscal Aid

Urban Parks and Historic Preservation

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	35	36	37	39	41	42	195
Outlays	95	62	43	35	38	40	219
1985 Budget Level:							
Budget Authority	35	....	....	....	....	....	....
Outlays	95	52	23	2	2	1	79
Change:							
Budget Authority	....	−36	−37	−39	−41	−42	−195
Outlays	....	−11	−21	−33	−36	−39	−140

Program Description

These two grant programs provide matching funds to State and local governments and the private non-profit National Trust for Historic Preservation. Funds support State and local historic preservation efforts and the rehabilitation and improvement of local urban park facilities.

Current Status

This Administration has requested no appropriations for these programs since taking office. In 1984, Congress appropriated $8.7 million for the urban park grant program and $26.5 million to continue Federal support of State historic preservation offices.

1985 Budget Proposal

Consistent with this Administration's past position, the 1985 budget proposal would eliminate all new funding for these programs.

Rationale

Substantial economic and tax incentives have been set in place to encourage the private sector to play the major role in preserving historic properties. The Economic Recovery Tax Act of 1981 provides a 25% income tax credit for historic preservation. Tax credits of $320 million were claimed in 1983. About $385 million in such tax credits are expected to be claimed in 1984 and about $470 million in 1985.

Given this already high level of Federal support for historic preservation, the Administration believes that the State and local governments should be responsible for funding their historic preservation agencies and that the National Trust should rely on non-Federal means of support.

The Administration believes that further discretionary Federal grants to support local recreation activities can be postponed until the deficit situation improves without causing any personal or economic hardship.

At the beginning of 1984 these grant programs had about $140 million in appropriated but unspent Federal funds awaiting matching State and local money.

Appalachian Programs

[In millions of dollars]

Agency: DOT/ARC

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	162	170	179	187	195	203	934
Outlays	211	196	196	186	191	187	956
1985 Budget Level:							
Budget Authority	162	80	40	....	....	....	120
Outlays	211	191	161	112	73	32	569
Change:							
Budget Authority	....	−90	−139	−187	−195	−203	−814
Outlays	....	−5	−35	−74	−118	−155	−387

Program Description

The Appalachian programs provide funds for construction of highways and roads in Appalachia along with grants for economic and community development. Also provided is half the operating costs of the joint Federal/State Appalachian Regional Commission (ARC), which is charged with overseeing the Appalachian programs.

Current Status

The Appalachian programs were initiated in 1965 as a temporary response to the perceived need to improve road access to and within Appalachia and to improve economic and social conditions. By the end of 1984, about $5 billion of Federal aid had been provided by the Appalachian programs: $3.1 billion for roads and $1.8 billion for other purposes.

Other regional commissions have been eliminated and increased emphasis has been placed on State and local self reliance to stimulate local economic development. In light of these developments, the Congress has recognized that the Federal Government could not continue to provide previous levels of support to the region through a separate, categorical program.

Constant Dollar Trend

Between 1966 and 1974, constant dollar outlays rose from $32 million to a peak of $624 million. By 1980, however, real funding levels had fallen 25% to $467 million. While Congress has not adopted the rapid phase out timetable originally proposed by the Administration, current services outlays in 1985 will nevertheless total only $196 million—a 58% cutback since 1980 and a 69% reduction in real terms from the 1974 funding peak.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1966	32
1970	514
1974	624
1980	467
1985 current services	196

1985 Budget Proposals

The budget proposes savings of about $810 million in budget authority for 1985 through 1989. These savings would result from the proposed:

- elimination of all non-highway Appalachian programs and administrative expenses of the Appalachian Regional Commission; and
- phaseout of the separate Appalachian highway program by 1987.

As an interim step in the phaseout of the highway program, the budget would transfer responsibility for the program to the Department of Transportation.

Rationale

While some counties in Appalachia continue to have "inadequate" public facilities, the $1.8 billion already provided by the Appalachian non-highway program has basically accomplished the objective of improving conditions in Appalachia. This is indicated by the recent economic trends in Appalachia:

- Job losses of prior decades have been halted. Between 1965-1980, 2.4 million new jobs were created.
- Per capita personal income relative to the U.S. has increased so that it was 82% of the national average in 1980 compared to 78% in 1965.
- Poverty levels have been cut in half from 33% in 1965 to 14% in 1980 (compared to 12.4% in the Nation).

The Federal Government can no longer continue to direct scarce Federal resources to programs, such as ARC, that are narrowly focused on a particular State or group of States and that respond to what are strictly State and local development desires. In addition, funds have been spent on projects of questionable merit from a Federal perspective, such as swimming pools and ice skating rinks.

The intent of the law creating ARC in 1965 was that the program would be temporary. Nineteen years later, it is argued that the program must still continue to provide "basic facilities" to distressed areas and to create jobs. During this period, $4.9 billion has been appropriated to this program.

The Appalachian highway program funds construction or reconstruction of roads that are already part of the Federal-aid highway system and hence are eligible for funding through the Federal Highway Administration. The approximately 50% increase in monies provided for Federal-aid roads should enable the Appalachian states to address any remaining, critical road access problems. The two-year phaseout of the Appalachian highway program provides a cushion to the Appalachian states as they adjust their highway funding plans.

Termination of the non-highway Appalachian program recognizes that the funding required to overcome remaining inadequate public facilities and improve health care, estimated at about $55 million, is clearly within the capabilities of the individual States and localities.

Community Development Block Grants and Urban Development Action Grants

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	3,908	3,908	3,908	4,092	4,272	4,442	20,622
Outlays	4,380	4,390	4,037	4,011	4,048	4,142	20,628
1985 Budget Level:							
Budget Authority	3,908	3,908	3,908	3,908	3,908	3,908	19,540
Outlays	4,380	4,390	4,037	4,007	3,973	3,908	20,315
Change:							
Budget Authority	....	....	....	−184	−364	−534	−1,082
Outlays	....	....	....	−4	−75	−234	−313

Program Description

The community development block grant (CDBG) and the urban development action grant (UDAG) programs provide funds to State and local governments for community and economic development activities. CDBG allocates funds on a formula basis to States, cities, and urban counties, and provides discretionary grants to insular areas and Indian governments for a wide range of eligible activities. UDAG provides competitive discretionary grants to distressed localities, territories, and Indian tribes to help make development projects economically viable.

Constant Dollar Funding Trend

The predecessor urban development programs grew steadily from 1962 to 1970. But with the enactment of CDBG in 1973 and UDAG in 1977, constant dollar outlays surged to a peak of $5.8 billion in 1980. The subsequent period of restraint during the Reagan Administration has reversed this rise—with 1986 current services outlays of $3.9 billion, a 33% decline from 1980 levels.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962	758
1970	3,422
1974	3,940
1980	5,819
1985 current services	4,390
1986 current services	3,860

1985 Budget Proposal

The Administration supports funding for continuing these two programs at the 1984 appropriation level of $3.9 billion. These funding levels are equivalent to those authorized by the Congress in the recently-enacted Housing and Urban-Rural Recovery Act of 1983.

Rationale

The 1985 budget proposal would continue to supplement State and local governments' development efforts. The Administration will also support vigorous efforts by local officials to increase the productivity of these funds through public-private partnerships and increasing local flexibility in the use of these resources. Maintaining the current level of funding through 1989 would save $1.1 billion in budget authority and $313 million in outlays from the current services baseline. The baseline includes unnecessary increases for inflation after the current 3-year authorization expires in 1986.

Rental Rehabilitation and Rental Development Grants

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	615	....	158	165	172	179	674
Outlays	....	95	301	333	211	172	1,112
1985 Budget Level:							
Budget Authority	615	....	150	150	150	150	600
Outlays	....	95	299	325	196	150	1,065
Change:							
Budget Authority	....	....	−8	−15	−22	−29	−74
Outlays	....	....	−2	−8	−15	−22	−46

Program Description

The recently-enacted Housing and Urban-Rural Recovery Act of 1983 created two new programs aimed at increasing the supply of standard, low-income rental housing in those communities where shortages of such housing have persisted. The rental rehabilitation grant program will allocate $150 million through a formula to State and local governments for use in areas with a sufficient supply of substandard housing suitable for moderate rehabilitation. Where the stock of housing that could be brought up to standard condition with moderate levels of work is limited, the rental development grant program would provide discretionary grants to assist private sector new construction efforts. Both programs are designed to leverage private investment at least equal to the public funds provided. The two programs differ in one critical respect—the extent to which they are intended to serve low-income households currently eligible for HUD subsidized housing assistance. The rental rehabilitation grant program is more heavily oriented toward the low-income renters. It will complement the centerpiece of the Administration's housing policy—the voucher program—by improving the opportunities low-income voucher holders have for finding a suitable dwelling in tight housing markets.

Current Status

The Administration proposes funding these programs in advance for both 1984 and 1985 by transferring $615 million in budget authority from the assisted housing accounts in 1984. The Department of Housing and Urban Development (HUD) is making a concerted effort to implement these two programs and obligate all the available funds during 1984.

1985 Budget Proposal

The funding levels proposed in the budget will provide moderate rehabilitation of 30,000 low-income rental units annually in 1984 and 1985, and substantial rehabilitation or new construction of 10,000 units with the 1984 funding and 6,000 units with the 1985 funding.

Rationale

Critics of the voucher program have argued that the program cannot work in areas where the supply of standard, low-income housing is insufficient to allow voucher holders to shop for decent housing. The rental rehabilitation grant program will serve to alleviate this problem in communities where such supply problems may exist.

Rehabilitation Loan Fund

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	....	....	....	....	....	....
Outlays	17	49	−2	−2	−2	−2	41
Loan Reservations	132	69	66	66	64	62	327
1985 Budget Level:							
Budget Authority	....	....	....	....	....	....	....
Outlays	17	21	−66	−66	−64	−62	−236
Loan Reservations	132	....	....	....	....	....	....
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	−28	−64	−64	−62	−60	−277
Loan Reservations	....	−69	−66	−66	−64	−62	−327

Program Description

The section 312 rehabilitation loan program provides subsidized below market interest rate loans to private individuals for rehabilitation of single-family, multifamily, and non-residential properties.

Current Status

In the 1984 HUD-Independent Agencies Appropriations, Congress continued the rehabilitation loan program using repayments and recaptures of prior year loans. $132 million is available in 1984 to make loans under this program.

1985 Budget Proposal

The Administration proposes no new lending authority for the rehabilitation loan program in 1985. The budget also proposes the transfer of funds from this account to HUD's salaries and expenses account to cover the full administrative costs of running this program during 1984.

Rationale

The rehabilitation loan fund duplicates the rehabilitation activities that occur under the CDBG program and that will occur under the newly authorized rental rehabilitation grant program. The program is neither targeted toward those most in need nor toward the most distressed American communities. It also provides for too deep a subsidy relative to the alternative now available through the rental rehabilitation grant program. Outlay savings of $277 million would be possible over the next five years if the lending authority were allowed to lapse.

Disaster Relief Grants

Agency: Federal Emergency Management Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	21	125	208	208	208	209	957
Outlays	249	233	226	208	208	208	1,084
1985 Budget Level:							
Budget Authority	21	117	200	200	200	200	917
Outlays	249	217	219	200	200	200	1,036
Change:							
Budget Authority	....	−7	−8	−8	−8	−9	−40
Outlays	....	−16	−7	−8	−8	−8	−47

Program Description

Disaster relief grants cover a number of specially targeted programs. Federal assistance under the Disaster Relief Act of 1974 provides supplementary assistance to individuals and State and local governments in the event of a Presidentially declared emergency or major disaster. Smaller programs exist for riot and crime insurance and for farm and rangeland damage resulting from natural disasters.

Current Status

The Administration has supported continuation of disaster relief grants without any major changes.

1985 Budget Proposal

The budget proposes funding for all programs at a current services level except for the emergency conservation program. Emergency conservation would be integrated into the consolidated agricultural conservation program.

Rationale

Current services provide sufficient resources to cover anticipated payments for disaster relief.

Consolidation of essentially all Department of Agriculture conservation cost sharing programs into one program provides greater flexibility in responding to priority conservation problems. Restoration of farmland severely damaged by natural disasters is also an eligible use of funds under the consolidated conservation cost sharing program.

Economic Development Administration

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	268	281	294	307	320	332	1,533
Outlays	336	359	293	327	351	334	1,664
1985 Budget Level:							
Budget Authority	268	23	14	12	11	11	70
Outlays	336	316	163	114	91	33	717
Change:							
Budget Authority	....	−258	−280	−295	−308	−321	−1,463
Outlays	....	−43	−129	−213	−259	−302	−947

Program Description

The Economic Development Administration (EDA) provides economic development assistance grants to State and local governments and loan guarantees to firms. Most grant funds are used for industrial and commercial site development. Most loans finance manufacturing plants and machinery.

Constant Dollar Trend

EDA constant dollar outlays grew steadily throughout the 1960's and 1970's—reaching a peak of $843 million in 1980. While Congress has resisted immediate termination of new grant and loan activity as proposed by the Administration, it has permitted a major retrenchment in the availability of new budget authority. Consequently, current services outlays of $280 million by 1986 would represent a 67% cutback from 1980.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1963	128
1970	633
1980	843
1985 current services	359
1986 current services	280

1985 Budget Proposal

The Administration would terminate funding for all EDA programs in 1985. EDA staff would be maintained to manage EDA's $1.2 billion outstanding loan portfolio, and to ensure compliance with the terms of outstanding grants.

Rationale

EDA's reason for being has been overtaken by the development of new programs:

- Any project that is funded by EDA can be supported through other Federal programs.

- Federal economic development assistance is now available from several other sources: general revenue sharing ($4.6 billion); community development block grants ($3.9 billion); and urban development action grants ($480 million). (Amounts are 1984 outlays.)
- Total outlays for the above programs (including EDA) are estimated to be to $9.3 billion in 1984, of which EDA represents only 3.6%. At the time of EDA's creation, none of the other programs existed.
- Funding decisions for public works projects should be made by State and local elected officials who bear the primary responsibility for meeting local needs.

EDA's mandate to assist poor areas has been undermined by its broad eligibility criteria:

- Areas eligible for EDA assistance contain 80% of the U.S. population.
- The Administration's enterprise zone proposal would target Federal benefits to areas with the greatest need.

EDA appropriations are a very expensive experiment in job creation, and the results are not encouraging.

- There is no evidence that EDA projects create *net* employment gains for the Nation, as opposed to moving jobs around.
- The job creation impact of public works programs tends to be smaller and slower than advertized, because of high capital costs and construction delays.
- The delinquency rate for EDA loan programs has been near 40% in the last 2 years. By the end of 1983, the taxpayers had lost $297 million in written-off EDA loans.
- Training programs under the Job Training and Partnership Act are a much more efficient way to assist the unemployed than public works grants. Capital costs are eliminated, and the previously unemployed are more likely to be reached.

The Congress has recognized the merit of these arguments by steadily reducing EDA appropriations. The Administration's proposal would finish the job.

Indian Development

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	773	792	830	860	892	924	4,298
Outlays	832	824	810	829	855	884	4,203
1985 Budget Level:							
Budget Authority	790	766	804	826	843	877	4,117
Outlays	847	807	782	791	811	837	4,028
Change:							
Budget Authority	+17	−25	−26	−35	−49	−47	−181
Outlays	+15	−17	−29	−38	−44	−47	−175

Program Description

This program grouping includes numerous services for the approximately 755,000 members of the 504 Federally recognized Alaska native groups and Indian tribes who live on or near reservations. They include municipal-type goverment services for Indian communities, economic development and employment programs designed to stimulate reservation economies, programs to protect Indian rights and property, and construction projects on Indian reservations. It also includes receipts derived primarily from management of resources held in trust for Indian tribes, such as minerals and timber.

Current Status

The major emphasis for the past three years has been to provide stable funding to strengthen tribal governments and to support the growth of non-governmental sectors of reservation economies with major emphasis on stimulating the investment of private capital. $18 million of the $25 million reduction from current services in 1985 results from an accounting change that does not reduce services but transfers the funds to other program categories.

1985 Budget Proposal

Modifications to Indian development programs funded by the Bureau of Indian Affairs would include:

- An increase of $5 million for economic development grants to initiate business development of tribal resources and to encourage non-Federal investment.
- A transfer of indirect cost funds for existing contracts with Indian groups from Indian development programs to education and natural resource programs ($18 million in 1985). This technical change accounts for most of the difference between a current services level and the Administration request.
- Continued financing of all BIA road construction efforts, including program management in 1985, through contract authority allocation from the Federal highway trust fund, Department of Transportation ($100 million in 1985). This began in 1983 with passage of the Surface Transportation Assistance Act.
- Supplemental funds for 1984 to make payments for settlement of Indian water rights claims in Arizona and to provide additional funds for welfare grants.

Rationale

The 1985 budget proposal would continue to provide funding in support of the Administration's American Indian Policy Statement issued in January 1983. That policy reaffirms the government-to-government relationship with Indian tribes; reinforces the concept of Indian tribal self-government and self-determination; and supports economic development by attracting private capital.

Tennessee Valley Authority Development Fund

[In millions of dollars] Agency: Tennessee Valley Authority

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority [1]	86	115	126	134	143	152	671
Outlays	200	120	126	136	140	149	671
1985 Budget Level:							
Budget Authority [1]	86	116	117	124	133	141	632
Outlays	200	118	118	125	133	141	634
Change:							
Budget Authority	....	+1	−9	−9	−10	−11	−39
Outlays	....	−2	−9	−11	−7	−8	−36

[1] Figures for 1984 exclude $47 million of prior year appropriations that would be used in 1984, resulting in a total program level of $133 million.

Program Description

The Tennessee Valley Authority (TVA) is a Government-owned corporation created to assist in developing the Tennessee River Basin. It conducts two programs: the power program involving production and sale of electricity throughout the region, largely self-financed; and the non-power program, financed through appropriations. The non-power program supports activities to enhance the area's natural resources, encourage economic and agricultural development and foster fertilizer development on a national scale. This factsheet addresses the non-power program.

Current Status

The non-power program of the TVA has been decreasing in recent years due to completion of several energy technology and water resources projects including the Tellico Dam and Bear Creek flood control projects.

The remaining programs in natural resources, economic development and fertilizer development have remained nearly stable.

1985 Budget Proposal

In total, the 1985 budget proposal is about the same level as current services—both below the 1984 program level due largely to completion of the Pickwick Lock project. The budget would provide for relatively small reductions from current services in future years for the following reasons:

- Increases in fees from the sale of experimental fertilizer products.
- Reductions in expenses for R&D on the conversion of hardwood fuels to alcohols upon completion of the pilot plant now under construction.
- Small reductions in the economic and agricultural programs on the assumption that other Federal agencies have primary responsibility for activities such as water conservation, air and water pollution and community development.

Rationale

The proposal would continue necessary natural resources, economic and agricultural development and fertilizer programs in the Tennessee Valley.

General Revenue Sharing

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	4,574	4,575	4,575	4,576	4,576	4,577	22,879
Outlays	4,574	4,575	4,575	4,576	4,576	4,577	22,878
1985 Budget Level:							
Budget Authority	4,574	4,575	4,575	4,576	4,576	4,577	22,878
Outlays	4,574	4,575	4,575	4,576	4,576	4,577	22,878
Change:							
Budget Authority	....	...	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

General revenue sharing provides general fiscal assistance to approximately 39,000 local jurisdictions. The funds, which have few restrictions on their use, are distributed by a formula which takes into account population, income, and tax effort.

Constant Dollar Trend

In real terms general revenue sharing achieved its peak outlay level of $15.1 billion in its initial year—1973. Subsequent reauthorization did not keep pace with inflation and in 1980 the State grant portion was permitted to expire. Consequently, the projected current law outlay level of $4.4 billion in 1986 represents a 71% reduction in the purchasing power of this fiscal transfer compared to its original level. Given the relative improvement of the State and local fiscal position over this period and the drastic deterioration of the Federal position, this steady cutback in real general revenue sharing funding is fully appropriate.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1973	15,137
1978	10,825
1980	9,164
1985 current services	4,575
1986 current services	4,375

Current Status

The recent 3-year reauthorization (1984-1986) of general revenue sharing holds the program at the current level while continuing to provide local governments with discretion in the use of the funds.

1985 Budget Proposal

The 1985 proposal reflects the continuation of general revenue sharing at the authorized $4.6 billion level. The funds would be allocated using the present distribution formulas which weight assistance to governments with the greater need.

Rationale

General revenue sharing has become an important source of Federal assistance to local governments. Continuation of the program would permit the use of these funds by counties, municipalities, townships and Alaskan villages. These local governments would continue to be able to use the funds as they thought best with minimal intervention from the Federal Government.

Community Development Block Grant Loan Guarantees

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	216	205	215	225	225	225	1,095
Outlays	134	132	109	84	61	41	428
New Loan Guarantee Authority	225	225	225	225	225	225	1,125
1985 Budget Level:							
Budget Authority	216	120	....	....	....	....	120
Outlays	134	47	−106	−131	−125	−3	−317
New Loan Guarantee Authority	225	....	....	....	....	....	....
Change:							
Budget Authority	....	−85	−215	−225	−225	−225	−975
Outlays	....	−85	−215	−215	−186	−44	−745
New Loan Guarantee Authority	....	−225	−225	−225	−225	−225	−1,125

Program Description

Section 108 of the Housing and Community Development Act of 1974, as amended, allows large cities eligible for community development block grants (CDBG) to borrow from the Federal Financing Bank up to three times the amount of their annual CDBG grant to acquire or rehabilitate real property.

Current Status

The Administration has proposed termination of the section 108 program since 1982. Congress has instead continued to provide new guarantee authority of $225 million per year.

1985 Budget Proposal

The 1985 budget requests no new guarantee authority for the section 108 program.

Rationale

The 1985 budget proposals are consistent with this Administration's long-standing commitment to reduce the Federal Government's allocation of credit. By reducing the risks faced by lenders and the costs to certain borrowers, Federal credit guarantees distort the efficient allocation of capital in private credit markets that might otherwise occur. More specifically, cities often utilize section 108 loan guarantees to bypass locally imposed limits on municipal debt. The Administration does not feel that using Federal programs to skirt local voter prerogatives is an appropriate Federal role. Only $61 million of the total $225 million available for new guarantee commitments was utilized in 1983.

Small Urban Programs and Close Outs

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	39	34	39	33	34	35	175
Outlays	89	58	63	36	18	14	190
1985 Budget Level:							
Budget Authority	39	38	42	35	35	34	183
Outlays	89	62	65	37	17	12	192
Change:							
Budget Authority	....	+4	+3	+2	+1	−1	+8
Outlays	....	+4	+2	....	−1	−2	+3

Program Description

This segment of the budget aggregates several predominately urban-oriented programs including planning assistance, the New Communities Development Corporation, and urban renewal in Department of Housing and Urban Development; the coastal energy impact programs in the National Oceanic and Atmospheric Administration; the local public works and regional commissions programs in the Department of Commerce; the Neighborhood Reinvestment Corporation, and the Pennsylvania Avenue Development Corporation.

Current Status

Most of these programs are being closed out pursuant to enacted legislation. In contrast to the other programs in this grouping, the Neighborhood Reinvestment Corporation and the Pennsylvania Avenue Development Corporation continue to receive Federal funding and Administration support.

Constant Dollar Trend

The close out of most of these programs, particularly the mid-1970's local public works grant program, has dramatically reduced budget resource requirements. Compared to constant dollar peak funding costs of $5.2 billion in 1978, 1985 current services outlays for remaining activities will represent only *1%* of prior peak budget levels.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1970	214
1978	5,249
1980	841
1985 current services	58

1985 Budget Proposal

The 1985 budget continues the policies established earlier for these programs.

Rationale

On the whole, the Administration continues to support the final closing out of most of the programs in this category because these programs duplicated activities eligible under the more flexible community development block grant program or provided funding for activities more appropriately carried out by local jurisdictions using local resources.

Other Business and Commercial Subsidies

The Overseas Private Investment Corporation

Agency: Overseas Private Investment Corporation

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−83	−71	−92	−92	−88	−90	−433
1985 Budget Level:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−83	−91	−86	−91	−91	−102	−461
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	−20	+6	+1	−3	−12	−28

Program Description

The Overseas Private Investment Corporation (OPIC) encourages U.S. private sector involvement in the development of less-developed friendly countries by offering political risk insurance and providing investment financing through loans and guarantees.

Current Status

OPIC plans to issue $3.5 billion in new insurance in 1984, $10 million in loans and $100 million in guarantees. Congress did not authorize the increased levels of credit activity requested in the 1984 budget ($15 million for loans, $150 million for guarantees).

1985 Budget Proposal

OPIC anticipates $3.85 billion in new insurance issuances $15 million in loans and $150 million in guarantees. Negative outlay projections are higher than current services by $19.9 million because of lower disbursements for the credit programs and a restructuring of the reinsurance programs.

Rationale

An important element of the Administration's foreign assistance policy is to promote private sector solutions to the economic and social problems of developing countries. OPIC is the main governmental instrument for implementing this policy with respect to U.S. firms. It promotes investment, and the benefits such investments bring, in instances where that investment might not otherwise take place due to unfamiliarity with the recipient country or misperception of risk. Benefits from OPIC activities accrue to both indigenous and U.S. businesses.

OPIC has had a good loss record. Over the past 3 years, claims on its $9.5 billion portfolio have ranged between $0.9-2.3 million. Defaults for the $211 million credit program were $2.3 million in 1983. OPIC reserves ($784 million) are more than adequate to meet anticipated claims.

While OPIC fosters development throughout the Third World it is expected that the proposed program increases will particularly focus on important regions such as the Caribbean Basin and Central America.

Export Credits and Guarantees

[In millions of dollars] Agency: Export-Import Bank

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Direct loans	3,865	4,050	4,240	4,420	4,600	4,770	22,080
Guaranteed loans	10,000	10,490	10,970	11,440	11,900	12,340	57,140
Budget Authority	2,250	4,129	3,716	3,400	3,232	1,976	16,453
Outlays	1,724	1,698	898	605	285	−21	3,465
1985 Budget Level:							
Direct loans	3,865	3,830	3,830	3,830	3,830	3,830	19,150
Guaranteed loans	10,000	10,000	10,000	10,000	10,000	10,000	50,000
Budget Authority	2,250	3,913	3,398	2,980	2,712	1,364	14,366
Outlays	1,724	1,635	790	460	96	−268	2,713
Change:							
Direct loans	....	−220	−410	−590	−770	−940	−2,930
Guaranteed loans	....	−490	−970	−1,440	−1,900	−2,340	−7,140
Budget Authority	....	−216	−318	−420	−520	−612	−2,087
Outlays	....	−63	−108	−145	−189	−247	−752

Program Description

The Export-Import Bank provides credit support for the sale of American goods and services overseas through long-term direct loans and loan guarantees and through insurance against defaults by foreign purchasers. The program enables U.S. exporters to obtain financing on terms competitive with those offered foreign exporters by their governments or in areas where commercial lenders are either unable or unwilling to extend credit without an Eximbank guarantee.

Current Status

The Bank's programs are now competitive with most foreign official export credit programs.

- In the past two years, the Administration has successfully negotiated three major changes in international arrangements that control the terms of official export credits.
- These new agreements have reduced or eliminated subsidies in most areas. The principal arrangement provides that the financial terms of government programs will adjust automatically to changes in market conditions so that subsidies will not recur.
- The Bank's interest rates are at the minimum rates permitted under these international agreements.
- Our principal competitors—Germany and Japan—now operate their official export credit programs on commercial terms.

Because of the world wide recession, demand for the Bank's credit in 1983 continued the sharp decrease from its 1981 peak. Demand has recovered only moderately in the first half of 1984.

1985 Budget Proposal

The Administration proposes the following credit limitations for 1985:

- A level of \$3.83 billion for direct loans, which will permit obligations to increase significantly from an estimated demand of \$2.58 billion in 1984.
- A level of \$10 billion for guaranteed loans, the same level as estimated for 1984.

These proposals would maintain the limits on the Bank's programs at approximately 1984 enacted levels. If extraordinary circumstances require it, the need for an increased authorization would be reviewed.

Rationale

The proposal would make available very substantial support for exports in 1985 to meet the credit offers of other governments. While less than some exporter groups would wish, Eximbank funding would be consistent with the world economic situation.

- The demand for Eximbank's credit is expected to recover only gradually in 1984 and 1985.
  - Direct loans in 1983 were only $845 million, $3 billion below the limitation proposed for 1985.
  - Loan guarantees in 1983, excluding special credit lines for Brazil and Mexico, were only $6.5 billion, $3.5 billion below the limitation proposed for 1985.
- The improvements in international export credit arrangements, along with the decline in market interest rates from the high levels of 1980-82, will enable the Bank to operate more efficiently and with less resort to direct loans.

The Bank's programs supported export financing that covered 3.8% of U.S. merchandise exports in 1983 and are forecast to support 4.9% of exports in 1985 if proposed authority is fully utilized.

Nevertheless, the Administration does not support an open-ended funding commitment to meet all potential demand. Such a commitment, equivalent to operating the Bank on an entitlement basis, would be inconsistent with the need to restrain Government expenditures and future deficits.

Payment to the Postal Service Fund

[In millions of dollars] Agency: U.S. Postal Service

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	879	970	807	776	745	776	4,074
Outlays	879	970	807	776	745	776	4,074
1985 Budget Level:							
Budget Authority	879	692	443	444	445	447	2,470
Outlays	879	692	443	444	445	447	2,470
Change:							
Budget Authority	....	−279	−364	−332	−300	−329	−1,604
Outlays	....	−279	−364	−332	−300	−329	−1,604

Program Description

The U.S. Postal Service provides mail service at rates below true cost for certain "preferred-rate" classes of mail including rural newspapers, classroom publications, and mail from non-profit organizations. Through the revenue foregone subsidy, the Federal Government reimburses the Postal Service for revenue it loses as a result of these lower rates. It also pays certain liabilities of the former Federal Post Office Department for such things as worker's compensation and unused annual leave.

Current Status

Last year, the Administration introduced legislation to reduce the revenue foregone subsidy to $400 million, covering only the preferred rate for non-profit organizations. This reflects the belief that postage costs should be paid by those who incur them and not the general taxpayer.

1985 Budget Proposal

The 1985 budget continues support for legislation proposed last year to reduce the revenue foregone subsidy. It includes a $52 million reconciliation payment to cover the unbudgeted cost of 1982 preferred-rate mail. But the Administration proposes that in the future the Postal Service operate within the amount appropriated by Congress each year, not receiving additional amounts, such as reconciliation payments, to supplement the initial appropriation. The budget would also provide $240 million for liabilities of the former Post Office for the years 1982 through 1985. (The 1981 Reconciliation Act deferred the 1982-1984 payments until 1985).

Rationale

The Administration believes that clearly assignable costs such as mailing costs should be borne by those who incur them, not the general taxpayer. It recognizes, however, the substantial role played by non-profit organizations in contributing to volunteer work in this country and therefore seeks to maintain the revenue foregone subsidy, at a reduced level.

Small Business Administration Business Assistance

Agency: Small Business Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,328	1,291	1,387	1,449	1,522	1,599	7,248
Outlays	1,400	1,220	1,253	1,314	1,385	1,461	6,633
New Direct Loans Approved	242	140	146	153	159	165	763
Guar. Loan Commit	3,798	3,986	4,171	4,352	4,527	4,693	21,729
1985 Budget Level:							
Budget Authority	1,328	1,096	1,141	1,089	985	985	5,296
Outlays	1,400	977	1,012	967	867	868	4,691
New Direct Loans Approved	242	41	41	41	41	41	205
Guar. Loan Commit	3,798	3,805	2,465	1,445	1,105	1,105	9,925
Change:							
Budget Authority	....	−195	−247	−359	−536	−614	−1,951
Outlays	....	−242	−241	−346	−518	−594	−1,942
New Direct Loans Approved	....	−99	−105	−112	−118	−124	−558
Guar. Loan Commit	....	−181	−1,706	−2,907	−3,422	−3,588	−11,804

Program Description

The Small Business Administration (SBA) provides credit (direct loans, guaranteed loans, and insurance) and management, technical, and procurement assistance to the Nation's small and minority businesses and special groups.

Current Status

SBA continues to provide direct loans below the normal cost of borrowing from banks to a tiny portion of all small businesses—approximately 0.02%. SBA loan guarantees have risen steadily from around $0.5 billion annually in the late 1960's to about $4.0 billion in the early 1980's, for a 700% increase.

Constant Dollar Trends

Despite the determined efforts of the Reagan Administration to reduce lending program levels and future fiscal liabilities, constant dollar SBA outlays (excluding disaster aid) will reach an *historic peak* of nearly $1.5 billion in 1984. In part, this reflects the failure of Congress to accept reduced guaranteed loan levels and termination of most direct loans. It also reflects the delayed outlay effects of guaranteed defaults on credit assistance extended during prior years. If the 1985 budget recommendations are adhered to through 1989, SBA outlays in constant dollars will fall steadily beneath the current services baseline to *50%* of their 1984 peak.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1970	393
1980	1,443
1984	1,468
1985 current services	1,220
1989 current services	1,243
1989 budget	738

1985 Budget Proposal

The Administration proposes to eliminate SBA direct loans beginning in 1985 (except for $41.0 million for Minority Enterprise Small Business Investment Companies). Guaranteed credit assistance would be maintained in 1985 at the 1984 levels of about $3.8 billion, and would phase down to about $1 billion by 1988. Under this proposal, handicapped and minority borrowers would have first priority for credit assistance. The Government would assume risk primarily for these borrowers whose risk the market is likely to overestimate.

Rationale

Subsidized direct loans to a few are unfair to other small businesses. They artificially prop up businesses that could not compete without interest rates far below those entered into by virtually all other small businesses—including the vast majority of SBA-assisted small businesses.

Assistance that has been provided often has not been effective in increasing the viability of small business projects: over the past year, SBA had to cover defaults on its guaranteed loans at a cost over a half billion dollars.

Since the vast majority of small businesses are obtaining financing without Federal assistance (less than 1% of small businesses receive any SBA financial assistance), aid should be limited to those businesses for which a valid case can be made that the market overestimates risk.

As interest rates decrease, burdensome regulations are removed, inflation remains low, and economic recovery continues, it should become easier for small businesses to obtain credit assistance without Federal involvement.

Minority Business Development Agency

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	53	50	50	53	55	58	266
Outlays	57	53	52	52	53	55	265
1985 Budget Level:							
Budget Authority	53	50	50	53	55	58	265
Outlays	57	53	52	52	52	55	264
Change:							
Budget Authority	....	....	....	....	....	....	−1
Outlays	....	....	....	....	....	....	−1

Program Description

The Minority Business Development Agency (MBDA) within the Department of Commerce provides minority-owned firms with management, technical, and procurement assistance through contracts with public and private organizations on a cost-sharing basis. (The Small Business Administration (SBA) also provides its minority clients with management, technical, and credit assistance; establishes minority procurement goals for Federal agencies; and awards non-competitive 8(a) contracts and business development expenses (BDE) grants to minority firms. SBA's annual funding of about $42 million specifically for technical assistance and BDE grants to minority firms are included in the factsheet on Small Business Administration—Business Assistance.)

Current Status

The President is committed to help minority Americans achieve fuller participation in the market economy.

1985 Budget Proposal

This proposal would maintain and expand the 100 MBDA-funded Business Development Centers (BDC's) across the country. By increasing private sector cost-sharing to 25% by 1987, the BDC's will be able to provide assistance to a greater number of minority firms.

Rationale

In addition to the overall economic recovery program, this priority emphasis would help minority businessmen marshal their talents and skills to achieve better lives for themselves and, in so doing, contribute to a stronger economic base for America.

Small Business Administration Disaster Loan Assistance

Agency: Small Business Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−321	−213	−222	−201	−185	−170	−991
New Direct Loans Approved	440	440	440	440	440	440	2,200
1985 Budget Level:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−321	−213	−222	−201	−185	−170	−991
New Direct Loans Approved	440	440	440	440	440	440	2,200
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....
New Direct Loans Approved	....	....	....	....	....	....	....

Program Description

The Small Business Administration (SBA) provides loans to individuals and businesses that are victims of physical disaster. The negative outlays shown above represent repayments in excess of projected program expenditures (i.e., the repayment of outstanding loans exceeds the projected cost of new loans).

Current Status

Over the past two years, the annual cost of the damages caused by natural catastrophes and covered by SBA has been about $200 million. During this same time period, SBA disaster assistance has not been available to farmers (who are eligible for Farmers Home Administration (FmHA) disaster assistance) or to small businesses that suffer economic injury as a consequence of government regulatory or legislative action (commonly referred to as non-physical disasters).

Constant Dollar Trend

Both the absence of major disasters and the significant policy reforms adopted in 1981 (exclusion of farm disaster aid and termination of non-physical disaster loans) have resulted in a dramatic turnaround in real budget outlays. Between 1975 and 1981, constant dollar SBA disaster loan outlays averaged $1.2 billion per year. Since 1981, substantially reduced new loan disbursements plus rising repayment from the outstanding loan portfolio have resulted in average negative outlays of $341 million—representing a $1.5 billion per year shift from the 1975-81 period.

Constant Dollar Trend

(1985 dollars in millions)

Period	Annual average amount
1975–1981	+$1,176
1982–1985 current services	−341
Change	−1,517

1985 Budget Proposal

The Administration has budgeted funds to meet the normally expected cost of physical disasters, assuming no major disaster such as Hurricane Agnes in 1972. The Administration has proposed that the policy of excluding farmers and non-physical disaster loans be continued.

Rationale

- The amount budgeted for 1985 is the same amount that the Congress has budgeted for 1984.
- Many of the non-physical disaster loans are necessitated by poor business judgment. To the extent that financial assistance is justified, it can be provided through SBA's regular business loan program.
- FmHA already has a disaster assistance program in place for farmers, and there is no need to duplicate it in SBA. This also avoids abuses.

Flood Insurance

Agency: Federal Emergency Management Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	227	214	204	172	165	172	927
Outlays	231	205	195	154	113	118	784
1985 Budget Level:							
Budget Authority	227	208	199	166	159	165	896
Outlays	231	192	185	144	102	107	730
Change:							
Budget Authority	....	−6	−6	−6	−6	−7	−30
Outlays	....	−13	−10	−10	−10	−11	−54

Program Description

The Federal Government offers to property owners flood insurance which is otherwise unavailable in the commercial market. In return for the availability of insurance, communities agree to adopt and enforce local flood plain management measures to protect lives and new construction from future flooding.

The claims under flood insurance have exceeded premiums in most years since the program began in 1968. Cumulative subsidies (losses) totaled nearly $1.2 billion by the end of 1983.

The subsidy stems from two problems: (1) inadequate premiums, and (2) lack of adequate elevation data for some communities.

Elevation data usually is derived from flood assessment studies. The Administration has taken steps to increase premiums and to review options to complete flood assessments more quickly and at lower costs.

This program grouping also includes several other programs of the Federal Emergency Management Agency, including training and fire programs and staff to manage disaster relief.

Current Status

The Admininstration proposal continues the policy of seeking a self-supporting flood insurance fund by 1988 through increases in flood insurance rates, better rating mechanisms, coverage changes and improved marketing. A study on demographic and flood plain development patterns is being conducted to better assess how to complete the flood studies more quickly in the remaining communities.

1985 Budget Proposal

No increases in premium rates are anticipated in 1985. Marketing of the insurance will be expanded by encouraging the private insurance industry to write and service flood insurance policies.

The budget curtails the number of new flood studies and restudies until the report on demographic and flood development patterns is completed during 1984.

Rationale

Over 7,000 communities, roughly half the original total, remain without any flood hazard assessment after 15 years of mapping.

Flood studies are time-consuming and costly, and periodic restudies are necessary as conditions change. These costly studies should be curtailed to permit time for development of less costly alternatives. The study on demographic and flood development patterns expected this year should result in less costly and more expeditious flood hazard assessments.

Health Professions Training Subsidies

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	208	219	230	241	251	262	1,202
Outlays	200	213	230	241	251	261	1,196
1985 Budget Level:							
Budget Authority	208	121	125	128	132	135	640
Outlays	200	170	119	123	126	129	666
Change:							
Budget Authority	....	−98	−105	−112	−120	−127	−562
Outlays	....	−43	−111	−118	−125	−132	−530

Program Description

Since the 1950's, the Federal Government has subsidized institutions and students through a number of project and formula grant and loan training programs aimed at increasing the supply and improving the distribution of health professionals.

Constant Dollar Trends

After passage of major health professions legislation in the mid-1960's, constant dollar Federal outlays grew rapidly, reaching a peak funding level of $1.4 billion in 1973. Since 1978, however, constant dollar funding has steadily fallen and in 1985 will be down *85%* from its peak level. If the 1985 budget recommendations are adhered to, constant dollar outlays will decline to $110 million in 1989—a level only *8%* of the mid-1970's peak.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1965	97
1973	1,432
1977	1,231
1980	542
1985 current services	213
1989 budget	110

Current Status

Numerous studies indicate that the overall supply of health professionals through the 1990's will be more than adequate. In 1985, the Nation as a whole will have met or exceeded the estimated required level of health professions for almost every major specialty. However, access of minorities to health professions education could be improved since the percentage of minorities entering medical schools is only about one-third of the percentage of minorities in the United States population.

1985 Budget Proposal

The 1985 proposal would provide $121 million in budget authority to continue health professions training, $87 million less than in 1984. The 1985 budget would focus Federal funds on increasing health professions training opportunities for minorities and economically disadvantaged students. Federal support for general subsidies would be reduced. In addition, schools would continue to have access to $67 million in federally provided revolving loan funds. These funds can be used to make loans to nursing and other health professions students.

Rationale

The projected oversupply of health professionals justifies a reduction in Federal support. Remaining Federal dollars should be focussed on improving minority access.

Trade Adjustment Assistance for Workers

[In millions of dollars] Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	54	51	5	....	....	....	56
Outlays	64	51	5	....	....	....	56
1985 Budget Level: [1]							
Budget Authority	54	51	5	....	....	....	56
Outlays	64	51	5	....	....	....	56
Change:							
Budget Authority	....	....	..	....	....	....	....
Outlays	....	....	..	....	....	....	....

[1] This factsheet shows amounts for TAA cash benefits. Amounts for training and other employment assistance for TAA beneficiaries are included in the Training and Employment factsheet.

Program Description

The Trade Adjustment Assistance (TAA) program provides additional weeks of cash unemployment benefits to those whose loss of work has been determined to be caused, at least in part, by increased imports. Unemployed workers certified eligible for TAA may collect up to a total of 52 weeks of unemployment insurance and TAA benefits.

Current Status

TAA expenditures in 1985 are sharply lower than they would have been in the absence of the bipartisan reform of TAA enacted as part of the 1981 Reconciliation Act. That legislation converted the TAA program from one that emphasized cash benefits to one that emphasized adjustment to changed economic conditions through training and other reemployment efforts. The 1981 Act provided that workers receive a weekly TAA payment only after they had used up all their weeks of unemployment insurance (rather than adding a TAA payment on top of unemployment insurance) and that the TAA benefit amount be the same as the unemployment insurance weekly benefit (rather than a higher amount specified in Federal law).

Constant Dollar Trend

In the latter half of the 1970's the constant dollar cost of TAA cash benefits exploded—rising from $26 million to $2.1 billion in five years. Due to the 1981 reforms described above, TAA cash benefit costs have now receded to their mid-1970's levels.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1975	26
1978	413
1980	2,058
1985 current services	51

1985 Budget Proposal

The request reflects continued funding for this program at a current services level for 1985. The authorization for TAA expires on September 30, 1985. No reauthorization of the program would be sought.

Rationale

No reauthorization of TAA is being sought for equity reasons. Economic hardship resulting from involuntary unemployment is not dependent upon the cause of job loss. Therefore, for purposes of income support, workers affected by imports should not receive special cash benefits different from their neighbors who may have lost their jobs for other reasons.

Postal Service

[In millions of dollars]

Agency: U.S. Postal Service

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,163	4,180	608	1,032	1,393	46	7,259
Outlays	1,209	2,801	102	1,028	1,994	−605	5,319
1985 Budget Level:							
Budget Authority	2,163	4,180	608	1,032	1,393	46	7,259
Outlays	1,209	2,801	102	1,028	1,994	−605	5,319
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Postal Reorganization Act of 1970 converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. It is charged with providing reliable mail service at reasonable rates.

Current Status

The activities of the U.S. Postal Service are financed primarily from mail and services revenue. It also obtains financing from the following sources: (1) reimbursements from Federal and non-Federal entities, (2) proceeds from borrowing, (3) interest from U.S. securities and other investments, and (4) appropriations by the Congress. Budget authority represents the excess of commitments over revenue for a given year. The Postal Service is authorized to borrow by issuing obligations which may not exceed $10 billion outstanding at any one time. Since 1974, it has borrowed exclusively from the Federal Financing Bank.

1985 Budget Proposal

The 1985 budget for the Postal Service does not reflect the impact of the postal rate increase request submitted to the Postal Rate Commission in November, 1983, because by convention no rate increase is shown during the budget year. The rate increase is assumed to take effect in 1986. Under this assumption, proposed 1985 outlays are $2.8 billion. The increase over the 1984 outlay amount is primarily due to increased operating expenses and capital investments, as well as to the convention of excluding the proposed rate increase.

Rationale

The 1985 budget reflects the Postal Service's best estimate of its future financial and operating position.

Transportation and Maritime Subsidies

National Oceanic and Atmospheric Administration Special Fisheries Funds

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:[1]							
Budget Authority	3	....	2	3	4	5	14
Outlays	12	....	1	3	4	5	12
1985 Budget Level:[1]							
Budget Authority	3	−23	−22	−22	−22	−22	−110
Outlays	12	−15	−22	−22	−22	−22	−101
Change:							
Budget Authority	....	−24	−23	−24	−26	−27	−124
Outlays	....	−15	−23	−24	−25	−26	−114

[1] Includes offsetting receipts.

Program Description

The National Oceanic and Atmospheric Administration (NOAA), through a number of special fisheries funds, supports fisheries activities by: 1) insuring against claims resulting from gear damage or other losses from foreign fishing in U.S. waters, energy development on the Outer Continental Shelf, and seizure of U.S. vessels in foreign waters; 2) providing loans and loan guarantees for the purchase or upgrade of fishing vessels; 3) using fish import duties to fund grants and contracts to the fisheries industry for its development; and 4) posting observers on foreign vessels fishing within the U.S. Fisheries Conservation Zone (FCZ).

Current Status

The special insurance funds have been created in recent years and are financed through industry contributions. Demand (number of claims) has remained stable. Other special funds are used to make fisheries development grants and loans. Over the past several years, fishery management costs borne by the taxpayer have increased, while $90 million in foreign fishing receipts have accumulated in the fisheries loan fund and are not being used.

1985 Budget Proposal

The Administration budget would maintain the insurance funds at current levels, and emphasize fishery management activities. The foreign fish observer program would be reduced because foreign fishermen will be able to contract for observers certified by the Secretary of Commerce. All import duties and fees would be used to finance essential fisheries management operations. Industry assistance grants, direct loans, and loan guarantees would be terminated. (The Administration proposal would use foreign fishing receipts to offset costs incurred by NOAA (factsheet on the National Oceanic and Atmospheric Administration) and Coast Guard (factsheet on the Coast Guard) to enforce the FCZ.)

Rationale

Fish import duties should be used to offset taxpayer support for essential fisheries management rather than for development programs. The appropriate Federal role in marine fisheries is ensuring that resources are well managed and available to future generations, not developing new markets.

Foreign fishing receipts should be applied to offset the high costs of enforcing the FCZ, not intruding in investment decisions best made by the private market.

Subsidized loans and loan guarantees are unnecessary. Many recipients of these subsidies are defaulting on obligations, and taxpayers are required to pay off lending institutions. The Federal Government has already paid off $10 million in defaulted loans in 1984.

Amtrak

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	1,945	755	793	830	867	901	4,146
Outlays	1,990	780	820	860	880	900	4,240
1985 Budget Level: [1]							
Budget Authority	1,945	680	680	680	690	690	3,420
Outlays	1,990	738	690	680	690	690	3,488
Change:							
Budget Authority	....	−75	−113	−150	−177	−211	−726
Outlays	....	−42	−130	−180	−190	−210	−752

[1] Figures for 1984 include a one-time-only $1.2 billion payment made by the Department of Transportation on behalf of Amtrak to repay loans outstanding from the Federal Financing Bank.

Program Description

Amtrak is the National Railroad Passenger Corporation, formed in 1970 when the Government took over passenger operations from several freight railroads. It is subsidized by the Federal Government through annual appropriations to pay almost all of Amtrak's capital costs and to cover operating losses. Amtrak operates 104 trains per day in the Northeast Corridor, 18 other short distance routes and 18 long distance routes throughout the Nation, most with daily service. Amtrak does not operate freight trains.

Current Status

Since 1981, Federal operating and capital subsidies of Amtrak have decreased 19%, from $881 million to $716 million in 1984. Major legislative reforms were enacted in the Amtrak Improvement Act of 1981, which resulted in reduced Amtrak operating costs and lower subsidy requirements.

During 1983, Amtrak controlled its operating expenses and increased revenues, allowing it to meet the congressionally mandated goal of a 50% revenue-to-operating cost ratio. The budget request reflects continued improvement in this ratio, which in 1985 is projected by Amtrak to be 58%.

Constant Dollar Trend

After its creation in 1970, Amtrak's constant dollar outlays grew rapidly—from $61 million in 1971 to a peak of $1.2 billion in 1977. The reforms adopted in 1981 have subsequently reduced the 1985 current services real funding level by 29% from 1980 and 37% from the 1977 peak.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1971	61
1977	1,236
1980	1,104
1985 current services	780

1985 Budget Proposal

In 1985 Amtrak is expected to operate essentially the same nationwide route system it is now serving. Amtrak will continue to require Federal financial assistance to cover its operating deficit and to provide for capital improvements. Productivity improvements, cost reductions, changes in operations and surplus funds from prior years are expected to contribute to Amtrak's ability to operate within the proposed 1985 funding level.

Legislation will be submitted that would:

- phase in full State and local funding of intrastate and commuter trains over a multi-year period beginning in 1986;
- tighten Amtrak's maximum avoidable loss per passenger mile criterion through elimination of certain enforcement loopholes based on excessive adjustments for inflation and repeated optimistic projections of improved performance on weak routes; and
- replace Amtrak's existing costly program of labor protection with a more realistic and affordable program.

Rationale

States and localities benefiting from Amtrak service pay only 1% of Amtrak's total expenses. The costs of intrastate and commuter trains should be borne by the benefiting regions. Phasing in the increased State and local share over a multi-year period would allow an orderly planning and budgeting transition.

As allowed by the Rail Passenger Service Act of 1979, Amtrak annually adjusts its congressionally mandated route performance criteria to account for inflation. However, one criterion, the ratio of allowable loss to passenger miles, has increased in real terms over time. Under the Administration's proposal, the standard would be tightened in future years through more selective inflation adjustments.

Trains that are not projected by Amtrak as being able to meet the statutory performance criteria are required by law to be dropped from the Amtrak system. In some cases, optimistic projections by Amtrak have resulted in continuation of inefficient routes over several years. The Administration proposal would seek to correct this problem by requiring comparison of actual route performance to Amtrak's projected performance over several years. This would be part of the process used to determine whether routes meet the statutory criteria.

Although labor protection provisions included in the Rail Passenger Service Act of 1970 were relevant to conditions existing during the transfer of service from the private railroads to Amtrak, they are no longer appropriate. Under the Administration's proposal, employees deprived of employment because of route discontinuance would no longer receive full salaries for up to six years. Instead, a new program comparable to that provided to Conrail employees would be agreed upon by the Secretary of Transportation and employee representatives. Funds would be used for unemployment benefits, retraining and moving expenses, health insurance premiums and other appropriate purposes.

During the past few years, lower than anticipated inflation rates and Amtrak productivity improvements have resulted in substantial portions of Amtrak's Federal subsidy remaining unspent. Under the Administration's proposal, these surplus funds from prior years would be used to reduce the level of new capital funding required by Amtrak in 1985.

Northeast Corridor

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	100	110	100	100	....	....	310
Outlays	310	321	128	120	105	....	674
1985 Budget Level:							
Budget Authority	100	....	....	....	....	....	....
Outlays	310	266	78	20	....	....	364
Change:							
Budget Authority	....	−110	−100	−100	....	....	−310
Outlays	....	−55	−50	−100	−105	....	−310

Program Description

The Northeast Corridor Improvement Project (NECIP) is intended to improve rail passenger service between Washington, D.C., and Boston, Massachusetts. The goal of the project is to provide safe, dependable, improved service on that corridor. The project, begun in 1976, has included track improvement, bridge repair, elimination of grade crossings, station improvement, and electrification, as well as installation of signalling and communication systems and railway maintenance facilities.

Current Status

The 1984 budget brought the total amount appropriated to the full $2.19 billion level sought by the Administration for this project. Activity in 1985 will remain high as construction continues on projects obligated in earlier years and completed projects are audited and closed out.

1985 Budget Proposal

No funds are requested for 1985. The $2.19 billion investment made to date in this project completes improvements that the Administration expects will provide a safe, reliable and serviceable rail system in the corridor. Any additional capital investment and maintenance work on the corridor would be the responsibility of the National Railroad Passenger Corporation (Amtrak) after 1985, when Amtrak assumes responsibility by statute. Outlays will continue to be made from prior year appropriations.

Rationale

The goals of the project will have been achieved at the $2.19 billion funding level. Trains on the corridor now reach speeds of 120 mph on certain track segments and travel time between New York and Washington, D.C., has been reduced from three hours and 30 minutes in 1979 to two hours and 49 minutes in 1983. Service is safe and dependable. On-time performance has improved from 30% in 1977 to 90% in 1983. Reduced speeds, in effect for 185 miles of track in 1979, are now in effect for only 1.2 miles of track. Although an additional $310 million is authorized for this project, expenditure of these funds will not appreciably increase service reliability or safety on the corridor.

After 1985, Amtrak will be responsible for further improvement and maintenance of the corridor. This is appropriate because Amtrak owns most of the track and right-of-way on the corridor and operates all the noncommuter passenger service. Through NECIP, the Federal Government has helped Amtrak provide improved passenger service.

Railroad Subsidies

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	83	89	97	105	114	122	527
Outlays	215	133	139	107	113	122	614
1985 Budget Level:							
Budget Authority	83	63	67	69	71	73	342
Outlays	215	120	116	69	71	73	448
Change:							
Budget Authority	....	−26	−31	−36	−43	−49	−185
Outlays	....	−12	−23	−38	−43	−49	−166

Program Description

Railroad subsidies have several components: Federal purchase of preferred stock to finance specific rail improvement projects; grant assistance (mostly formula) to States for rail planning and for rehabilitation of track and facilities on low traffic branchlines; operation and ownership of the 500-mile long Alaska Railroad; rail-safety related research and development (R&D); regulation of rail safety and enforcement of safety rules; and overall management of the Federal Railroad Administration.

Constant Dollar Trend

Constant dollar outlays for these programs grew rapidly in the early 1970's—reaching a peak funding level of $811 million in 1976. Reagan Administration efforts since 1981 to reduce unnecessary subsidies have been highly successful with 1985 current service outlays of $133 million representing an 84% reduction from the 1976 peak.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1970	43
1974	198
1976	811
1980	582
1985 current services	133

Current Status

Funding for these programs has decreased primarily because of the reduced need for Federal financial assistance and the transfer of operation of the Transportation Test Center R&D facility outside Pueblo, Colorado, to the private sector. In 1985, this trend will continue as the Federal Railroad Administration proceeds with its efforts to focus on safety in the railroad industry.

1985 Budget Proposal

The Administration proposes to:

- Transfer the Alaska Railroad to the State of Alaska before December 1984.
- Terminate funding for local rail service assistance, a subsidy program for low traffic, local branchlines.
- Terminate funding for the preference share program and allow all unobligated funds from prior years to expire at the end of 1985.
- Terminate Federal grants to States to subsidize State safety inspection programs while maintaining the Federal safety program at its current funding level.
- Maintain the strong emphasis on conducting safety research and development in support of Federal safety rulemaking and enforcement responsibilities.

Rationale

The Alaska Transfer Act of 1982 authorizes transfer of the Alaska Railroad to the State of Alaska. The Administration is proceeding with this activity as provided in law. The transfer is expected to occur prior to December 1984.

Local rail service assistance was originally intended to be a temporary program to help solve Northeast rail problems resulting from the formation of Conrail. It was subsequently reauthorized and expanded into a nationwide grant program in which over 25% of funds are allocated to States by formula, irrespective of any branchline problems. Since the program was originally established, conditions in the rail industry have changed drastically. In most regions, the severe rail problems have been eliminated. Most States have recognized that the program was intended to be a transitional program and are not as dependent on this funding as they were initially. Many States have established their own successful local assistance programs to deal with those regional problems that may occur. There will be very little effect if Federal subsidies in this area are terminated, as subsidized lines carry less than 0.5% of nationwide rail traffic.

Termination of the preference share program is part of a general effort to reduce the public tax burden and allow market principles to apply. Compared with other forms of Federal railroad assistance, this program entails an extremely high subsidy rate. It carries an effective interest rate of approximately 3.4% (yield to maturity). Even at this level, obligation rates have lagged funding availability. For example, in 1983 Department of Transportation obligated only 34% of the funds available to it ($31 million obligated out of $101 million available). This strongly indicates a lessened need for such subsidization of a strengthened railroad industry. Railroads formerly requiring this assistance currently have a greatly enhanced ability to raise capital funds without Federal aid.

Federal grants to States to subsidize State safety inspection programs are used to pay salaries and expenses for State inspectors and associated costs such as planning on a 50% cost-sharing basis. Many States would continue with their programs, even bearing the full cost of their inspectors. Although no Federal funds are requested for continued subsidies in 1985, no change in the program's functional authorization is requested. This will allow those States that wish to continue programs with their own funds to do so.

The primary purpose of the Federal railroad research and development program is to support the Government's efforts to regulate and enforce railroad safety. Other types of research should be the responsibility of the railroad industry, which has indicated a willingness and ability to support such market-oriented activities. The Administration proposal would continue support for the Federal program.

National Aeronautics and Space Administration
Aeronautical Research and Development

Agency: National Aeronautics and Space Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	627	691	748	778	783	819	3,819
Outlays	641	679	721	763	774	808	3,745
1985 Budget Level:							
Budget Authority	627	690	755	784	821	858	3,908
Outlays	641	696	728	771	811	846	3,852
Change:							
Budget Authority	....	−2	+7	+7	+38	+39	+89
Outlays	....	+17	+7	+8	+37	+38	+107

Program Description

The National Aeronautics and Space Administration (NASA) aeronautical research and development (R&D) programs help to advance generic aeronautical technologies that underlie the development of future generations of superior military and civil aircraft. These programs support the staff, major experimental facilities, and other research needs of three major aeronautical R&D centers.

Current Status

The Administration continues to support a vigorous program of aeronautical R&D to help sustain continued U.S. leadership in aeronautics.

1985 Budget Proposal

Budget authority for NASA aeronautical R&D would total $690 million in 1985, an increase of $63 million over 1984. The proposed funding would:

- Advance generic aeronautical technologies such as materials and structures, propulsion and aircraft control.
- Expand major high-priority projects, including:
    - The joint NASA/Department of Defense (DOD) X-wing rotorcraft project to explore the technology necessary to develop future high-speed rotorcraft;
    - The advanced composite structures project to explore the use of new types of structural materials which could improve significantly the operating efficiency of future military and civil aircraft; and
    - The Numerical Aerodynamic Simulator project to apply supercomputers which could improve generically the productivity of aeronautical research and design processes. If successful, this promising technology could help reduce the time and cost of achieving high confidence in new designs for aircraft and propulsion systems by complementing traditional experimental methods (e.g., wind tunnels) with the greater use of advanced computational techniques.

Rationale

Advanced aeronautical technologies are necessary to assure a superior military aeronautical capability; to assure a safe, efficient, and environmentally compatible air transportation system; and to maintain the competitiveness of the U.S. civil aviation industry.

The proposed increases for NASA aeronautical R&D programs in the 1985 budget are necessary to help ensure the timely provision of the knowledge base underlying the continued superiority of U.S. aviation technology. Individual firms are often unable to realize the full benefit of investments to advance fundamental knowledge in aeronautical disciplines or generic aeronautical technologies because of their diffuse applicability. NASA support is intended to complement, but not displace, R&D efforts supported by DOD and by industry.

Air Carrier Subsidy

[In millions of dollars] Agency: DOT/CAB

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	51	51	53	55	58	60	277
Outlays	56	57	52	55	57	60	281
1985 Budget Level:							
Budget Authority	51	52	52	52	52	5	213
Outlays	56	56	52	52	52	10	222
Change:							
Budget Authority	....	+1	−1	−3	−6	−55	−64
Outlays	....	....	....	−3	−5	−50	−58

Program Description

Under the Airline Deregulation Act of 1978, the Civil Aeronautics Board (CAB) administers a program of subsidies to air carriers to guarantee service to communities that were served by an air carrier prior to airline deregulation. Beginning on January 1, 1985, the Department of Transportation is scheduled, as part of the CAB sunset process, to take over the administration of this program. This change in agency responsibility will not change the level of subsidies.

Current Status

Since deregulation, service at all eligible communities has been maintained. Scheduled departures at eligible communities have increased by 5% since 1978. At the same time, through careful attention to subsidy payments, the cost of the program has decreased by 30%, from $74 million in 1978 to $52 million in 1985.

1985 Budget Proposal

The 1985 budget provides funding for an estimated 140 eligible cities: 120 cities in the lower 48 States and 20 cities in Alaska. These estimates are based on the likely number of eligible cities that will require subsidy and the amounts of subsidy needed at each city to guarantee service.

Rationale

The 1985 funding is proposed at a level estimated to fully meet the needs of each community that qualifies for this program. When the program expires in October 1988, it is expected that participating communities will have used the subsidies to adjust to deregulation, and they would then be prepared to assume responsibility for air carrier service.

Maritime Subsidies

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	352	402	425	425	431	450	2,133
Outlays	391	408	425	425	431	450	2,139
1985 Budget Level:							
Budget Authority	352	378	392	381	381	391	1,923
Outlays	391	388	392	381	381	391	1,933
Change:							
Budget Authority	....	−24	−33	−44	−50	−59	−210
Outlays	....	−20	−33	−44	−50	−59	−206

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 oceanborne foreign commerce.

Current Status

In 1982, the Administration formulated its maritime policy to revitalize the American merchant marine. Both the shipping and shipbuilding industries have been in a state of decline. The Administration's maritime policy reflects the belief that these industries must become as competitive as possible without further subsidy.

Constant Dollar Trend

In the two decades prior to 1980, constant dollar funding levels for maritime operating and construction subsidies slowly eroded—declining about 23% between the early 1960's and later 1970's. By terminating new construction subsidies and reforming the operating subsidy program, the Reagan Administration has accelerated this trend. Current services outlays in 1985 will be down 50% from 1980 and 61% from the early 1960's funding level.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962–1964 average	1,048
1972–1974 average	939
1977–1979 average	804
1980	813
1985 current services	408

1985 Budget Proposal

The 1985 budget reflects the following maritime policy initiatives, which were also included in the 1984 budget:

- Eliminate CDS and allow U.S.-flag operators to construct or acquire their ships in foreign countries.
- Meet the Government's obligation on existing ODS contracts, make administrative changes to hold down escalating costs, and allow no additional ODS contracts.
- Implement maritime regulatory reform legislation, recently enacted into law.

Rationale

These initiatives would lessen direct Government support and create a stronger, more competitive U.S. merchant marine.

The CDS program has been unsuccessful in fostering a modern fleet of U.S.-flag vessels. Allowing U.S.-flag operators to build ships in foreign yards would make it possible for operators to acquire modern, efficient ships in a cost-effective and timely manner. It now costs more than twice as much to build ships in U.S. shipyards as overseas.

Termination of the ship construction subsidy program would have little effect on the shipbuilding/ship repair mobilization base because of overall upward trends in the value of ship construction, particularly Navy work.

The approximate value of unfinished shipbuilding work in private yards has increased from $11.1 billion in 1980 to $20.7 billion in 1983, all of the increase attributable to the Navy program.

Through better administration and a more incentive-oriented program, operating subsidies would be reduced for those operators now receiving them. This would result in greater flexibility for the operators and would provide them with an opportunity to increase revenues and reduce costs, offsetting the subsidy reduction. The average subsidy per sea-going billet is over $60,000 a year.

Implementation of maritime regulatory reform legislation should further improve the economic condition of the industry.

Maritime Research and Training

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	85	89	94	99	104	109	494
Outlays	103	90	93	98	103	108	492
1985 Budget Level:							
Budget Authority [1]	85	76	89	90	95	100	450
Outlays [1]	103	86	89	90	94	99	458
Change:							
Budget Authority [1]	....	−13	−4	−9	−9	−9	−44
Outlays [1]	....	−3	−4	−8	−9	−9	−34

[1] In 1985 an additional $7 million is being transferred from unobligated balances of another program, making the decline in level of budget authority $6 million.

Program Description

The Department of Transportation's Maritime Administration (MarAd): (1) supports the training of merchant marine officers by operating the Merchant Marine Academy (MMA) and by providing Federal assistance to State maritime academies; and (2) supports research and development activities to enhance the maritime industry.

Current Status

There have been very few changes in funding levels over the recent past that are the result of policy changes. In 1984, enrollment was reduced by 10% for new students attending the MMA. The research budget was also reduced to eliminate those projects that should more appropriately be funded by the industry.

1985 Budget Proposal

The 1985 budget would essentially sustain the programs as they are currently operating with small reductions as outlined below.

The Administration proposal would reduce MMA enrollment of new students by 10% and would reduce by 10% the number of direct payments provided to new students attending the State maritime academies.

The Administration proposal would also reduce lower priority applied research and development projects. Remaining funds would support basic research projects where the benefits to society may be substantial but they do not accrue to individual firms.

Rationale

The proposed level of funding for maritime training would begin to equalize the supply/demand ratio for merchant marine officers. The trend in the maritime industry is toward fewer, larger ships with smaller crews. Currently, there is a 32% oversupply of merchant marine officers.

The Government would continue to fund research projects where the benefits to society may be substantial but they do not accrue to individual firms. Reducing funding for applied research projects would place the responsibility for those activities where it most appropriately belongs—with the company or industry segment that receives a direct and immediate benefit.

Rail Rehabilitation and Reorganization Loan Guarantees

[In millions of dollars]

Agency: DOT/USRA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	12	20	20	20	20	20	100
Outlays	−63	10	8	7	4	3	32
1985 Budget Level:							
Budget Authority	12	10	....	....	....	....	10
Outlays	−63	....	−14	−15	−18	−19	−67
Change:							
Budget Authority	....	−10	−20	−20	−20	−20	−90
Outlays	....	−10	−22	−22	−22	−22	−98

Program Description

Rail rehabilitation loan guarantees finance specific improvement projects (especially track rehabilitation) to assist financially needy railroads that would have difficulty borrowing money in the private sector. The money is borrowed from the Federal Financing Bank (Treasury) and guaranteed by the Department of Transportation. Rail reorganization loans were made by the U.S. Railway Association to finance certain expenses incurred by the estates of the bankrupt railroads formed into Conrail. The last of these loans will be repaid during 1984.

Current Status

In 1983, Congress placed an annual $100 million limitation on new rail rehabilitation loan guarantee commitments. However, only $15 million in new commitments were actually made that year. The 1984 limitation is $20 million. Only the highest priority projects included in applications being reviewed will be financed. The decrease in this program is a reflection of the increased financial health of the railroad industry.

Constant Dollar Trend

Between 1975 and 1980 constant dollar Federal outlays for these programs totaled $1.1 billion. Between 1981 and 1985 the payback of the railroad reorganization loans and the sharp reduction in new disbursements for rail rehabilitation loans will result in cumulative negative outlays of $529 million. Although rail rehabilitation loans will continue to be repaid through the year 2006, under both the current service baseline and 1985 budget policies, these programs will cease to have a significant impact on the Federal budget after 1985.

1985 Budget Proposal

No new commitments for the rail rehabilitation loan guarantee program are being proposed for 1985.

Rationale

The financial prospects for U.S. railroads have improved significantly in the past several years, and therefore, the need for what was intended to be temporary special Federal aid has ended. Because of railroad deregulation and increased traffic levels, continued positive change for the railroad industry is expected.

Few applications for loan guarantee funding have been received, and therefore no adverse effects are anticipated from terminating the program.

Transportation Industry Assistance

[In millions of dollars]

Agency: DOT/NASA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,172	20	21	23	25	26	115
Outlays	−601	−11	−33	−119	−132	−146	−441
1985 Budget Level:[1]							
Budget Authority	1,182	15	11	6	2	3	37
Outlays	−586	−11	−54	−146	−164	−180	−555
Change:[1]							
Budget Authority	+10	−5	−11	−17	−22	−23	−78
Outlays	+15	....	−21	−27	−32	−34	−114

[1] In 1984, the difference between current services and the budget level reflects a supplemental request for Conrail labor protection payments. Also included are a one-time-only repayment to the Federal Financing Bank for outstanding Amtrak loans ($880 million) and the transfer through congressional action of $1 billion in NASA loan guarantees from the research and development account into the space flight, control, and data communications account.

Program Description

Transportation industry assistance has several components: Federal subsidies of Conrail, the Government-owned freight railroad, including labor protection benefits and compensation paid to the bankrupt railroads for properties taken from them to form Conrail; salaries and expenses for the U.S. Railway Association; Federal ship financing and related funds; National Aeronautics and Space Administration (NASA) loan guarantees to finance construction of a communications satellite and R&D; and loan guarantees that financed Amtrak capital investment between 1970 and 1976 (which were defaulted and subsequently repaid to the Federal Financing Bank in 1984).

Current Status

Conrail has made a financial recovery and has not required direct operating subsidies since 1982. Settlements have been reached with all the bankrupt railroads involved in the formation of Conrail with the exception of Central Jersey Industries. Congress has continued to provide funding for the U.S. Railway Association; however, funding for this agency has decreased by 93% since 1981, commensurate with its decreased responsibilities. The Federal Government continues to provide labor protection benefits to former Conrail employees as provided for in current law. The Government is continuing its efforts to return Conrail to the private sector.

Because of depressed conditions in the maritime industry, a number of companies that have constructed vessels with Federal loan guarantees have been unable to meet their debt service payments on the guaranteed mortgages. This has led to defaults the Government has had to cover. New loan guarantee commitments in 1984 and 1985 are projected to be $600 million, with an additional $300 million available if needed in the interest of national security. Actual new loan guarantee commitments in 1983 were $322 million.

Constant Dollar Trend

Between 1976 and 1983, cumulative constant dollar outlays for these programs totaled $11.3 billion. As a consequence of Conrail's financial recovery, settlement of most of the railroad litigation, and the repayment status of one-time NASA and Amtrak off-budget loans, these accounts shifted to negative real outlays in 1984 and should have a negligible budget impact in the out-years.

Constant Dollar Trend

(1985 dollars in millions)

Period	Cumulative amount
1976–79	4,905
1980–83	6,385
1984–86 current services	–672

1985 Budget Proposal

The Administration proposes to:

- Terminate funding for the U.S. Railway Association (USRA). USRA did not request any funding for 1985.
- Continue to provide labor protection benefits to Conrail employees, as provided for in current law.
- Better protect the Government's interest when it guarantees ship construction loans. Specifically, the Administration proposes to increase the amount of fees the Government receives from loan guarantee recipients to cover the increasing number of defaults.

Rationale

USRA was created as a temporary agency in 1973 to oversee the formation of Conrail, monitor its performance, and act as a conduit for Federal assistance. These activities are completed, and Conrail is financially healthy. USRA has accomplished its purpose and should be phased out. The Department of Transportation is continuing its efforts to sell Conrail. Independent capability to monitor DOT's activities exists in the Interstant Commerce Commission, the General Accounting Office, and Conrail itself. Therefore, there is no need in 1985 for a separate agency to exist solely for the purpose of monitoring the Conrail sale.

The beneficiaries of the ship construction loan guarantee program should bear more of the risk and financial responsibility for loan defaults. The amount of defaults on guaranteed loans has become substantial, representing an increased risk and cost to the Government. In 1982 there were no defaults on Government guaranteed ship construction loans. Almost $100 million in defaults had to be paid off by the Government in 1983. Defaults in 1984 could exceed the 1983 level. Over $7 billion in Government guaranteed ship construction loans are currently outstanding.

Energy Programs

Nuclear Fission Research and Development

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	679	554	537	554	525	536	2,707
Outlays	703	639	657	648	545	484	2,973
1985 Budget Level:							
Budget Authority	677	618	549	499	455	442	2,563
Outlays	698	656	586	533	487	442	2,704
Change:							
Budget Authority	−2	+64	+12	−55	−70	−95	−144
Outlays	−5	+17	−71	−115	−59	−41	−269

Program Description

Under this program, the Department of Energy (DOE) supports research on advanced nuclear technologies such as the Liquid Metal Fast Breeder Reactor (LMFBR), the High Temperature Gas Reactor (HTGR), and reactors for potential power applications in space. In addition, the Department conducts nuclear waste-related activities such as solidifying liquid waste at West Valley, New York and remedial actions at uranium mill tailings sites and contaminated facilities (e.g., decommissioning the Government-owned demonstration power reactor at Shippingport, Pennsylvania).

Current Status

The major element of this program has been the research and development (R&D) effort of the Department to develop and demonstrate the LMFBR as a commercial source of electric power. Until 1984, the centerpiece of the program was the Clinch River Breeder Reactor (CRBR) Demonstration plant. Following Congressional action in October 1983 to terminate the CRBR, work is now underway to close out this project. This termination effort is expected to cost $172 million.

With the termination of the CRBR, DOE is reorienting its breeder base program. A greater emphasis will be placed on international cooperation in resolving technical uncertainties and on evaluation of alternative breeder design concepts.

Work is continuing in support of the HTGR (as an alternative to light water reactors currently used by U.S. utilities), on safety related R&D at Three Mile Island, and on an international safety R&D effort at the Loss of Fluid Test Facility (LOFT) in Idaho. Finally, within the fission program, the Department is proceeding with cleanup activities, including remedial actions at 24 uranium mill tailings sites.

Constant Dollar Trend

Constant dollar funding for the nuclear fission programs more than doubled between 1969 and 1977. With the termination of the Clinch River project and scaleback of other activities, 1985 current services funding will fall to pre-1970's levels.

Constant Dollar Trend

(1985 dollars in milions)

Year	Amount
1969	653
1972	926
1977	1,574
1980	1,161
1985 current services	639

1985 Budget Proposal

Major components of the program are shown in the following table.

Nuclear Fission Research and Development: Budget Authority

(Dollars in milions)

	1984	1985
Breeder	386	296
Waste Activities	121	193
HTGR	30	34
Other (TMI, LOFT, Space Reactors)	140	129
Total	677	652

Changes from 1984 are found in three major areas:

- The breeder base program would be reduced by $50 million. This reduction is due to the elimination of CRBR- related R&D and greater international cooperation.
- Funding to close out the Clinch River Breeder Reactor (CRBR) is necessary in 1984, but not in 1985.
- Waste activities would increase by $70 million as cleanup work proceeds at West Valley and at uranium mill tailings sites.

Rationale

Funds for the breeder base and HTGR will be used to develop and test advanced technologies to maintain a range of options for further development of nuclear power. At the point where major demonstrations are necessary it is assumed that such facilities will be funded by the private sector.

Nuclear Fusion Research and Development

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	471	483	491	504	524	543	2,546
Outlays	488	487	515	504	524	543	2,574
1985 Budget Level							
Budget Authority	471	483	478	478	480	480	2,400
Outlays	488	482	478	478	480	480	2,398
Change:							
Budget Authority	....	....	−13	−26	−44	−63	−146
Outlays	....	−5	−37	−26	−44	−63	−175

Program Description

This program is aimed at producing electric power from hydrogen, the same source of energy that powers the sun. At the extremely high temperatures involved, the fuel is isolated and confined before ignition by using strong magnets, hence the name magnetic fusion. The magnetic fusion energy program supports a broad research effort in three major areas: mainline concepts, (circular devices called "tokamaks" and linear devices called "mirrors"), alternate concepts, and a technology base program.

- Mainline concepts account for nearly 75% of the budget. This is spent on two large testing devices, the Tokamak Fusion Test Reactor at Princeton, New Jersey, and the Mirror Fusion Test Facility at Livermore, California. Construction of the Tokamak Reactor is completed and the device is running with projected annual operating costs of $100 million. The Mirror Facility is still under construction with planned completion in 1986.
- Alternate concepts, about 8% of the budget, play a supporting role to the mainline concepts. Funds are used to explore novel approaches to common problems such as heating and controlling the fuel.
- The base program, about 17% of the budget, supports research in materials science, superconducting magnets, alternate heating concepts, and systems for handling tritium. This research is common to all fusion concepts.

Current Status

Magnetic fusion has been supported by the Federal Government since the early 1950's with the goal of eventually demonstrating scientific and engineering feasibility of fusion energy technology. Over the years a succession of challenging experiments have been performed to explore ways to control the hydrogen gas in order to achieve conditions required for fusion. These experiments have required sophisticated scientific equipment and have led to the construction of large test facilities.

Except for major funding increases associated with the construction of the Princeton Tokamak and the Mirror Facility, the fusion program has been funded at a nearly constant level of effort for the past several years. The program is now changing from an emphasis on major construction projects to experimentation and technology development using the two large machines in this country and profiting from complementary work being done abroad.

Constant Dollar Trend

Constant dollar funding for the fusion programs grew rapidly in the 1970's—increasing nearly *sixfold* between 1970 and 1977. Although funding has fluctuated since 1980, the program has generally remained around the $500 million level.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1970	90
1977	535
1981	542
1985 current services	487

1985 Budget Proposal

The 1985 budget proposal would continue the Administration's support for the development of magnetic fusion energy technology at about the 1984 program level.

Major efforts in 1985 would include:

- Preparation for experiments at the large tokamak at Princeton (These experiments are planned to produce the same amount of energy from the fuel as it takes to heat the fuel, the so called breakeven level.);
- Continued construction of the Mirror Facility at Livermore, planned for completion in 1986; and
- Continued efforts in the base program to develop supporting technology for components, materials, and reactor systems engineering.

Rationale

Fusion holds the promise of providing economical electricity produced from an entirely new resource base. While the potential of fusion as a power source is widely accepted, the payoff for this technology is so far in the future that private companies are unable to invest the necessary resources. Thus, as a long-term, high risk technology with potentially high payoff, fusion is an example of technology that is appropriate for sustained Federal funding.

The U.S. and foreign fusion programs are now at a state of development where they can profit greatly from increased international cooperation. Thus, with reduced emphasis on construction and increased emphasis on international cooperation, the U.S. program should be able to maintain its pace and effectiveness without increased budgets for the next several years.

Nuclear Waste

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	319	331	531	534	545	595	2,535
Outlays	287	355	465	534	549	591	2,494
1985 Budget Level:							
Budget Authority	319	328	525	529	539	589	2,509
Outlays	284	350	458	528	543	586	2,465
Change:							
Budget Authority	....	−3	−6	−6	−6	−6	−26
Outlays	−3	−5	−7	−6	−6	−6	−29
Receipts	−311	−378	−435	−504	−578	−653	−2,548

Program Description

This program supports Department of Energy (DOE) activities related to the development, construction, and operation of a permanent repository for the disposal of high-level radioactive waste from commercial nuclear power plants. These activities are paid for by the nuclear waste fund which was established by the Nuclear Waste Policy Act of 1982 and is financed by fees paid by nuclear utilities.

Current Status

Expenditures for this program have been increasing as the Government evaluates and characterizes candidate sites in order to choose a suitable location for a repository and start on-site development work. All expenditures are offset by the revenues from fees.

Recent program accomplishments by the DOE include:

- The signing of seventy contracts for the payment of fees in exchange for disposal services with companies that own and generate spent nuclear fuel or high-level waste.
- Identification of nine potentially acceptable repository sites in six states.
- The submission to the Nuclear Regulatory Commission of siting guidelines after consultation with State governments.
- The establishment of a separate waste office in the Department of Energy.

1985 Budget Proposal

By January 1985, the Department of Energy is expected to recommend to the President three sites for continued assessment. Funds are therefore proposed in the 1985 budget to initiate construction of an exploratory shaft at each of the three sites.

An increase in the fee (currently one mill per kilowatt hour) is assumed in order to offset inflation and declining revenue projections resulting from lower than expected growth in nuclear power. Under the Nuclear Waste Policy Act of 1982, fees may be adjusted by DOE as necessary to generate revenues to cover costs.

Rationale

The lack of a means for disposing of nuclear waste has been a major issue affecting the acceptability of continued reliance on nuclear power. Increased funding for this program is required for the

Federal Government to be able to provide disposal capability by 1998 as mandated by the Nuclear Waste Policy Act. Until then, interim storage of spent fuel will continue to be the responsibility of the utilities and can be provided through on-site measures, such as expansion of current pool storage. The Federal Government is particpating with utilities in cooperative demonstrations of advanced storage technologies to assure that adequate, safe interim storage capacity will be available.

Alternative and Synthetic Fuels

[In millions of dollars]

Agency: DOE/SFC

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	549	435	245	314	519	714	2,227
Outlays	510	439	246	315	415	610	2,025
1985 Budget Level:							
Budget Authority	549	433	243	312	517	712	2,217
Outlays	510	437	244	313	413	608	2,016
Change:							
Budget Authority	....	−2	−2	−2	−2	−2	−10
Outlays	....	−2	−2	−2	−2	−2	−10

Program Description

These programs provide financial incentives to encourage private investment in alternative and synthetic fuels. Incentives include support for feasibility studies and cooperative agreements, direct loans, loan guarantees, price guarantees and purchase agreements. The programs are intended to subsidize the development of alternative and synthetic energy resources until oil and gas prices rise to the point where Government incentives are no longer necessary. The programs include activities of the United States Synthetic Fuels Corporation (SFC) and the following programs of the Department of Energy (DOE): Geothermal Resources Development Fund, Alternative Fuels Production, and Biomass Energy Development.

Current Status

The SFC has issued price guarantees to two projects—Union Oil Shale and Cool Water Coal Gasification—and has letters of intent outstanding to two others.

DOE awarded a $2.02 billion loan guarantee to the Great Plains Coal Gasification Project in 1982 under its Alternative Fuels Production program, a precursor to the SFC. The loan for the project was subsequently arranged through the Federal Financing Bank (FFB). Currently, the project is over 70% complete, with initial gas production planned for the summer of 1984. Because of lower oil price forecasts, the project sponsors have applied to the SFC for price supports in addition to loan guarantees.

DOE has issued loan guarantee commitments to five geothermal projects and conditional commitments to three others. Several other applications are under review or anticipated. Most of these projects will be privately financed, although it is possible that one or more of the guarantees may be financed through the FFB.

DOE has issued a final loan guarantee to one alcohol fuel project and has conditional commitments outstanding to five others.

In prior years, DOE awarded 102 feasibility studies and nine cooperative agreements under its Alternative Fuels program. Most of these have been completed, and the program is expected to end in 1984.

1985 Budget Proposal

The budget levels consist primarily of the Synthetic Fuels Corporation (SFC) activities and loan disbursements for the Great Plains project, with only small amounts for the other activities, as shown in the following table.

1985 Budget Proposal for Alternative and Synthetic Fuels

(Budget authority in millions)

	1984	1985	1986	1987	1988	1989
Synthetic Fuels Corporation	$67	$162	$228	$312	$517	$712
Great Plains (FFB Loan)	470	196	....	....	....	....
All Other	12	75	15	....	....	....
Total	549	433	243	312	517	712

The budget reflects SFC plans to make project commitments totaling $14.8 billion by the end of 1985.

Loan disbursements to Great Plains will end in 1985.

No new activity is proposed for the other programs in 1985. Spending levels for these programs reflect the budgetary impact of commitments made in 1984 and prior years.

Rationale

These programs were originated when oil and gas price rises seemed inexorable and prevailing opinion, buttressed by Government price controls on domestic oil and gas production, was that market forces were incapable of moderating the trend. Recent improvements in energy conservation and efficiency, aided by the removal of oil price controls, have resulted in actual oil price decreases and could result in further decreases. These recent events have demonstrated that, once currently available funding is utilized, further subsidies for alternative and synthetic fuels production are unwise, since they may lead to the creation of a large synfuels industry permanently dependent upon massive Government support. Thus, the budget projections through 1989 include only the future spend-out from commitments made in 1985 and prior years and assume no new funding commitments after 1985.

Fossil Energy Research and Development

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	260	313	373	374	389	404	1,852
Outlays	340	342	369	380	392	403	1,885
1985 Budget Level:							
Budget Authority [1]	260	203	263	259	270	272	1,267
Outlays	334	281	259	258	269	278	1,345
Change:							
Budget Authority	....	−110	−110	−115	−119	−131	−585
Outlays	−6	−61	−109	−122	−123	−125	−540

[1] Figure for 1985 excludes $70 million of prior year appropriations that would be used in 1985, resulting in a total program level of $273 million.

Program Description

This program funds research in support of the development of new technologies for the improved utilization of coal and for the production of oil and natural gas from unconventional sources. The program finances research at universities and at Department of Energy (DOE) National Laboratories and Energy Technology Centers. It also funds research undertaken by private industry on a cost-shared basis.

Current Status

Since 1981, funding levels for fossil energy research and development (R&D) have been substantially reduced, with outlays declining from $890 million to $334 million in 1984. The program has undergone a major transition—large demonstration projects have been terminated, while basic and other longer-term research has been emphasized. Some engineering development work and a few smaller scale test facilities have continued to be supported. Much of this work has been winding down as key experiments and test runs are completed.

While these changes have been occurring in the Federal support of fossil R&D, industry investments have been maintained at a high level and have been growing.

Trends in Fossil Energy R&D Outlays

(Dollars in millions)

	1981	1982	1983	1984	1985
Government Outlays:					
Basic and Applied Research	158	132	230	197	169
Development, Demonstration and Other	732	520	173	137	112
Total, Government Outlays	890	652	403	334	281
Private Investment	1,257	1,368	NA	NA	NA

1985 Budget Proposal

The 1985 budget would continue the Administration's policy of supporting longer-term, high-risk R&D that broadly supports the technology development activities of the U.S. energy industry. Significant budget reductions from current services levels would be possible as a result of:

- Completion of several major engineering test facilities in the coal liquefaction and gasification program. The data from these facilities will allow the private sector to make appropriate decisions regarding any further demonstration and commercialization activities.
- Completion of the 4.8 megawatt phosphoric acid fuel cell electric utility demonstration and reductions in R&D support for phosphoric acid fuel cells as this technology nears the stage of commercial introduction.
- Reduced funding for engineering development of magnetohydrodynamics (MHD). The program is proposed for transition to a more productive scientific research program leading eventually to a proof-of-concept test to be cost-shared with industry.

These reductions would be partially offset by increases for acid rain related R&D. The DOE acid rain R&D is part of the Administration's initiative to accelerate Government efforts to analyze the problems of acid deposition. The DOE fossil energy program plays a lead role in supporting the development of economical new systems to reduce the emissions from fossil fuel use, should a program of emissions reductions be necessary. Research on the causes and effects of acid deposition are coordinated by the Interagency Task Force on Acid Precipitation, on which the Environmental Protection Agency (EPA) plays a leading role.

The table below shows the major components of the 1985 budget proposals as compared with 1984.

Fossil Energy R&D Budget Authority

(Dollars in millions)

	1984	1985
Coal: Acid Rain related	37	57
Coal: All Other	197	121
Petroleum	30	32
Unconventional Natural Gas	16	8
Program Management	50	55
Total Program	330	273
Less Carryover Balances	−70	−70
Total, New Budget Authority	260	203

Rationale

The 1985 budget would provide a strong technology base for industry development of new fossil energy technologies.

Some reductions from current services would be possible simply as a result of completion of several pilot plant and test unit projects. Further DOE support to demonstrate these technologies at larger scale is both inappropriate and unwise because:

- Complex economic and business decisions regarding the most promising technological alternatives for engineering development are best left to the private sector. Industry has shown that it is capable of financing large scale engineering development without Government assistance where appropriate.

- In view of current oil price forecasts, these technologies, at least in their current form, will not be competitive until the next century. In the interim, the private sector could seek financial subsidies from the Synthetic Fuels Corporation for commercial plants.
- It is a better investment for the Government to focus its efforts on more basic research, such as coal chemistry, that could result in technical breakthroughs leading to a new generation of more economical technologies.

In the case of MHD, the proposed reduction would avoid a premature engineering scale-up of the technology and would refocus the program on unresolved scientific issues that are crucial to its ultimate success.

In the area of acid rain, the increased funding in 1985 would result in expanded research leading to early tests to verify the technical feasibility ("proof-of-concept") of advanced economical technologies for reducing fossil energy emissions that might be the precursors of acid rain.

Solar and Renewable Energy Research and Development

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	253	261	283	295	307	318	1,463
Outlays	304	278	272	284	297	307	1,439
1985 Budget Level:							
Budget Authority	252	217	209	214	237	237	1,114
Outlays	301	250	203	197	196	200	1,045
Change:							
Budget Authority	−1	−44	−74	−81	−70	−81	−350
Outlays	−3	−28	−69	−88	−101	−108	−393

Program Description

This program supports research and development on solar, hydropower and geothermal energy; electric energy systems; and energy storage technologies. The program includes research funded at universities, the Department of Energy National Laboratories and the Solar Energy Research Institute (SERI), as well as projects undertaken by private industry on a cost-shared basis.

Current Status

Since 1981, funding levels for solar and renewables research and development (R&D) have been substantially reduced, with outlays declining from $855 million to $301 million in 1984. The program has undergone a major transition—large demonstration projects and subsidies for commercialization activities have been terminated, while funding for research has been increased. As a result, the Government program provides a stronger scientific underpinning for new and improved products and processes to be developed and marketed by U.S. industry. The budgetary effect of these changes is shown in the table below.

Trends in Government Solar/Renewables R&D Outlays

(Dollars in millions)

	1981	1982	1983	1984	1985
Basic and Applied Research	192	72	128	184	152
Development, Demonstration and Other	663	547	287	117	98
Total	855	619	415	301	250

While Government R&D support has been refocused on longer-term research, the private sector has aggressively pursued development and commercial deployment of new solar energy technologies. For example:

- In 1983, U.S. industry produced 13.1 peak megawatts of photovoltaic generators, *almost triple* the 1982 level of 5.7 peak megawatts.

- In 1983, private investment in photovoltaics research was projected at over $80 million, which would exceed the level of Government research outlays for the first time.
- Generation of electricity from wind has increased over *one hundred-fold,* from 3 megawatts in 1980 to 350 megawatts in 1983. Further substantial increases are expected in 1984.

1985 Budget Proposal

The 1985 budget would continue the energy R&D policy of the Administration to focus Federal support on longer-term research. Savings in 1985 are appropriate with the completion of the large wind machine demonstration and through reductions in other nearer-term development activities. These reductions are partially offset by increases in support for more basic research in areas such as wind aerodynamics and materials.

Rationale

The 1985 budget provides for a strong, balanced program to support solar and renewable technologies as competitive energy supply options, while continuing the Administration policy of limiting R&D support to areas that are beyond the investment criteria of the private sector.

The maintenance of a vigorous, longer-term research program covering such areas as advanced materials for photovoltaics applications, the dynamics of wind interactions with wind machines, and the genetic engineering of new biomass species will provide a stronger science and technology base for the U.S. solar industry over the longer term.

Supporting Energy Research

[In millions of dollars]

Agency: DOE/EPA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	624	698	715	730	758	775	3,677
Outlays	702	715	728	742	763	776	3,724
1985 Budget Level:							
Budget Authority	632	765	824	855	903	928	4,275
Outlays	685	757	820	852	894	921	4,242
Change:							
Budget Authority	+8	+66	+109	+125	+146	+152	+598
Outlays	−16	+41	+92	+110	+131	+145	+518

Program Description

Most of the programs in this category support energy-related basic and applied research in the physical, biological, environmental and engineering sciences sponsored by the Department of Energy (DOE) at major universities and DOE's National Laboratories. The goal of this research is primarily to expand fundamental scientific knowledge and broaden the engineering data base that will help in the future development of energy technologies and in the assessment of environmental problems related to energy technology development. In addition, these programs provide funds for maintaining and improving the physical plant at DOE laboratories, for energy conservation projects at various DOE facilities, and for technical information needed in the management of DOE programs.

This category also includes the energy-related environmental research program of the Environmental Protection Agency (EPA), which focuses mainly on issues of acid deposition. Other EPA activities funded by this program include the development and demonstration, in cooperation with industry, of a new low cost sulfur reduction technology designed for existing coal-fired power plants.

Current Status

The Administration is committed to the support of basic and other long-term research as an appropriate Federal responsibility, recognizing that industry lacks incentives to make adequate investments in the broad national interest. Recent budgets have provided for continued growth in Federal support for such research across major agencies.

1985 Budget Proposal

The 1985 budget would provide for major increases in a number of areas supported by these programs, as summarized in the following table.

Supporting Energy Research: Budget Authority

[Dollars in millions]

	1984	1985
Department of Energy:		
Basic Energy Sciences	337	420
Biological and Environmental Research	184	189
Facilities Support and Other Services	79	112
Environmental Protection Agency:		
Acid Deposition [1]	21	33
Other Energy-Related Research	11	11
Total	632	765

[1] 1984 includes a $5.5 million supplemental appropriation request for 1984.

In the area of acid deposition research, the budget would provide:

- For EPA—A $5.5 million 1984 supplemental appropriation request to conduct a major survey of the acidification status of over 3,000 lakes in the United States. In 1985, the budget level would rise to $33.4 million, representing a 125% increase over the President's 1984 budget. Major activities include development of estimates of the extent of damages associated with acid rain and research which will lead to a better understanding of how acid rain is formed and transported in the atmosphere.
- For DOE—Initiation of a new research program ($5 million in 1985) to study the relationship between sulfur dioxide emissions and acid depositions monitored at a variety of locations in the United States.

These programs in EPA and DOE are an integral part of the government-wide research effort on acid rain coordinated by the Interagency Task Force on Acid Deposition, created by Title VII of the Energy Security Act. The 1985 budget would provide a total of $55.5 million for the research effort government-wide, a 100% increase over the 1984 Administration request.

In the basic research programs of the Department of Energy, the budget includes:

- Continued emphasis on long-term research related to the impact of radiation and energy-related pollutants on biological and environmental systems;
- Enhanced funding for research to determine the relationship between the carbon dioxide content of the atmosphere and the earth's climate changes;
- Enhanced funding for the operation of the seven major physical science research facilities maintained by the Basic Energy Sciences program for users from industry, universities, and National Laboratories;
- Continuation of construction projects initiated in 1984 including the Center for Advanced Materials at the Lawrence Berkeley Laboratory, expansion of the National Synchrotron Light Source at the Brookhaven National Laboratory, and an upgrade of the Stanford Synchrotron Radiation Laboratory facilities;
- Initiation of construction of an Ion Collision Physics Facility at Kansas State University; and
- A supercomputer initiative which addresses access of DOE-supported researchers to state-of-the-art computers and proposes a program of computational research required for developing the "next generation" supercomputers.

Rationale

The 1985 budget continues to reflect the high priority this Administration gives to support of basic and other long-term research which assists in assuring the Nation's economic growth and quality of life. The programs in this category contribute toward achieving these broad goals.

By the very nature of investigations into fundamental science, the results of the research supported by the programs in this category will not, initially, be applicable to any specific industry or energy technology. The DOE basic research programs, in particular, provide a broad foundation to support the development of new concepts, materials, processes and technologies important for energy production, conservation and utilization and for national security.

There is a specific need to accelerate resolution of key scientific questions related to acid deposition over which considerable debate remains. For example, even the fundamental issue of whether reductions in sulfur dioxide emissions would result in commensurate reductions in acid deposition is still unresolved. Supporting the proposed research programs of EPA and DOE at the level requested in the 1985 budget would help to ensure that such scientific issues can be resolved in a timely fashion with a high degree of confidence.

Energy Conservation Research and Development and Related Programs

[In millions of dollars]

Agency: DOE/HUD

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	176	176	193	202	210	218	999
Outlays	173	182	188	191	199	206	966
1985 Budget Level:							
Budget Authority	176	131	146	155	143	144	719
Outlays	173	204	154	140	138	129	765
Change:							
Budget Authority	....	−45	−47	−47	−67	−74	−280
Outlays	....	+22	−35	−51	−61	−77	−201

Program Description

The principal component of these programs is Department of Energy (DOE) support for research and development (R&D) leading to more energy efficient technologies for buildings, transportation and industry. Also included is the Solar Energy and Energy Conservation Bank (i.e., Solar Bank) in the Department of Housing and Urban Development (HUD) that provides, through participating States, loan subsidies and grants for selected residential units and non-profit commercial and agricultural buildings. Nearly 90% of the Bank's activity is in energy conservation.

Current Status

The Administration recognizes conservation as an important national energy goal that is being most effectively achieved through the economic incentives of the marketplace. In response to higher energy prices in the 1970's, industry is continuing to develop and market more energy-efficient and energy-saving products and processes, and customers are buying them. The Administration has therefore sought to reduce counterproductive energy regulation that interferes with the market and also sought to reduce unnecessary and unproductive Government subsidies for energy conservation.

The response of the marketplace to policy changes has been dramatic.

- The American economy is actually using less energy today than it used ten years ago—even though it is producing 20% more goods and services, the population is up by 22 million people, and there are 35 million more cars, trucks, and buses on the road.
- American homeowners have insulated and weatherized their homes because doing so makes good economic sense. An estimated 20 million households—a third of all single family housing units—installed energy conservation measures in 1981 alone.
- The average fuel economy of all cars on the road has improved by over 20% since 1973. Total demand for gasoline has declined 11% from its peak in 1978 and is expected to decline further.

1985 Budget Proposal

The 1985 budget would:

- continue the Administration's energy conservation R&D policy and strategy that stresses longer-term research in support of industry efforts to develop new technologies; and

- terminate funding for the Solar Bank program, which was $25 million in 1984. This would account for most of the reduction from current services in 1985-1989.

Rationale

Although the marketplace is the primary mechanism for the development of new conservation technologies, a limited Federal role is warranted in the support of R&D in instances where the benefits of the research do not directly accrue to the private investor, or where the research is beyond the normal investment time horizon of industry.

In the case of the Solar Bank, no funding is requested for several reasons. First, more effective private sector lending institutions are available, and private economic incentives already exist for these types of investments. Second, a majority of States already have State energy programs capable of providing continued support of State energy conservation needs after this program's termination. Third, Federal funding for energy conservation and solar energy projects would be continued through such other programs as the HUD Community Development Block Grant program and the DOE and Department of Health and Human Services programs for low-income home weatherization and energy assistance payments, and for energy conservation investments in schools and hospitals.

Uranium Enrichment

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,195	2,074	2,134	2,057	1,919	1,888	10,072
Outlays	2,147	2,105	2,134	2,056	1,919	1,888	10,103
Receipts	−2,105	−2,074	−2,134	−2,056	−1,918	−1,887	−10,069
1985 Budget Level:							
Budget Authority	2,195	2,074	2,134	2,056	1,919	1,888	10,071
Outlays	2,147	2,105	2,134	2,056	1,919	1,888	10,103
Receipts	−2,105	−2,074	−2,134	−2,056	−1,918	−1,887	−10,069
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....
Receipts	....	....	....	....	....	....	....

Program Description

The Department of Energy (DOE) is responsible for a $2 billion business that supplies enriched uranium to domestic and foreign nuclear power plants. To provide this service, the Department operates three large enrichment plants. In addition to production activities, the Department is also constructing the first phase of a fourth plant—a more efficient Gas Centrifuge Enrichment Plant (GCEP), and funding research on advanced techniques for enriching uranium at lower cost.

Current Status

The Department of Energy is establishing a new, business-like approach to its uranium enrichment enterprise. Recently DOE has offered a new contract to its customers. This contract is expected to secure the market share held by DOE and reverse a trend toward more business going to foreign suppliers each year. Through 1984, DOE will continue to fund construction of GCEP and research and development (R&D) on machines for GCEP. It will also support R&D on potentially more efficient advanced enrichment techniques based on use of lasers.

Constant Dollar Trends

Due to the Administration policy of constraining research and construction expenditures to a level consistent with receipts from enrichment program sales, the net deficit impact of enrichment activities over 1985–1989 is almost zero. This contrasts markedly with the five year period between 1977–1981 when constant dollar net outlays totalled $2.2 billion.

Constant Dollar Trend

(1985 dollars in millions)

Period	Cumulative constant dollar net outlays
1977–1981	2,205
1985–1989 budget	33

1985 Budget Proposal

With lower demand for enrichment services worldwide and with lower world prices for enrichment services, receipts will soon be inadequate to support a continued, large construction program and a multi-technology R&D effort. Thus in 1985, construction and research will both be reduced. These actions will eliminate the potential for major taxpayer subsidies to the uranium enrichment program.

Specifically the 1985 budget assumes that:

- The new Gas Centrifuge Enrichment Plant (GCEP) now under construction will be limited to completion of two modules instead of eight as originally planned in 1978. Production from these modules will begin in 1989.
- One of the two currently competing advanced technologies will be selected for further development, thus saving $40 million in 1985 and much larger amounts in the out-years.

Rationale

By reducing the scope of the program and providing more flexible sales conditions, DOE would continue to offer a competitively- priced service which is fully funded by revenues from commercial sales. The Goverment's investment to date has justified completing the first two modules of GCEP. Through 1984, $2.4 billion was spent and an additional $350 million would be invested in 1985 to complete this phase of the GCEP. However, due to a decline in demand for enrichment services, further construction would be uneconomic at this time.

Federal Power Programs

[In millions of dollars]

Agency: DOE/USDA/TVA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	824	536	385	−47	−158	−152	564
Outlays	628	196	−41	−375	−484	−633	−1,337
1985 Budget Level:							
Budget Authority	824	497	345	−88	−201	−195	358
Outlays	618	149	−95	−448	−559	−709	−1,662
Change:							
Budget Authority	....	−40	−40	−41	−43	−43	−207
Outlays	−10	−48	−54	−73	−75	−75	−325

Program Description

This category includes several major Government-run business enterprises:

- Sale and transmission of electricity from Federal hydroelectric projects by the five Federal power marketing administrations (PMAs) of the Department of Energy (DOE): Bonneville, Western Area, Alaska, Southeastern and Southwestern;
- Production and sale of electricity from a combination of hydropower, coal and nuclear plants owned and operated by the Tennessee Valley Authority (TVA);
- Financing of TVA's nuclear fuel inventory through off-budget loans from the Federal Financing Bank (FFB) to the TVA Seven States Corporation; and
- Administrative costs for the Rural Electrification Administration (REA) in the Department of Agriculture.

Current Status

The TVA is constructing new nuclear power plants to meet anticipated load growth but on a smaller scale and at a slower pace than originally planned. In addition, TVA is engaged in various research and development (R&D) and energy conservation activities funded through revenues from power sales.

In conjunction with their wholesale power marketing responsibilities, the PMAs are engaged in transmission system maintenance and construction and power purchases needed to fulfill sales contracts. Bonneville is implementing a major energy conservation program in the Pacific Northwest.

1985 Budget Proposal

For TVA and the PMAs, operating expenses are offset through revenues from power sales. Federal expenditures are for capital investment, such as new power plants, transmission lines and energy conservation measures, and are recovered over time through repayments to the Treasury. The budgets for these programs are displayed net of revenues in the table below, by major program components.

1985 Net Budget Authority For Federal Power Programs

(Dollars in millions)

	1983	9184	1985
Power Marketing Administration (PMA)	212	165	51
Tennessee Valley Authority (TVA)	707	629	445
Rural Electrification Administration (REA)	30	30	....
Total	949	824	497

The 1985 budget includes a major initiative in REA administrative funding, with a continuation of current activities in TVA and the PMAs.

- In the REA, the budget proposal would institute the use of user fees to cover the administrative costs of the REA credit subsidy program.
- In TVA and the PMAs, no changes would be proposed from current services, which assume significant reductions in net outlays over time as TVA power plant and PMA transmission projects near completion.

Rationale

In the REA program, the proposed change would eliminate an unnecessary taxpayer subsidy to the recipients of REA financing assistance. Further discussion of this and other proposed changes for REA can be found in the Rural Electric and Telephone factsheet.

In the case of TVA and the PMAs, the budget would continue the current policies of providing adequate electricity supplies to consumers at the lowest cost consistent with sound business principles.

Housing Finance

Government National Mortgage Association Subsidized Mortgage Financing

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	120	178	209	1,412	1,405	1,448	4,650
Outlays	1,382	338	442	1,463	1,286	1,406	4,936
1985 Budget Level:							
Budget Authority	120	178	209	1,412	1,405	1,448	4,650
Outlays	1,382	338	442	1,463	1,286	1,406	4,936
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Government National Mortgage Association (GNMA) has in the past provided subsidized mortgage financing for low- and moderate-income apartment projects. GNMA purchased below market interest rate mortgages from private lenders at face value and then sold the mortgages to investors at market-determined prices. The difference between the face value and the market price represented the amount of the subsidy.

Current Status

The Housing and Urban-Rural Recovery Act of 1983 repealed statutes that authorized the GNMA subsidized mortgage programs.

1985 Budget Proposal

In 1985, the Administration proposes that Treasury forgive the debt owed to it by GNMA. However, to retain comparability with prior years, the data in the table exclude the effects of the debt forgiveness proposal. GNMA will continue to honor commitments made in previous years to purchase mortgages. By the end of 1986, it is anticipated that GNMA will have honored all commitments to purchase mortgages, and sold to investors all the mortgages that have been purchased. Beginning in 1987, the estimates of budget authority and outlays reflect the funding required to pay interest on previously accumulated GNMA debt—debt that will be forgiven if the Administration's proposal is enacted.

Rationale

The proposal to forgive GNMA debt to Treasury will permit the Federal Government to "clean-up its books" for a bankrupt, terminated subsidy program. It will have no effect on net Government outlays or Federal debt.

Federal Housing Credit

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
FEDERAL HOUSING ADMINISTRATION							
Current Services:							
Budget Authority	179	219	159	167	197	247	989
Outlays	−753	−1,155	−1,425	−1,589	−1,772	−1,804	−7,744
Guaranteed Loan Commitment Limit	50,900	50,900	50,900	50,900	50,900	50,900	254,500
1985 Budget Level:							
Budget Authority	179	219	159	167	197	247	989
Outlays	−753	−1,157	−1,436	−1,608	−1,798	−1,836	−7,834
Guaranteed Loan Commitment Limit	50,900	50,900	50,900	50,900	50,900	50,900	254,500
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	−2	−11	−19	−26	−32	−90
Guaranteed Loan Commitment Limit	....	....	....	....	....	....	....
GNMA MORTGAGE-BACKED SECURITIES							
Current Services:							
Outlays	−205	−243	−303	−347	−166	−408	−1,467
Guaranteed Loan Commitment Limit	68,250	68,250	68,250	68,250	68,250	68,250	341,250
1985 Budget Level:							
Outlays	−205	−243	−303	−347	−166	−408	−1,467
Guaranteed Loan Commitment Limit	68,250	68,250	68,250	68,250	68,250	68,250	341,250
Change:							
Outlays	....	....	....	....	....	....	....
Guaranteed Loan Commitment Limit	....	....	....	....	....	....	....

Program Description

Under the Federal Housing Administration (FHA) mortgage insurance programs, Federal Government backing is provided for a number of types of housing loans, particularly single-family home loans. Loans made by private lenders, either insured by FHA or guaranteed by the Veterans Administration, and direct home loans from the Farmers Home Administration are eligible for pooling by mortgage lenders into larger packages of loans, called mortgage-backed securities (MBS's). These MBS's are guaranteed by the Government National Mortgage Association (GNMA) and sold by lenders to large investors. Only the FHA and GNMA MBS programs, which are operated by the U.S. Department of Housing and Urban Development (HUD), are discussed here.

Current Status

Legislation proposed by this Administration and enacted by Congress in 1982 allows HUD to collect FHA mortgage insurance fees on a one-time upfront basis at the time of home sale. This is expected to raise offsetting receipts (and thereby reduce outlays) over the period shown in the table above.

Constant Dollar Trend

Due to the enactment of upfront FHA insurance premiums, increased GNMA MBS commitment fees, and tighter management of FHA portfolio operations, Reagan Administration policies have achieved a dramatic turn-around in the budget impact of these programs. Over the five years ending in 1981, constant dollar net outlays totalled $1.7 billion compared to current services baseline negative net outlays of $8.4 billion projected for 1985-89. This represents a $10.2 billion reduction in the deficit between the two periods.

Constant Dollar Trend

(1985 dollars in millions)

Period	Cumulative constant dollar net outlays
1977–1981	+1,745
1985–1989 current services	−8,415
Change	−10,160

1985 Budget Proposal

For 1985 and beyond, guaranteed loan limitations for both the FHA and GNMA mortgage-backed securities programs are assumed to be held to their 1984 levels—$50.9 billion for FHA and $68.25 billion for GNMA.

Rationale

These levels are projected to be high enough to accommodate the demand for Government-backed mortgage financing because:

- 1983 was a peak year, with $44.6 billion in FHA mortgage insurance commitments, reflecting the recovery in home sales and the high volume of mortgage refinancings by homeowners who had purchased their homes during the 1981-1982 high interest rate period.
- Actual commitments for FHA mortgage insurance are projected at $40.9 billion in 1985, $10 billion below the $50.9 billion ceiling—indeed this ceiling level is expected to be adequate to provide for total FHA insurance activity for each year through 1989.
- 1983 was also a peak year for GNMA MBS activity, with $64.2 billion in commitments, largely reflecting the refinancings of FHA and VA-insured mortgages. Because fewer homeowners are expected to refinance in 1985, the $68.25 billion commitment limit should be adequate to provide for expected demand for GNMA MBS guarantees.

Housing for the Elderly or Handicapped

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	631	698	740	787	834	880	3,940
Outlays	803	803	712	699	741	781	3,735
1985 Budget Level:							
Budget Authority	631	498	530	566	597	625	2,817
Outlays	803	803	712	648	583	559	3,304
Change:							
Budget Authority	....	−200	−210	−222	−237	−255	−1,123
Outlays	....	....	....	−51	−158	−222	−431

Program Description

This program provides direct loans to non-profit organizations sponsoring the construction or rehabilitation of rental housing for the elderly or handicapped. These projects also receive section 8 new construction subsidies to enable low-income households to afford the rents in these projects (see factsheet on Subsidized Housing for description).

Current Status

Since this program was created in 1959, 120,000 housing units for the elderly have been built with direct loans under this program.

About 55,000 additional newly constructed housing units currently in planning or under construction will be available for occupancy over the next 3 years.

1985 Budget Proposal

The 1985 budget proposes to continue shifting funds away from costly subsidies for newly-constructed units towards more flexible housing vouchers which rely on the existing stock of private rental housing.

Consistent with this policy, the 1985 budget requests a $133 million reduction in budget authority, reflecting the proposed decline in new unit commitments from 14,000 in 1984 to 10,000 in 1985.

The Administration has maintained the current level of new subsidized housing assistance by increasing funding for housing vouchers out of the subsidized housing program.

Rationale

In recent years, the cost of building or rehabilitating housing for the elderly has grown to the point where it is no longer possible to maintain the current level of new commitments. Construction costs in 1985 will approach $50,000 per unit with corresponding section 8 new construction rent subsidies of $160,000 per unit over the 20-year subsidy term. This results in an average annual subsidy per household of about $5,000 during the first year of occupancy as compared to $2,500 in the housing voucher program.

Many low-income elderly do not wish to move to new accommodations in order to receive Federal subsidized housing assistance. The housing voucher program will permit the elderly to stay in their own units while at the same time reducing the portion of their income paid for housing.

The housing voucher 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 the institutionalization of the elderly and handicapped.

Other Housing Programs

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	202	....	....	....	....	....	....
Outlays	310	134	111	106	106	97	553
1985 Budget Level:							
Budget Authority	202	1,200	1,200	1,200	1,200	1,200	6,000
Outlays	310	1,334	1,276	1,258	1,239	1,220	6,327
Change:							
Budget Authority	....	+1,200	+1,200	+1,200	+1,200	+1,200	+6,000
Outlays	....	+1,200	+1,166	+1,152	+1,134	+1,122	+5,774

Program Description

The Department of Housing and Urban Development operates several programs that provide various forms of assistance for subsidized housing. The largest of these, the low rent public housing loan fund, provides direct loans and loan guarantees for the development and modernization of public housing. It also makes periodic payments to the Federal Financing Bank (FFB) in amounts representing the difference between the tax-exempt interest rate carried by public housing authority (PHA) obligations and the Treasury borrowing rate for obligations purchased by the FFB from 1980-1983. Financing public housing obligations through the FFB converts 100%, federally guaranteed short-term, tax-exempt notes issued by PHA's into long-term loans from the Treasury financed by taxable Treasury securities. In this off-budget FFB account, the new loans are recorded as budget authority and new loans minus repayments as outlays. Housing programs in this group also provide interest-free loans to non-profit organizations to plan Section 8/202 projects, funds for a demonstration program for congregate services for the elderly and handicapped, and assistance for FHA-insured troubled multifamily projects in need of repair to remain viable.

Current Status

Because these programs have carry-over balances and receipts from loan repayments, no appropriations were requested in the 1984 budget for these activities. Most of the budget authority and outlays for "Other Housing Programs" is due to off-budget FFB direct loan transactions. The $14 billion in PHA notes currently outstanding make-up a sizable portion of the tax-exempt short-term market. The purchase of PHA notes by the FFB, which is proposed to continue at a higher level in 1985, reduces the supply of short-term tax-exempt instruments and should enable other tax-exempt borrowers to obtain more favorable prices for their short-term securities. Long-term financing of the 30-40 public housing obligations through the FFB reduces Federal exposure to interest rate changes by enhancing the Treasury's debt management capabilities. In addition, this form of long-term financing of public housing obligations eliminates the tax expenditure resulting from the use of tax-exempt financing.

1985 Budget Proposal

As in 1984, the 1985 budget requests no appropriations for these programs. The resources currently available are believed to be sufficient to meet program objectives. However, "off-budget" budget authority and outlays will increase if the Administration's proposal to provide $1.2 billion of long-term financing per year in public housing obligations through the FFB is adopted.

Rationale

With sufficient resources available to meet the objectives of these programs, no additional appropriations are required. The increases in budget authority and outlays from off-budget direct loans result from the conversion of short-term fully guaranteed private loans to direct long-term loans from the Treasury. Because the FFB transaction also changes tax-exempt to taxable financing, it will more accurately reflect the full cost of the public housing program to the Federal Government. In addition, Treasury's ability to manage Federal borrowing will improve and "crowding" in the short-term tax-exempt market will ease.

Financial Institution Funds

Financial Depository Institutions

[In millions of dollars]

Agency: FDIC/FHLBB/NCUA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	61	18	28	39	51	62	198
Outlays	−2,249	−2,752	−2,953	−3,177	−3,725	−4,380	−16,987
1985 Budget Level: [2]							
Budget Authority	61	12	26	37	48	60	183
Outlays	−2,249	−2,757	−2,955	−3,179	−3,728	−4,383	−17,002
Change: [3]							
Budget Authority	....	−6	−2	−2	−2	−3	−15
Outlays	....	−5	−2	−2	−2	−3	−15

[1] Budget authority and outlays for 1985 through 1989 include amounts for pay increases at the beginning of each fiscal year.

[2] Budget authority and outlays for 1985 through 1989 include amounts for pay increases as of January 1985 and at the beginning of each following fiscal year.

[3] Differences are due solely to different assumptions for current services pay increases and current policy pay increases. If different pay increase assumptions for 1985 through 1989 were not considered, there would be no differences for any year between current services and current policy (the 1985 budget level).

Program Description

Financial depository institutions include the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board (and its Federal Savings and Loan Insurance Corporation), and the National Credit Union Administration (and its National Credit Union Share Insurance Fund). These agencies insure the deposits of member banks, thrifts, and credit unions and, along with the Federal Reserve and the Comptroller of the Currency, supervise and regulate these financial institutions.

The budgetary amounts shown in the header table above could change secondary to congressional action on the Vice President's Financial Deregulation Task Force proposals to restructure the Federal financial regulatory agencies.

Constant Dollar Trend

In each of the last two five-year budget periods, the deposit insurance funds and related programs have generated about $8-$9 billion in constant dollar net receipts (negative outlays). Constant dollar net receipts are projected to nearly double to $15.5 billion in the next five years due to projected strong housing and financial markets for 1985-1989; the improved ability of financial institutions to compete in the marketplace as a result of de-regulation and expanded asset and liability powers; merger initiatives to handle troubled institutions; and tight management of the insurance programs. This increase will contribute significantly to lower unified budget deficits.

Constant Dollar Trend

(1985 dollars in millions)

Five-year period	Cumulative constant dollar outlays
1975–79	−8,873
1980–84	−8,110
1985–89 current services	−15,498

1985 Budget Proposal

For 1985, the Administration currently proposes no changes in the activities of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration. Receipts (negative outlays) are estimated to increase by over $500 million from 1984 to 1985 as generally improving economic conditions and lower, more stable interest rates decrease the amount of Federal assistance required to help troubled financial institutions and safeguard depositors' accounts. These increased receipts will strengthen further the insurance reserves of these agencies.

Rationale

The Administration's proposals and budget estimates for 1985 would continue to support the activities of these three agencies in promoting the safety and soundness of the banking system and insuring the savings of individual depositors up to $100,000.

CHAPTER 2

Social Insurance and Retirement

Social Insurance and Retirement Overview

Social insurance and retirement programs are the largest single group of domestic programs. They include social security, medicare, Federal retirement, unemployment insurance, railroad retirement, black lung, and the Pension Benefit Guaranty Corporation. In general they are financed by dedicated revenues, chiefly payroll taxes, which gives them their "insurance" character. Until recently they were also the fastest growing group in the Federal budget. Twenty years ago social insurance and retirement programs were 39% of all domestic programmatic outlays; they are now 57% of the domestic budget. The growth in these programs has gone through two distinct phases:

- An era of *bipartisan legislative expansion* between 1962 and 1977; and
- An era of *bipartisan legislative restraint* between 1977 and the present.

The era of expansion resulted in real growth rates over 1962-1981 of 8.7%. In real terms, 1981 outlays were almost *five times higher* than the comparable level for social insurance and retirement programs in 1962.

The dramatic increase in social insurance and retirment programs has abated since 1980. As a result of social security reforms adopted in 1977, 1980 and 1983, and medicare, unemployment compensation, and railroad retirement reforms adopted in the same time period, the real current services growth rate for social insurance programs will decrease to 3.4% over the 1981 to 1986 period. By 1989, the solvency gap in the social insurance budget as a whole will be nearly closed. This period of rapid expansion, followed by an era of restraint, is graphically illustrated in the following chart.

Era of Legislative Expansion

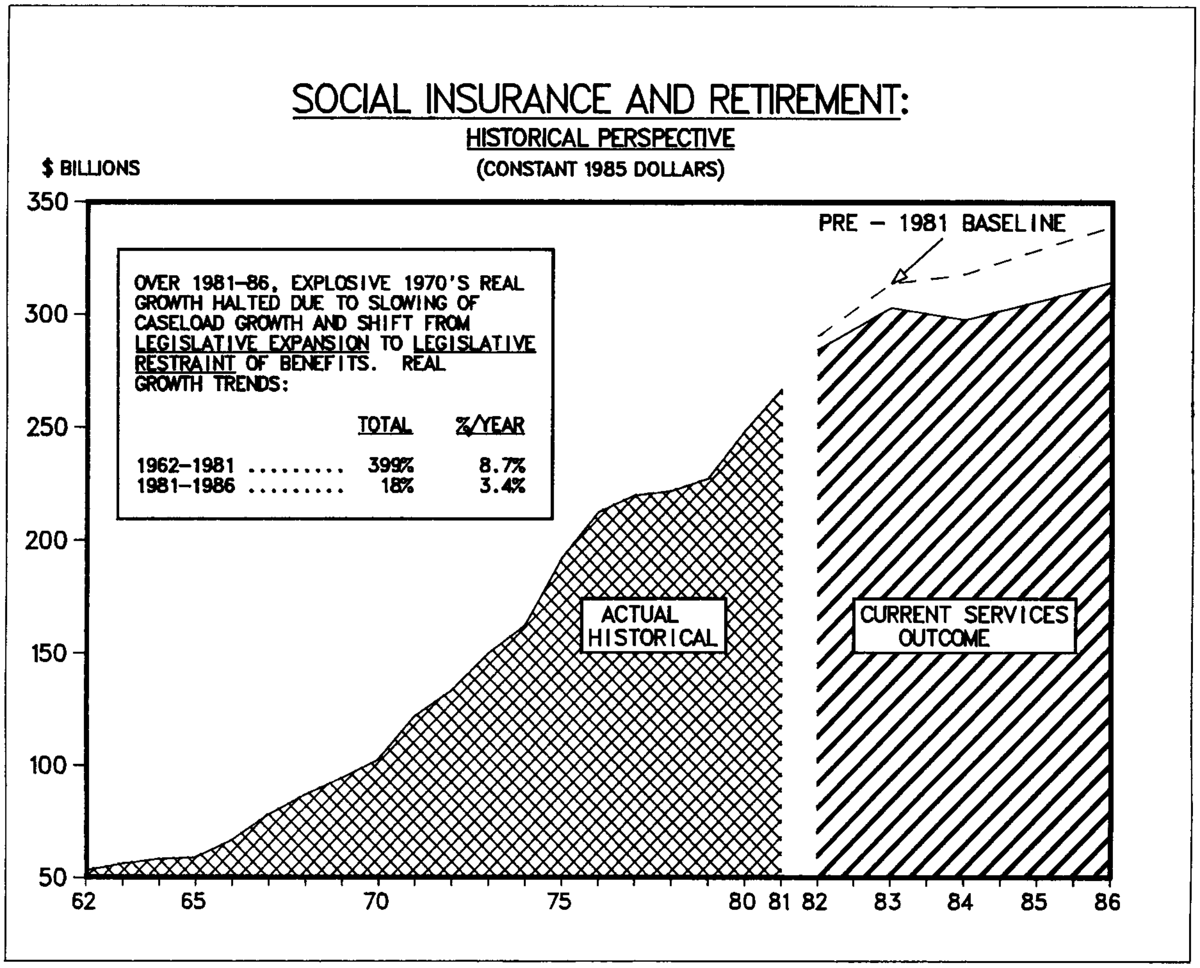
The growth in outlays for social insurance and pension programs between 1962 and 1981 was faster than any other category of the Federal budget. It translated into an increase in the share of GNP for social insurance and retirement programs from 2.9% in 1962 to 7.6% in 1981, accounting for more than the entire increase in the ratio of Federal spending to GNP during these 19 years. The peak share was reached in 1983 at 8.6%.

Social Insurance and Retirement Growth

(In billions of constant 1985 dollars)

	Actual					Current services	
	1962	1965	1970	1975	1981	1985	1989
Medicare	....	....	15.3	23.6	46.3	69.1	92.4
Social security	46.8	54.2	77.6	126.0	168.5	188.3	209.4
Federal retirement [1]	−7.4	−5.2	−0.8	12.1	24.8	24.3	28.0
Unemployment insurance	11.7	8.1	8.1	24.7	20.6	18.3	12.7
Other	2.2	2.1	2.7	5.8	6.6	5.9	5.7
Total, social insurance and retirement	53.4	59.2	102.8	192.3	266.8	305.8	348.1
Annual average growth rate (from prior period)	N/A	3.5	11.7	13.3	5.4	3.5	3.3
As a share of domestic budget	39.2	38.6	43.0	46.7	50.7	57.5	62.3
As a share of GNP	2.9	2.8	4.1	6.7	7.6	7.9	7.7

[1] Federal retirement includes the employer contribution for military retirement. The contribution is on an accrual basis, i.e., the annual cost of the future retirement for the present employees. The contributions are treated as negative outlays and more than offset the Federal retirement benefit outlays in the early years.



The real growth in these program can be attributed to both increases in the number of beneficiaries and increases in the level of real benefits distributed.

- *Increases in beneficiaries.*—From 1962 to 1981 the number of beneficiaries of existing programs doubled because of the legislation expanding the definition of eligibility and caseload growth relating to the general aging of the population. Approximately three-fourths of the beneficiaries of these programs are aged, a group who increased 55% in numbers between 1962 and 1981. In addition, medicare was introduced in 1966 and by 1981 its beneficiaries had grown to 7.2 million for hospital insurance and 28.6 million for supplementary medical insurance.
- *Increases in real benefits.*—These increases result from excessive cost-of-living adjustments (COLAs), increases in wage histories on which initial retirement benefits are based, and legislative expansions of both benefits and services such as adding physical therapy and home health services to medicare.

The causes of real growth differ among the programs. For social security and medicare, the growth in average real benefits was even more important than the substantial growth in beneficiaries. However, for Federal retirement programs and unemployment insurance, the growth in beneficiaries was much more important than increases in real benefits.

Overindexation of retirement benefits.—Average real benefits in all the retirement programs grew substantially in the 1970's, partly because of legislative increases, but also because they were overindexed. The cost-of-living index that was used to adjust Federal social insurance benefits, the Consumer Price Index, overcompensated for the rising costs of home mortgages and therefore overstated the rise in the actual cost-of-living the average Federal beneficiary faced. Since a more accurate measure of consumer prices was not available when the first automatic cost-of-living adjustments were made in social security in 1975, the CPI was used and the average benefit was about 6% larger than it should have been by 1981.

Between 1970 and 1975, Federal retirees also received a 1% COLA kicker every time their benefits were adjusted. Before this provision was changed, it provided Federal retirees an additional windfall in their benefits from 1970 to 1975 of more than 5%. In addition, between 1976 and the 1981 reforms, benefits were indexed twice a year. The combined effect of these COLA provisions was to give retirees increases in their benefits that exceeded the increases in average wages for the working population. This trend was particularly troublesome for Federal employees, where retirees' compensation rose faster than that of the active employees. Thus the employee who retired in 1970 receives an annuity today that is 27-34% more than the annuity of an employee who retires this year at the same grade and step.

Underindexation of medicare copayments.—At the same time that retirement benefits were overindexed, medicare deductibles and premiums were underindexed. For example, between 1970 and 1981, the supplementary medical insurance (SMI) deductible rose from $50 to $75, a yearly growth rate of 3.7%. If the medical component of the CPI had been used to index the deductible each year, the deductible in 1981 would have been about $120, 60% greater than it actually was. Likewise, in 1970, the SMI premium paid by beneficiaries was set at 50% of program costs. By 1981, the beneficiaries' contribution has decreased to 25% of program costs.

Dedicated trust fund financing principle.—The overindexation of retirement benefits and the underindexation of medicare copayments exacerbated the fiscal deterioration of the social insurance and retirement trust funds. Between 1979 and 1983, the balance between current cash outlays and dedicated trust fund receipts steadily worsened under the combined pressure of overindexed benefits, high unemployment, stagnant real wages and the underindexing of medicare copayments. The steady improvement after 1983 in the solvency of the trust funds projected under both current law and the 1985 budget reflects the cumulative and growing effects of solvency reform and benefit restraint legislation adopted beginning in 1977. This deteriorating trend and its reversal is illustrated in the accompanying table.

Social Insurance and Pension Trust Fund Solvency [1]

(Dollars in billions, actual through 1983 and current services thereafter)

	Outlays	Receipts	Deficit	Receipts as a percent of outlays
1979	154.7	138.9	−15.8	90%
1980	183.5	157.8	−25.7	86%
1981	216.1	182.7	−33.4	85%
1982	246.8	201.5	−45.3	82%
1983	276.2	209.0	−67.3	76%
1984	283.5	239.5	−44.1	84%
1985	305.5	269.0	−36.5	88%
1986	328.4	294.6	−33.8	90%
1987	354.0	320.3	−33.7	90%
1988	380.2	357.7	−22.5	94%
1989	408.2	389.5	−18.6	95%

[1] Includes medicare, social security, unemployment insurance, Federal civil service retirement and railroad retirement.

Era of Bipartisan Restraint

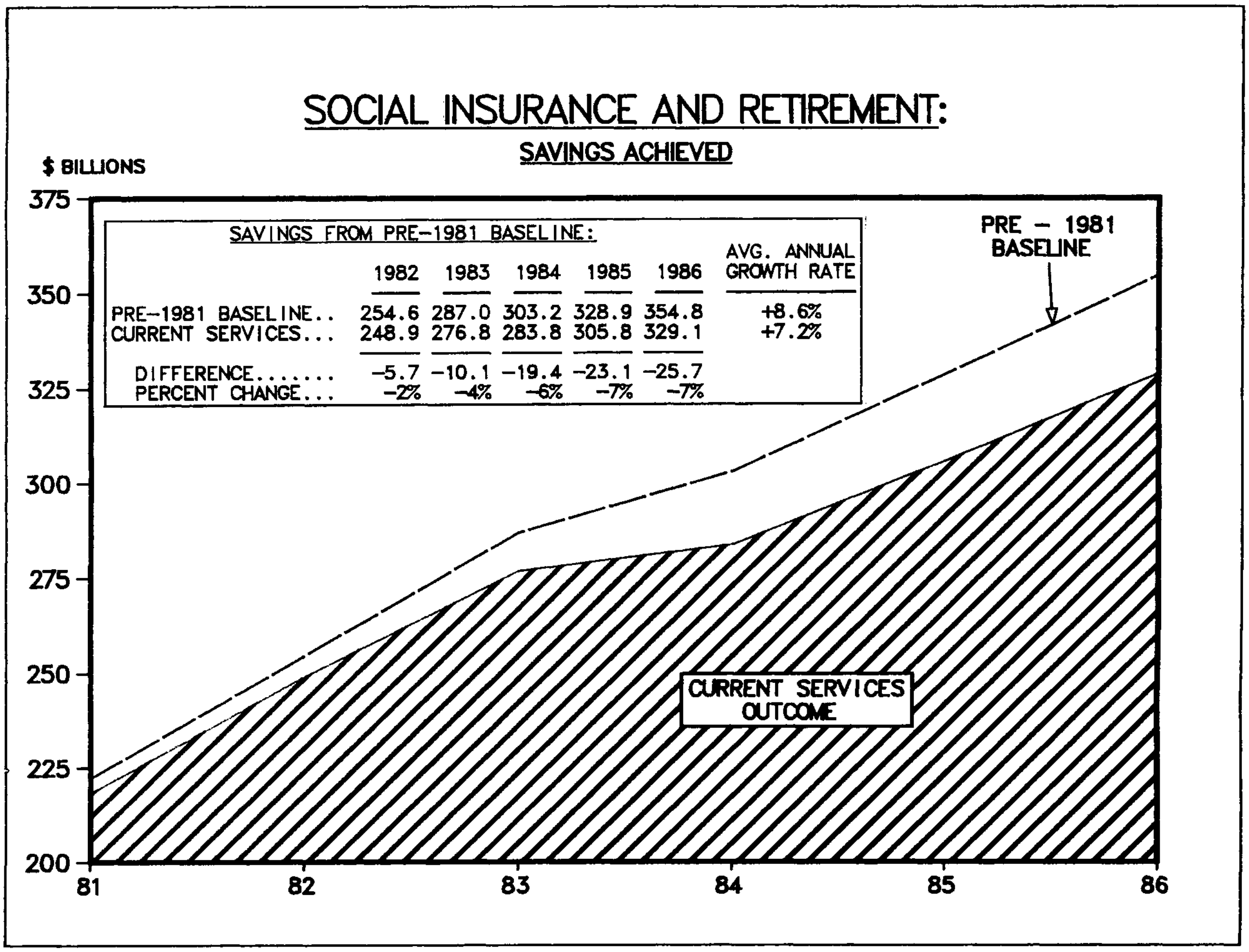
Since 1977, a bipartisan recognition has emerged that social insurance programs were rapidly becoming unaffordable and insolvent. A consensus about how to control the growth of social insurance and pension programs developed based on the following principles:

- A commitment to maintaining the basic structure of universal protections against the risks of unemployment, retirement, old age, sickness, and disability that emerged over the four decades prior to 1980;
- Recognition that benefit liberalizations, coverage expansions and ad hoc payment increases granted during the 1960's and 1970's had produced unsustainable growth momentum that had to be checked firmly;
- Rejection of massive annual general fund subsidies as a means of halting the deteriorating financial condition of various social insurance trust funds in favor of "solvency plans" that reinforce the essential social insurance character of these programs; and
- Solvency reform formulas based on a "shared responsibility" principle that has included fiscally responsible increases in trust fund contributions and a slowdown in the growth of benefits, thus steadily reversing the massive funding shortfalls that emerged in the late 1970's and early 1980's.

The legislative improvements began with the 1977 Social Security Act, which raised scheduled payroll taxes throughout the 1980's. It also prospectively lowered the benefit replacement rate by 40% when fully effective in 1989 compared with prior law, correcting a largely unintended increase in the replacement rate enacted in 1972. The disability amendments of 1980 have likewise had a substantial effect on the growth rate of outlays in this part of the system. Since 1980 there have been four other major reforms that have significantly improved the fiscal condition of the social insurance programs:

- The 1981 Reconciliation Act amendments resulted in modest medicare and social security benefit cost savings, such as phasing out the adult student benefit, as well as initial steps to improve the solvency of the unemployment insurance program;
- The 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) amendments had a major cost restraining impact on medicare by limiting hospital reimbursements. The TEFRA amendments also extended medicare coverage and corresponding payroll taxes to Federal employees;
- The 1983 bipartisan social security amendments increased contributions from workers and employers, restrained benefits through a 6-month COLA delay and imposed taxes on a portion of the benefits of higher-income beneficiaries. The amendments extended the effects of the 1981 Act on the unemployment insurance program; they also used the hospital restraints in TEFRA as the basis for the medicare prospective reimbursement reform, replacing "pay-what-it-costs" hospital reimbursement of past years with set fees for patients with specific diagnoses; and finally
- The 1983 bipartisan bill on railroad retirement increased employer pension contributions and conformed benefit payments more closely to social security in order to restore the system's solvency.

The accompanying chart shows the budget savings from these four reforms. Current services outlays will be $23 billion less in 1985 and $26 billion less in 1986 than they would have been under the pre-1981 law. Cumulatively from 1982 to 1986, $84 billion or 5.5% will have been saved from the pre-1981 baseline. This is a remarkable achievement for programs that have traditionally been considered uncontrollable and almost untouchable.



Additional Savings Proposed

Because the recently enacted reforms of social security and railroad retirement represented carefully balanced bipartisan compromises, it would be inappropriate to re-open these issues. Therefore, the present budget proposals concentrate instead on the Federal retirement programs and medicare.

The 1985 budget proposes modest further reforms consisting mainly of COLA delays for Federal civilian retirement and previously proposed medicare savings. These would save a total of $25 billion over 1985-1989 or 1.4% of the current services baseline. The remaining growth in this category could be reduced even further with additional needed reforms in medicare and Federal retirement.

The main proposals in the 1985 budget for social insurance and retirement programs are listed below. The first three are proposed to redress the past overindexation of Federal retirement benefits and the underindexation of medicare copayments:

- *Limit COLAs in Federal retirement programs.*—The payment date for COLAs would be shifted from June, 1984 to January, 1985 and January thereafter to match the COLA delay that has already been enacted for social security. COLAs would be limited to the lower of the CPI increase or the General Schedule pay increase, and limited to 55% of the full COLA on the amount of an annuity that exceeds $10,000 beginning in 1985.

- *Increase SMI premium.*—The SMI premium was originally set at 50% of program cost, but has deteriorated significantly over the years so that it pays only 25% today. Under the proposal SMI premiums would gradually be increased to 35% of program costs by 1990.
- *Increase SMI deductible.*—The SMI deductible would be updated annually based on changes in an index of medicare's costs.
- *Increase employee and agency contribution to civil service retirement.*—Federal employees and matching agency contributions would increase from 7% in 1984 to 8% in 1985 and 9% in 1986.
- *Limit physicans reimbursement.*—Medicare reimbursements to physicians would temporarily remain at 1984 reimbursement rates. Medicare reforms in the last 3 years have affected primarily hospitals and beneficiaries while physicans fees have been little affected.
- *Cover railroad workers under regular State/Federal unemployment insurance.*—This would assure availability of unemployment benefits for railroad workers whose separate unemployment insurance system is insolvent.
- *Correct the deteriorating financial condition of the Pension Benefit Guaranty Corporation (PBGC).*—This proposal would increase PBGC premium charges to assure that it can remain self-financing.

These proposals and others are discussed in more detail in the factsheets that follow. Together they would save $1.6 billion in 1985, growing to $24.8 billion by 1989.

Further Savings Proposed

(Outlays in billions)

Major program area	1985–89 Current services	1985–89 1985 request	1985–89 Proposed savings
Medicare	$438.6	$419.8	$18.8
Social security	1,083.9	1,083.9	....
Federal retirement [1]	139.9	134.5	4.8
Unemployment insurance	83.3	83.3	....
Other	31.1	29.9	1.2
Total, social insurance and retirement	1,780.3	1,745.7	24.8

[1] Excludes the military retirement fund and Federal employee contributions to the civil service and military retirement funds.

The More Restrained Growth in the Future

As a result of the already enacted and proposed reforms summarized above, the outlook for the 1980's reflects significant progress in bringing social insurance and retirement cost growth within sustainable limits. Given the President's proposals, the average annual percent real growth is estimated to be reduced from a rate of 13.3% in the early 1970's to 3.3% from 1985 to 1989 under current services, or 2.7% assuming enactment of the President's proposals. Most revealing, however, is that these programs are no longer growing as a share of GNP and are projected to decline, as illustrated in the previous table.

A significant measure of success achieved thus far in both slowing the growth and restoring the solvency of the major social insurance programs is due to the acceptance of the dedicated financing principle. Thus, when outlays recently were substantially outrunning trust fund receipts, reforms adjusted both benefits and receipts to reestablish a balance. To be sure, the dedicated financing principle is not universally applied to all of the social insurance programs. Medicare, some unemployment compensation benefits, and Federal retirement annuities use general revenues. Nevertheless, dedicated financing has been the historical structure of these programs and the cornerstone on which the recent bipartisan reforms have been built. The principle of dedicated financing should continue to be a major factor in further reforms to the social insurance and retirement programs. Future reforms of the Federal employee retirement programs and medicare trust funds, which require general revenues to meet their obligations, will need to focus on this imbalance by increasing receipts and limiting the growth in benefits in order to further decrease the reliance of these programs on general fund financing.

In contrast to the substantial decline in growth rates for most social insurance and retirement programs during the 1980's, the decline in medicare has been considerably less dramatic. Real medicare annual growth rates have been reduced significantly since the 1970's when they averaged 10.2% annually, to an estimated 6.1% from 1985 to 1989 under present proposals. However, these estimated rates are still nearly four times greater than the growth of the rest of the programs in this category and more than 20 times the proposed annual rate of growth of the domestic budget from 1985 to 1989. The medicare trust fund is expected to be insolvent by the early 1990's unless further reforms are made. While the timing of the insolvency varies depending on who does the estimates, the insolvency itself is not in doubt under current law. Even if medicare weren't insolvent, the budget cannot sustain these real growth rates in excess of comparable rates for the domestic budget as a whole. Therefore, longterm structural reforms in medicare will eventually be required, as suggested by the first factsheet in this chapter.

The following factsheets cover the four major areas in social insurance and retirement: medicare, social security, Federal retirement and unemployment insurance. The fifth area, other social insurance, is described by three factsheets on railroad retirement, black lung and the Pension Benefit Guaranty Corporation.

Medicare

Medicare

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	62,773	70,793	82,874	98,294	102,317	110,044	464,322
Outlays	59,653	69,105	76,936	86,606	97,214	108,709	438,571
(Premiums and collections)	(−4,960)	(−5,908)	(−6,439)	(−6,870)	(−7,317)	(−7,768)	(−34,302)
1985 Budget Level: [1]							
Budget Authority	62,778	70,203	81,996	96,789	96,125	103,997	449,110
Outlays	59,503	68,073	74,871	83,177	92,092	101,587	419,802
(Premiums and collections)	(−4,960)	(−6,015)	(−7,354)	(−8,928)	(−10,760)	(−12,878)	(−45,935)
Change:							
Budget Authority	+5	−590	−878	−1,505	−6,192	−6,047	−15,212
Outlays	−150	−1,032	−2,065	−3,429	−5,122	−7,122	−18,770
(Premiums and collections)	....	(−107)	(−915)	(−2,058)	(−3,443)	(−5,110)	(−11,633)

[1] Budget authority and outlays include all HI and SMI offsetting receipts and collections, 99 percent of which are from SMI premiums. Only SMI premiums are affected by proposed legislation.

Program Description

Medicare is a Federally managed and subsidized health insurance program for persons 65 and older and those who are disabled or suffer from end stage renal disease (ESRD). Medicare covers approximately 28 million aged persons, 98% of all the elderly, and 3 million disabled persons. It consists of two parts:

- Hospital Insurance (HI or Part A), financed by Social Security payroll taxes, which helps pay for care delivered by hospitals, skilled nursing facilities, home health agencies, and hospices; and
- Supplementary Medical Insurance (SMI or Part B), the voluntary part of the program, which is financed by premiums paid by beneficiaries (currently 25% of program costs) and by general revenues. Part B helps pay for doctors, hospital outpatient and laboratory services, durable medical equipment, treatment for ESRD, and other medical services and supplies.

Current Status

The current projected rate of increase in medicare spending could, if left unchecked, jeopardize continued broad-based public support and acceptance of the medicare system. In constant dollars, the annual rate of growth in medicare expenditures since 1966 has been *more than double* that for total domestic spending.

Although originally designed to be a largely self-sustaining insurance program financed by a balance between payroll taxes and premium contributions, medicare increasingly has become a major draw on Federal tax dollars. In particular, the rate of increase in SMI premium financing has not kept pace with expenditure growth. By 1982, premiums financed only half as much in program expenditures as they had during the early years of the program.

The Administration and Congress have taken important bipartisan steps to address the explosive escalation of medicare expenditures. Under the Social Security Amendments of 1983, a new system was put in place which radically restructured the way medicare pays for hospital services. The new prospective payment system (PPS) holds great promise for controlling increases in hospital expenditures by fundamentally altering provider incentives. Formerly, medicare rewarded inappropriate, or inappropriately long, hospital stays and other unneccessary uses of resources. The new PPS should have far-reaching effects, but more time is needed to determine its full impact.

The SMI program, on the other hand, continues to experience tremendous cost increases, but in the past has escaped close scrutiny and significant reform. The rate of increase in SMI benefits payments—80% of which are driven by payments to physicians—has averaged 20% annually since 1978, more than twice as fast as inflation in the general economy and about ten times faster than enrollment increases would suggest. At the same time, the proportion of the program subsidized by general revenues has grown substantially; the share borne by beneficiaries' premiums has eroded dramatically from 50%, when the program first began, to 25% currently. Consequently, the 1985 budget focuses on this priority area.

Constant Dollar Trends

Between 1967 and 1982 the constant dollar cost of medicare rose from $7.6 billion to $51.7 billion—a sevenfold increase. Real growth averaged 13.4% per year during this period. Between 1982 and 1984 the real growth rate fell to 10.0% per year. Under current services, the real growth rate is expected to fall further to 8.1% per year between 1984 and 1989, and to 6.7% per year if the policies recommended in the President's budget are adopted. Despite this welcome slowing in cost growth, 1989 constant dollar costs under current services are projected to exceed the 1984 level by 48% and the 1979 level by 149%.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1967	7,572
1970	15,295
1979	37,166
1982	51,670
1984	62,568
1989 current services	92,441
1989 budget	86,384

1985 Budget Proposals

The budget proposals, with almost $19 billion in savings from 1985-89, represent a major step toward placing the medicare program on firmer financial footing. The major proposals would:

- Slow the increase in the current rate of expenditures by constraining the indexing of physician payments, on a one time basis. Temporarily freezing physician payments would save $600 million while reducing the average medicare payment by about 4%. This follows the precedent of delaying cost of living increases established in the 1983 Social Security Amendments.
- Restore the economic value of the SMI deductible by tying it to the medicare economic index (MEI), making it more consistent with private industry levels. In 1985 the deductible would increase from $75 to $80, a level well below what would be required to make it comparable to deductibles established in private industry.
- On a phased basis, end medicare's mounting dependence on Federal tax revenues by restoring the balance in financing between SMI premiums and general revenues. Over six years, premiums would increase from 25% to 35% of program costs, a level significantly below that

experienced in the early years of the program, when premiums covered 50% of the program's cost.

The SMI premium would cover an additional 1.67% of program costs each year through 1990. In 1985, the premium would increase under this proposal a modest 40 cents per month or $4.80 per year per beneficiary.

- Begin medicare eligiblility coverage for individuals at the start of the first full month in which they are 65 years old. Under current law, eligibility can begin before an individual's 65th birthday occurs. This would make initial medicare eligibility consistent with initial eligibility in Social Security. Insurance gaps would not be created since most group plans extend coverage until medicare coverage begins.
- Contribute to systemwide health care reform by enhancing competitive behavior among medicare beneficiaries through a voluntary voucher program. Competition would also be encouraged by allowing competitive bidding for laboratory and other medical services.

The 1985 budget also includes $171 million to be paid from the HI Trust Fund in 1985 for the new Peer Review Organization (PRO) program, which was created in 1982. PROs will play a critical role in ensuring that effective and appropriate care is being provided to beneficiaries under the new prospective payment system.

Finally, in addition to the proposals which directly affect the financial status of the medicare trust funds, the Administration is proposing to limit tax subsidies for employer contributions to their employees' health insurance premiums. Employer contributions above $175 monthly for a family or $70 for an individual would be treated as taxable income to employees. In addition to alleviating the distorted tax treatment accorded health insurance premiums, the proposal would moderate excessive increases in health care costs. This proposal would generate $40 billion in tax revenues, which includes over $2 billion in income to the medicare HI trust fund, over the next five years.

Currently, individuals have an incentive to purchase expensive health care policies with pre-tax dollars. These "first-dollar," low cost-sharing policies encourage excessive use of services with little cost-consciousness on the part of either providers or consumers. Further, the tax subsidy favors workers with higher incomes. This proposal would alleviate this inequity, allowing individuals and families to continue purchasing adequate health insurance policies. Approximately 22% of workers would have employer contributions above the cap, and would be subject to taxes in 1985.

Rationale

The medicare program represents a major and long standing commitment to the medical security of America's elderly and disabled citizens. Although there is general agreement about the nature and magnitude of the problem medicare faces, no clear consensus exists on a long range solution. The 1985 budget proposals recognize the major accomplishments that the Congress enacted in the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 and the Social Security Amendments of 1983. Accordingly, the 1985 proposals focus on generally agreed upon reform priorities such as physician reimbursement, while allowing time to observe the effects of the significant reforms in hospital payments associated with prospective payment. In 1985, the proposals would temporarily limit SMI expenditures to achieve a more fiscally supportable growth rate of 14%, rather than the currently projected rate of 17% in 1985.

Social Security

Old Age, Survivors, and Disability Insurance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	175,900	197,619	212,365	226,354	267,145	298,942	1,202,425
Outlays	176,774	188,260	201,764	216,417	231,306	246,196	1,083,943
1985 Budget Level:							
Budget Authority	175,900	198,467	213,237	227,044	271,830	302,235	1,212,813
Outlays	176,774	188,259	201,764	216,417	231,306	246,196	1,083,942
Change:							
Budget Authority	....	+849	+872	+689	+4,685	+3,293	+10,387
Outlays	....	−2	....	....	+1	....	−1

Program Description

The Social Security program provides income to retired and disabled workers, their dependents, and survivors. The program is financed primarily by payroll taxes paid by employees, employers, and self-employed individuals.

Current Status

On April 20, 1983, the President signed into law the Social Security Amendments of 1983. This bipartisan legislation—recommended by the National Commission on Social Security Reform and endorsed by the President, the Speaker of the House, and the Majority Leader of the Senate—averted a financial crisis in the Old Age and Survivors Insurance (OASI) trust fund. Without this legislation, the OASI fund would have been unable to pay full benefits on a timely basis.

This legislation:

- extended Social Security coverage to Government workers and others not previously covered by Social Security;
- taxed a portion of social security payments going to higher income workers;
- shifted automatic benefit increases to a calendar year basis;
- rescheduled social security payroll tax rates;
- made self-employed tax rates equal to the combined employee-employer tax rates;
- provided a means to reimburse the trust funds for costs that should be borne by other appropriations;
- gradually increased the age of eligibility for benefits, beginning in the year 2000; and
- created safeguards that stabilize and restore the solvency of the OASI trust fund.

Constant Dollar Trend

During the last four years of the 1980's, social security constant dollar outlays will be four times greater than during the 1962-65 period. However, the unsustainable growth momentum of the late 1960's and 1970's has dramatically abated. Constant dollar costs in 1986-89 will represent only a $183 billion or 29% real increase over 1978-81. By contrast, the latter represented a $417 billion or 200% increase over 1962-65.

Constant Dollar Trend in Four-Year Intervals

(1985 dollars in billions)

Period	4-year constant dollar cost	Change over prior period
1962–1965	$204.4	....
1966–1969	267.8	+31.0%
1970–1973	368.8	+37.7%
1974–1977	515.9	+39.9%
1978–1981	621.4	+20.5%
1982–1985	733.6	+18.0%
1986–1989	804.6	+9.7%

Constant Dollar Trend on an Annual Basis

(1985 dollars in millions)

Year	Amount
1962	46.8
1972	93.8
1982	175.6
1985 current services	188.3
1989 current services	209.4

1985 Budget Proposal

Consistent with last year's bipartisan agreement on social security reform, no changes in current law spending are proposed for social security.

The additional budget authority shown in the table above results from the proposal to include a portion of health insurance premiums paid by employers in employees' income. This change is discussed in greater detail in the section on Medicare.

Federal Retirement Programs

Federal Employee Retirement and Disability

Agency: Office of Personnel Management

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	37,220	39,702	42,585	45,567	48,376	51,092	227,322
Outlays	22,593	23,990	25,999	27,878	29,781	31,702	139,349
1985 Budget Level:							
Budget Authority	37,200	40,419	44,917	48,318	51,575	54,738	239,967
Outlays	22,342	23,573	25,167	26,865	28,592	30,315	134,512
Change:							
Budget Authority	−19	+717	+2,332	+2,750	+3,200	+3,647	+12,645
Outlays	−251	−416	−832	−1,013	−1,189	−1,387	−4,837

Program Description

Civilian retirement and disability programs pay benefits to former employees and their survivors who meet eligibility requirements based on age and length of service. Unreduced benefits are available as early as age 55 with 30 years of service. Benefits are based on the employee's three highest salary years and are indexed to the Consumer Price Index (CPI). Current workers and their employing agencies each contribute 7% of wages toward retirement costs which provides only 38% of the actuarial cost of benefits.

Members of the Coast Guard (CG) and of the Commissioned Corps of the Public Health Service (PHS) receive military retirement benefits and are covered by social security. Although for most civilian employees the civil service retirement system is separate from the social security system, new employees hired after December 31, 1983 are covered under a combination of social security and a temporary version of the civil service retirement system.

Under existing law, an estimated 2.0 million civilian, CG and PHS retirees and survivors will receive payments totaling an estimated $24.0 billion in outlays in 1985.

Current Status

Recent surveys show that the benefits offered under the civil service retirement system are far superior to those offered by the average private-sector employer. Because of substantial growth in the number of beneficiaries and liberal benefit features, especially automatic cost-of-living adjustments and early retirement ages, program outlays grew rapidly over the last two decades. The program now has an unfunded liability, under present economic conditions, of $515 billion.

Constant Dollar Trend

The constant dollar costs of Federal retirement programs (excluding military retirement) exploded between 1962-1981—rising more than *six-fold* during this 20 year period. The annual real growth rate averaged 9.8%. Due to reforms implemented by the Reagan Administration and the slowing of growth in new annuitants, the average annual constant dollar growth rate fell to 2.4% between 1981 and 1984. Under current services, annual real growth is projected to average 2.6% between 1984 and 1989.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962	3,657
1971	8,309
1981	22,089
1984	23,697
1989 current services	26,958

1985 Budget Proposals[1]

In 1985, the Administration will focus its legislative effort on three major civil service retirement reform proposals: cost-of-living adjustment (COLA) reform, a high 5-year salary average for the benefit formula, and increased employee and agency retirement contributions.

Automatic cost-of-living adjustments account for more than a third of the actuarial cost of the civil service retirement system. The Administration's COLA reform proposals would: 1) shift the payment date for the next COLA increase from June 1984 to January 1985; 2) establish January as the annual adjustment date and adjust the CPI measurement period accordingly; 3) repeal the 1982 Reconciliation Act provision for a minimum 3.3% COLA in 1985 for retirees under age 62; 4) change the COLA formula to the lower of CPI or General Schedule (GS) salary growth beginning in 1986; and, 5) apply full indexation only to those annuities not exceeding $10,000—approximating the maximum primary social security benefit—with a 55% COLA adjustment for that portion of an annuity exceeding this amount. These reforms would bring COLAs for Federal civilian retirees into closer alignment with COLA practices in the non-Federal sector.

The Administration also proposes to revise the benefit computation base from the retiree's highest three years of earnings to the highest five in anticipation of continued low inflation. Employees now eligible for retirement or within three years of retirement eligibility would not be affected.

Although retirement costs have skyrocketed, the portion withheld from Federal employees' salaries has remained constant at 7% since 1969. The Administration proposes to increase the employee and agency retirement contribution from the current 7% to 8% in 1985 and 9% in 1986.

The budget also proposes smaller changes in Federal civilian retirement that are consistent with enacted reforms in social security. These include lowering the maximum eligibility age for adult students and deleting guaranteed minimum benefits. In addition, new D.C. Government employees hired after September 30, 1984 would not be eligible for coverage under civil service retirement.

Rationale

The overall objective of the Administration's 1984 and 1985 civilian retirement reforms is to achieve greater comparability of benefits with those typically found in the private sector. More significant reforms, such as those forwarded with the 1984 budget, would be necessary to fully meet this goal. The 1985 retirement proposals present an excellent first step toward implementation of the 1984 reforms because:

- Current COLA indexation benefits are not comparable to private sector practices and are extremely costly.
- Retirement payments made by agencies and employees cover less than half of the system's costs. A shift of more of the cost burden to employing agencies and employees has long been

[1] See factsheet on Military Retirement for a description of the reforms that would apply to Coast Guard and PHS Commissioned Corps retirees.

warranted. Such a shift would provide incentives for more appropriate program and personnel management decisions.

- In the 1960's and 1970's the private sector moved to shorter salary averaging periods for benefit computations to offset benefit erosion due to inflation. With lower rates of inflation anticipated and adequate COLAs for Federal annuities, it is sensible to move to a 5-year average, which is now typical in the private sector.

Military Retirement Fund

[In millions of dollars] Agency: Department of Defense—Civil

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	27,105	29,509	32,038	34,614	37,052	160,317
Outlays	....	17,644	18,920	20,144	21,372	22,641	100,720
1985 Budget Level:							
Budget Authority	....	27,324	30,786	34,001	37,261	40,296	169,668
Outlays	....	17,346	18,440	19,628	20,830	22,085	98,329
Change:							
Budget Authority	....	+219	+1,278	+1,963	+2,647	+3,244	+9,351
Outlays	....	−298	−481	−515	−541	−556	−2,391

Program Description

The 1984 Defense Authorization Act provides for the establishment of accrual accounting for military retirement at the beginning of 1985. The Military Retirement Fund will be established to which accrual payments will be paid and from which military retirees and survivors will receive benefits. Under accrual accounting, the full cost of current military manpower is more accurately reflected in the national defense category of the budget. Benefits for those already retired are more appropriately reflected in the Income Security category.

Spending for military retirement before 1985 was from the Department of Defense-Military category, and is therefore not included in the table.

Retirement benefits are available after completion of 20 years of service. For personnel entering the armed forces before September 1980 retired pay is based on a servicemember's highest basic pay. For those entering after September 1980, retired pay will be based on the average of the highest three years basic pay. Under accrual accounting, the armed forces will pay 51% of basic pay to the Military Retirement Fund to provide retirement benefits for all active and reserve service performed after October 1, 1984. For service performed before that date, Treasury will make payments to the Fund. Service members do not contribute toward military retirement benefits.

Under existing law, an estimated 1.5 million military retirees and their survivors will receive payments totaling an estimated $17.6 billion in 1985.

Current Status

Under current law military retirees will receive cost-of-living adjustments (COLA's) in May of 1984, June of 1985, and March of each subsequent year. Non-disability retirees under age 62 are entitled to 3.6% and 3.3% COLA's in 1984 and 1985, respectively.

1985 Budget Proposals

The 1985 budget proposes to delay the May 1984 COLA to January 1985 and to grant subsequent COLA's in January. This change would provide the outlay savings shown above. The increase in budget authority over the current services level would result from larger force sizes assumed for the budget compared to the current services base.

Rationale

The January implementation date and the proposed delay would be consistent with the COLA changes proposed for civil service retirees. Military and civil service retirees would continue to receive COLAs in the same month.

Unemployment Insurance

Unemployment Compensation

[In millions of dollars] Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	26,291	21,714	22,268	24,271	24,618	24,681	117,551
Outlays	18,931	18,271	17,686	16,957	15,527	14,886	83,326
1985 Budget Level:							
Budget Authority	26,291	21,837	22,435	24,503	24,910	24,990	118,675
Outlays	18,931	18,271	17,686	16,957	15,527	14,886	83,326
Change:							
Budget Authority	....	+123	+167	+232	+292	+310	+1,124
Outlays	....	....	....	....	....	....	....

Program Description

Unemployment benefits are paid to individuals who are temporarily out of work and are searching for jobs. About 97% of wage and salaried employment in the United States is covered by unemployment compensation.

Regular benefits (usually up to 26 weeks) are payable in all States. Up to 13 weeks of extended benefits are payable in States with high rates of unemployment among individuals covered by unemployment insurance. A temporary program of Federal Supplemental Compensation pays additional weeks of benefits to those who use up all the weeks of unemployment benefits to which they are otherwise entitled. This temporary program will pay benefits through March 1985.

Current Status

The unemployment compensation program reflects reforms enacted in 1981 which target the additional weeks of unemployment benefits paid under the extended benefit program to claimants in States experiencing high levels of unemployment.

As a result of these changes, outlays for benefits from 1984-1986 are estimated at $1.2 billion less in 1985 constant dollars than they would have been in the absence of the reforms. This comparison includes the effects of the temporary program of Federal Supplemental Compensation.

Constant Dollar Trend

Outlays for unemployment insurance are heavily impacted by business cycle conditions. Nevertheless, the constant dollar statistics through 1980 indicate a clear trend toward higher recession-induced peak outlays and increased residual costs at their low-point during the business expansion. As a result of the reforms enacted by the Reagan Administration and the general restraint on temporary extra benefits during the 1981-1982 recession, both recession peak and expansion low-point outlays in the 1980's will be less than during the 1970's.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
Recession Peak:	
1962	11,714
1972	15,817
1976	33,349
1983	32,407
Expansion Low-Point:	
1968	6,244
1973	11,137
1979	13,875
1989 current services	12,658

1985 Budget Proposal

No changes in current law spending for unemployment compensation are proposed in the 1985 Budget. The budget proposes extending coverage under the regular State/Federal unemployment insurance system to railroad workers who are currently covered under their own separate system. Under the proposal, railroads would begin paying into State and Federal unemployment funds on January 1, 1985. Benefits to railroad workers under the State/Federal unemployment insurance system would begin July 1, 1986, after balances to finance them had been built up. Until July 1, 1986, all unemployment benefits to newly unemployed railroad workers would be paid by States but would continue to be financed through the separate system that presently exists. Under the State system, railroad workers generally would be eligible for higher maximum weekly benefit amounts and the extended benefits available to all other workers during times of high unemployment.

Rationale

Covering railroad workers under the State/Federal unemployment insurance system would assure them of continued unemployment benefits, under the same terms and conditions as all other employees regardless of the future course of railroad employment.

- According to the Congressional Research Service, the separate railroad unemployment insurance system is insolvent and has been so for 18 of the last 23 years.
- The system has had to borrow from the rail pension fund in order to finance its benefit payments; even under the most optimistic assumptions, its debt to the rail pension fund will reach almost $1 billion by the end of 1985.
- Under existing contribution schedules the separate railroad unemployment insurance system cannot finance its benefit payments and will have to borrow to meet its debt service obligations.
- Under the 1985 budget proposal the railroad unemployment insurance funding crisis would be resolved and all debts to the rail pension fund would be repaid by about 1994.

Other Social Insurance

Railroad Retirement

[In millions of dollars] Agency: Railroad Retirement Board

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	6,275	5,328	5,451	4,849	4,773	4,874	25,274
Outlays	3,860	4,061	4,206	4,287	4,465	4,722	21,741
1985 Budget Level: [1]							
Budget Authority	6,275	5,326	5,451	4,848	4,772	4,874	25,271
Outlays	3,860	4,057	4,202	4,282	4,458	4,714	21,714
Change:							
Budget Authority	....	−1	....	....	....	....	−3
Outlays	....	−4	−4	−5	−6	−7	−27

[1] Includes the Federal Windfall Subsidy, Railroad Social Security Equivalent Benefits, and the Rail Industry Pension Fund.

Program Description

The Railroad Retirement Board (RRB) administers social security equivalent benefits and rail industry pension payments for former railroad employees and their dependents. The rail industry pension is the only private pension administered by the Federal Government. About 351,000 former railroad employees also receive a windfall payment.

- Social security benefits are funded from the social security trust funds.
- Rail industry pension payments are financed primarily by rail pension contributions, which were collectively bargained by rail labor and management and enacted by the Congress, and direct subsidies by the American taxpayer.
- Windfall payments are wholly subsized by the American taxpayer. The American taxpayer subsidy represents nearly $1,100 per active railroad employee in 1985.

Current Status

On August 12, 1983, the President signed into law the Railroad Retirement Solvency Act of 1983. This Act averted a major financial crisis facing the rail industry pension system, and enabled continued payment of full rail pensions. The solvency crisis was brought about by inadequate rail sector funding of their pension plan. The major provisions of the legislation:

- shifted automatic benefit increases to a calendar year basis;
- conformed early retirement and other benefit payments more closely to social security;
- increased rail sector pension contributions;
- taxed rail industry pension payments and windfall payments under the same rules that apply to all other private pensions;
- added safeguards to protect social security benefits; and
- provided temporary Federal subsidies to the rail industry pension.

1985 Budget Proposal

The 1985 budget proposes no change to the current law financing and payment of rail pensions.

Black Lung Program

[In millions of dollars]

Agency: DOL/HHS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,716	1,310	1,753	1,753	1,768	1,778	8,362
Outlays	1,708	1,737	1,757	1,757	1,772	1,783	8,806
1985 Budget Level:							
Budget Authority	1,706	1,289	1,731	1,733	1,745	1,754	8,252
Outlays	1,708	1,706	1,735	1,736	1,750	1,759	8,686
Change:							
Budget Authority	−10	−21	−22	−20	−23	−24	−110
Outlays	....	−30	−22	−21	−22	−24	−120

Program Description

Coal miners who are disabled from chronic dust disease of the lungs as a result of their work in the mines are eligible for black lung benefits. Recipients get a monthly cash subsidy equivalent to 50% of the salary paid a GS-2 Federal worker as well as a full subsidy for disease-related medical expenses. The Department of Health and Human Services (HHS) pays benefits from general revenues for claims filed from 1970 to 1973. The Department of Labor (DOL) processes claims filed after 1973 and reviews all claims previously denied by HHS for possible approval under revised eligibility criteria. Claims approved by the DOL are to be paid by the mine operator found responsible for the disability. Benefits for eligible miners and survivors where no mine operator can be assigned responsibility, or where mine employment terminated before 1970, are paid from the Black Lung Disability Trust Fund (BLDTF). This fund is financed by mine operators through an excise tax on mined coal.

Current Status

The current cost of the black lung programs includes savings resulting from enactment of reform legislation in 1981. That legislation required stricter evidence of disability due to black lung for claims filed on or after January 1, 1982. Previously, claimants could get assistance without showing medical evidence that they were disabled by black lung disease. In addition, the excise tax on mined coal was doubled, beginning January 1, 1982, to improve the solvency of the trust fund. This legislative change has increased expected coal tonnage tax revenues by $2.2 billion over the period 1982-1989.

Constant Dollar Trend

The constant dollar costs of the black lung program increased rapidly during its initial phase—rising from $26 million in 1970 to $2.2 billion by 1973. After declining in real terms to $1.6 billion by 1978, a renewed surge of constant dollar growth occurred in the late 1970's—culminating in a peak constant dollar outlay level of $2.4 billion in 1980. Due to restraint on cost of living increases and caseload decreases, constant dollar costs fell by 25% by 1984. Under current services, constant dollar costs are projected to decline through the remainder of the 1980's—with 1989 current services outlays representing a 37% drop from the 1980 peak level.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1970	26
1973	2,167
1978	1,601
1980	2,397
1984	1,792
1989 current services	1,516

1985 Budget Proposal

In general, the budget request continues funding of Black Lung at the current services level. The proposal to limit Federal pay increases in 1985 to 3.5% effective January 1, 1985 will reduce outlays for black lung benefits by $120 million over the 1985-1989 period.

Pension Benefit Guaranty Corporation

[In millions of dollars]

Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority [1]	....	1	2	3	4	5	13
Outlays	−17	....	13	25	41	58	138
1985 Budget Level:							
Budget Authority [1]	....	....	1	2	3	5	12
Outlays	−118	−154	−156	−175	−192	−208	−884
Change:							
Budget Authority [1]	....	....	....	....	....	....	−1
Outlays	−101	−154	−168	−200	−233	−266	−1,022

[1] PBGC will need no budget authority in the 1985–1989 period. However, the method for allocating the allowances for civilian agency pay raises among the categories used in this volume results in showing budget authority in this table.

Program Description

The Pension Benefit Guaranty Corporation (PBGC) insures the payment of pensions to workers participating in privately established defined benefit pension plans. These plans are established by employers, usually under collective bargaining agreements, and promise employees a specific monthly retirement income based upon the employees' earnings and years of service. Employers contribute annually to trusts set up to fund the promised pensions. As a result of various factors, including increases in promised benefits, the level of employer contributions, and changes in work and retirement patterns, many such trust funds do not have current resources to cover the costs of the promised pensions. If such a plan terminates, the PBGC assumes responsibility for the trust fund assets and the pension payments, making up any deficiency from its resources. The PBGC finances its responsibilities through an annual premium assessed on each plan (currently $2.60 per participant in single employer plans), through collection of liabilities placed by law on the net worth of employers terminating plans, and through earnings on investments.

Current Status

Legislation enacted in 1980 changed the insurance program for pension plans established to serve workers employed by several firms (multi-employer plans) in order to reduce the claims on PBGC. Employers withdrawing from such plans must pay to the plans their fair share of unfunded pension promises; multi-employer plans facing severe solvency problems must reorganize and, if necessary, reduce promised benefits; and the PBGC will make repayable advances to insolvent plans to assure that benefits currently due are paid.

The single employer program, however, is in difficulty. Premiums and other income are not enough to cover the unfunded value of promised benefits in plans that have terminated. Moreover, some employers are attempting to terminate plans not because they have failed or are threatened with failure, but merely because they wish to avoid the future costs of financing the benefits they have promised their employees. Unwilling to bear the cost of their own actions, they hope to shift the unfunded portion of their pension plans on the PBGC, and ultimately on the responsible employers who are successfully maintaining their plans and will have to pay the PBGC insurance premiums in the future.

At the end of 1980 the PBGC had a total deficit—the excess of the current value of unfunded benefits over current assets—of $159 million. By the end of 1983, the deficit had grown to $415 million. If no changes are made, by the end of 1985 the deficit is expected to exceed $620 million. By 1986, PBGC will be spending more than it takes in. It will continue to be unable to accumulate the resources needed to pay benefits to participants from plans already terminated who will retire in the future. It will continue to be unable to obtain the resources needed to assure future benefits to participants of newly terminating plans. But in addition it will have to dip into the inadequate resources it now has in order to make current payments to workers who have already retired.

1985 Budget Proposal

The budget proposes legislation to increase the premium for single-employer plans to a level that will permit the current deficit to be amortized over a reasonable period of time. The Congress is asked to enact a $7.00 per participant premium this year, and to apply the premium increase to all plan years beginning after December 31, 1983. In addition, legislation is proposed to prevent solvent employers from unjustifiably shifting the cost of their pension promises to the pension insurance system.

Rationale

The cost of private pension promises should be borne first by those who make them. A reasonable insurance program to spread the cost of unexpected and unavoidable plan terminations among all pension plans is sustainable only if the premiums required are not inflated by unwarranted plan terminations.

The reasonable increase of the annual single-employer plan, premiums from $2.60 to $7.00 per participant, effective this year, would permit the current deficit to be amortized in 15 years. This is the same period that the law allows private pension plans to amortize their experience losses.

The premium increase, when coupled with the additional investment income it would generate, would limit the cumulative deficit to about $375 million at the end of 1985 and increase PBGC receipts from premiums and interest by $1 billion over the 1985-1989 period.

CHAPTER 3

Low-Income Benefit Programs

Low-Income Benefit Programs Overview

The category low-income benefit programs includes programs that provide cash and in-kind assistance to the Nation's low-income population. It encompasses all of the major means-tested entitlement programs, including Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Food Stamps, Medicaid, and child nutrition. It also includes certain discretionary programs for the poor and near-poor, such as housing assistance, Women, Infants and Children nutrition assistance (WIC), Low Income Energy Assistance, and refugee aid, which have some characteristics of entitlements but are limited by annual appropriations acts. Taken together these programs constitute the basic social safety net of direct cash and in-kind assistance for the Nation's poor.

During the decades of the 1960's and 1970's, low-income benefit programs expanded in virtually every dimension. In the relatively short time-span of 20 years, a total of seventeen separate low-income programs were enacted into law, the number of beneficiaries increased by almost 300%, and inflation-adjusted Federal expenditures rose by over 650%. By the end of the 1970's, runaway growth in low-income benefit spending had become one of the most intractable budget and social policy problems confronting the Nation. The rate of growth in benefit outlays could not be sustained, but reductions might have an adverse impact on millions of the Nation's poor. Thus, the essential policy dilemma was to reduce the growth in outlays while, at the same time, preserving benefits for those in genuine need.

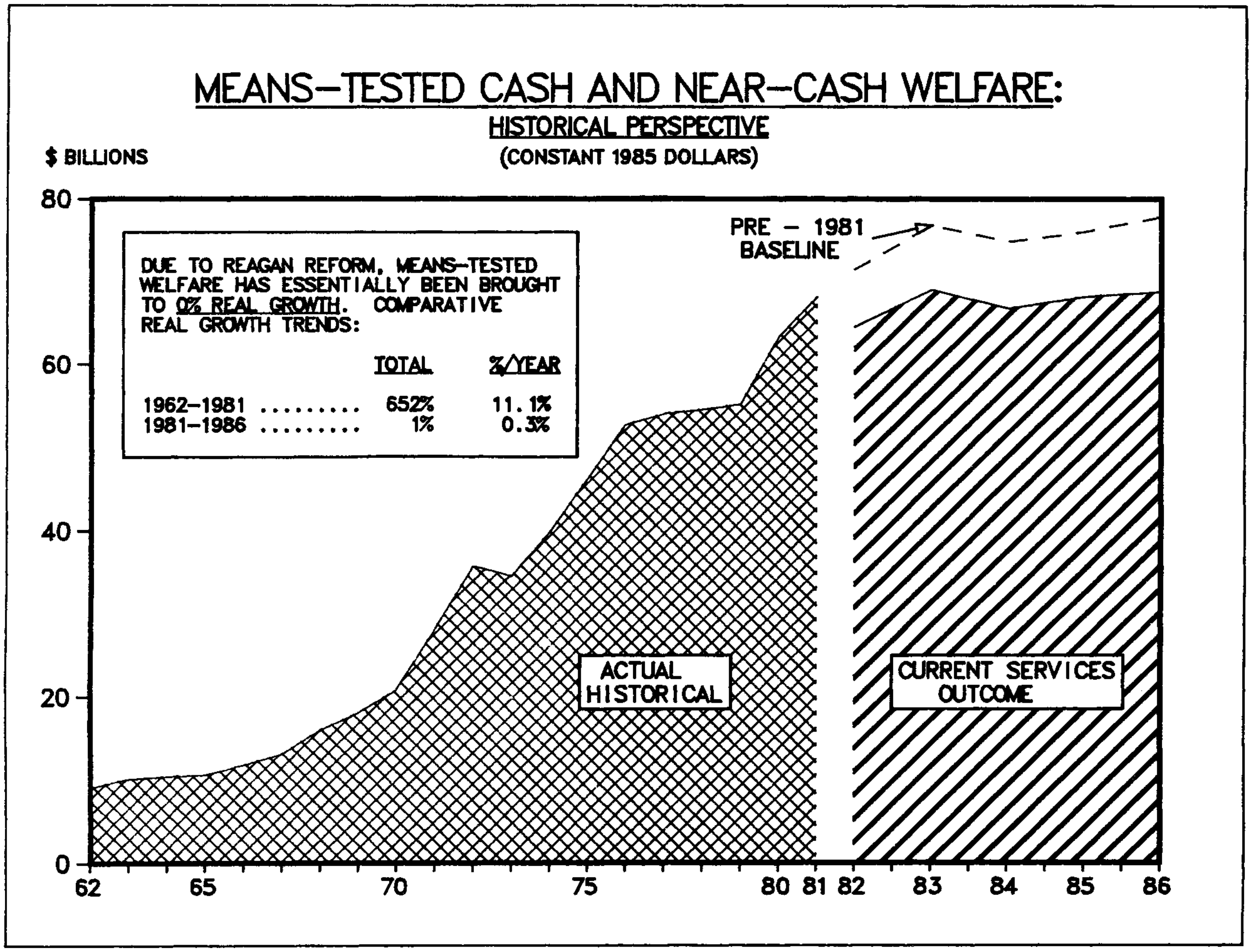
Over the last three years, the dual problem of controlling costs and maintaining benefits to the needy has largely been resolved. As is illustrated in the chart below, the growth in constant dollar outlays for low-income benefits has been virtually halted. Projected low-income benefit costs will remain almost constant in real terms throughout the five-year budget horizon. Moreover, this stabilization of real program costs has been accomplished primarily by policies which improved the targeting of benefits to those in genuine need.

In order to fully comprehend the extent of the cost control problem faced by the Administration in 1981, the excesses and inefficiencies of the vast network of programs that had been built up over two decades of expansions, and the magnitude of the accomplishments achieved to date, it is instructive to review the historical record of low-income benefit programs from the early 1960's to the present. This review will also place the Administration's 1985 budget proposals in perspective.

The Historical Record

The historical perspectives chart below summarizes the dramatic 20-year expansion in low-income benefit outlays and the impact of legislative reforms during the last three years. Over the 20-year expansion period, 1962 through 1981, constant dollar outlays grew at an annual compound rate of over 11%. Two generic factors operating throughout this period combined to produce this profound growth:

- The creation of a multitude of uncoordinated in-kind benefit programs that resulted in a *layering* of one benefit upon another rather than in an integrated system of benefits in which the magnitude of one benefit would take into account receipt of another.
- The transformation and expansion of discretionary programs into open-ended, inflation-indexed entitlement programs.



As the chart suggests, however, the 20-year growth period has two distinctly different phases. The first phase of steadily accelerating costs roughly corresponds to the New Frontier-Great Society years, 1962-1969. During this phase, a multitude of new programs which constituted the basic network of low-income benefit programs was put in place. In the second phase, 1970-1981, the basic network was fundamentally transformed as program after program was placed on an inflation-indexed entitlement basis. This transformation, coupled with recession-induced benefit and eligibility liberalizations, radically accelerated the growth rate, driving expenditures to successively higher and higher plateaus.

Creating the basic network: 1962-1969.—At the outset of the 1960's, relatively few low-income benefit programs existed. Eligibility criteria varied, and the Federal Government generally shared costs rather than providing 100% funding of benefits. Among the major programs, two categories of entitlements—SSI-predecessor programs and AFDC—provided cash assistance to low-income aged, blind, disabled and families headed by women. States could, with Federal support, provide medical assistance to any or all of these groups. Housing aid primarily took the form of payments for the capital costs of public housing, and nutrition aid largely was provided through grants for school lunch programs.

During the 1960's, a dozen separate low-income benefit programs were enacted into law. All but one, Medicaid, were discretionary programs and all but one, Refugee Assistance, provided assistance entirely in the form of a specific in-kind benefit rather than cash. Six of the eleven newly created discretionary programs provided nutritional aid. These included the Food Stamp program, three child nutrition programs, and nutritional programs for the elderly and pregnant women. Four of the additional programs provided housing assistance.

However, as the table below indicates, the primary source of the growth in low-income benefit costs was not these discretionary programs. Their enactment simply established the base for the explosion in outlays which occurred during the succeeding decade. The principal causes of the growth were the expansion of AFDC and the enactment of Medicaid.

Growth in Low-Income Benefit Outlays, 1962–1969

(1985 constant dollar amounts in millions)

	1962	1969	Share of total increase
Entitlement Programs:			
AFDC	2,533	4,702	24.1%
Medicaid	322	6,056	63.6%
Aid to the Aged, Blind and Disabled	4,714	4,569	−1.6%
Subtotal, Entitlement Programs	7,569	15,327	86.1%
Discretionary Programs:			
Nutrition	916	1,594	7.5%
Housing	557	941	4.3%
Refugee Aid	....	188	2.1%
Subtotal, Discretionary Programs	1,473	2,723	13.9%
Total, All Programs	9,041	18,050	100.0%

Together, AFDC and Medicaid account for almost 90% of the 1962-1969 growth in constant dollar outlays, a reflection of the importance of entitlement programs as a driving force behind the two decades of runaway spending.

The low-income benefit programs enacted during the 1960's also represented a significant shift in the nature of low-income assistance. Prior to the 1960's, assistance was provided primarily in the form of cash. All of the low-income benefit programs enacted during the 1960's, on the other hand, provided assistance in the form of in-kind benefits. As a result, in-kind aid as a proportion of total low-income assistance rose from 20% in 1962 to over 50% by 1970.

Transforming the basic network: 1970–1981.—During the second phase, expenditures on low-income benefit programs accelerated. In just two years, 1969-1971, the increase in inflation-adjusted expenditures exceeded the increase which occurred during the preceding seven years of the Great Society programs, 1962-1969. Over the entire 11-year period, 1970-1981, the 19% annual compound growth rate in outlays far outstripped the rate of inflation, causing constant dollar expenditures to more than triple. Throughout the 1970's, low-income benefit programs were the fastest rising segment of the Federal budget.

The growth momentum was primarily the result of a flurry of legislative expansions during the years 1970-1975. This six-year period contained two severe economic recessions and an intervening period of rapid inflation. The legislative expansions enacted during this brief recession-inflation-recession cycle unleashed a spending momentum that would continue through late 1970's and early 1980's. In each recession, program eligibility was liberalized and benefits were increased. This was done in large measure by transforming discretionary programs into open-ended entitlement programs with nationally uniform eligibility standards and benefit levels in excess of those provided under State discretion. During the intervening years of inflation, all but a few programs were indexed to prevent the real value of benefits from being eroded by rising prices.

The accompanying table presents data on the growth in expenditures by major program category. As the data indicate, massive real growth in benefit spending occurred in all categories of aid. Nutrition programs, whose growth was fueled by reports of widespread hunger in America, expanded the fastest, registering a constant dollar increase of over 1,000%. These programs accounted for the largest share of the total increase in low-income benefit costs 33%. Between 1970 and 1975, six of the nine nutrition programs, including Food Stamps and the school lunch program, were converted to entitlements and indexed.

Growth in Outlays by Program, 1970–1981

(1985 constant dollar amounts in millions)

	1970	1981	Share of total increase
Entitlements Programs:			
Nutrition	2,475	17,867	33%
Medicaid	6,832	19,443	27%
AFDC	5,495	8,820	7%
SSI	4,489	7,902	7%
EITC	....	1,610	3%
Subtotal, Entitlement Programs	19,291	55,642	77%
Discretionary Programs:			
Housing	1,240	8,156	15%
WIC	....	1,136	2%
Low-Income Energy	....	2,175	5%
Refugee Aid	219	887	1%
Subtotal, Discretionary Programs	1,459	12,354	23%
Total, All Programs	20,751	67,996	100%

In Medicaid, the entitlement was expanded to include services provided by intermediate care facilities. This 1972 expansion, which profoundly changed the nature of Medicaid, was thought to have minor consequences at the time. But, it alone accounts for almost 40% of the tripling of Medicaid costs from 1972 to 1981.

The 1974 and subsequent SSI legislation transformed State-run programs for the aged, blind, and disabled into a federally financed, nationally uniform, fully-indexed entitlement program. The nationally uniform standards raised benefits and eligibility in many States. With these changes, enrollment increased by one-third in the first year of SSI operation and constant dollar outlays doubled within two years. Overall, entitlement programs accounted for 77% of the total growth in low-income benefit costs during the period 1970-1981.

The expansion of the 1970's, however, was not limited to entitlement programs. Housing outlays increased by almost 550% during the decade. In addition, during the latter half of the decade two more discretionary programs, WIC and Low Income Energy Assistance, were added to the list of low-income benefit programs. Both programs began with initial funding of less than $200 million. By the early 1980's, both were among the fastest growing programs in the Federal budget. In 1981, WIC expenditures had almost reached the $1 billion mark and Low Income Home Energy Assistance had grown to $1.8 billion.

The shift in the form of low-income benefits from cash to in-kind assistance continued throughout the 1970's. Primarily as a result of the explosion in nutrition and housing benefits and the continued sharp growth in Medicaid outlays, in-kind benefits as a share of total low-income assistance rose by one third from 1970 to 1981.

The Results of Two Decades of Growth

By 1981, 14 separate programs provided 7 out of every 10 dollars of Federal low-income benefits in the form of in-kind assistance. As a result, multiple recipiency of benefits, uncommon in the 1960's, became the norm. In 1980, a recipient of low-income benefits received, on average, benefits from three different programs. And some received benefits from as many as 6 different programs.

Low-Income Benefit Recipient Data

(Persons in millions)

	1965	1980
Number of People Getting One or More Benefits[1]	8.6	33.1
Total Benefit Program Enrollment[1]	9.4	111.9
Average Number of Benefits Per Recipient[1]	1.1	3.4

[1] SSI, AFDC, Food Stamps, Housing, Medicaid, School Lunch, Refugee Assistance, EITC, LIHEA.

The proliferation of benefits and lack of coordination among them resulted in inefficiency and poor targeting, illustrated in data on the "poverty gap." The poverty gap represents the amount of low-income benefits necessary to lift all poor persons out of poverty. The table below, which compares the poverty gap to low-income benefit expenditures, shows that low-income benefits grew markedly relative to social need. In 1981, expenditures were 62% more than necessary to eradicate poverty. At the same time, however, fewer than half of those expenditures actually reduced the extent of poverty. The other half went to people who were not poor to begin with or raised real incomes of some families, who were initially poor, far above the poverty line.

Inefficiency of Low-Income Benefit Programs

(1985 constant dollar amounts in billions)

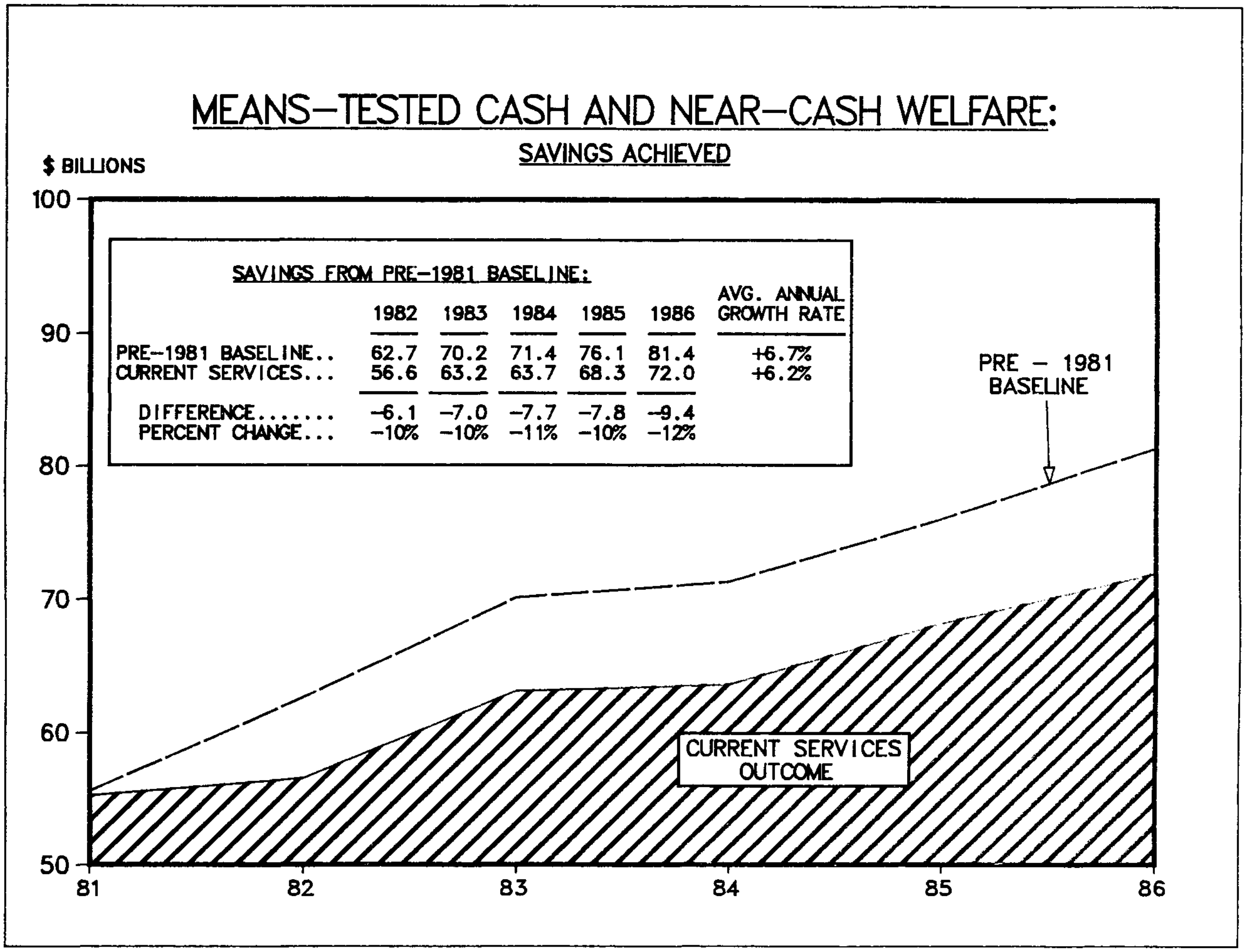
	Pre-low-income benefit poverty gap	Low-income benefit expenditures	Post-benefit poverty gap
1970	41.4	35.0	....
1981	57.7	93.2	29.5

Reforms Made to Date

Because means-tested programs had grown largely unchecked for 20 years, there was room for reform when the Administration took office. The reforms undertaken were designed to do the following:

- Restructure programs to improve their efficiency and effectiveness and stem unnecessary cost growth.
- Reduce excessive benefits and better target aid to the needy.
- Implement effective work incentive measures.
- Reduce error and waste.

Legislation directed toward these goals and enacted during the last three years has resulted in a cumulative reduction of $38 billion in nominal outlays over the period 1982-1986, as indicated in the savings achieved chart.



With these savings, real low-income benefit costs have been stabilized, as shown in the following table.

Stabilization of Low-Income Benefit Outlays

(1985 constant dollar amount in billions)

	Amount	Percent change from 1970
1970	20.8	....
1981	68.0	+228%
1985 Current services	68.3	+229%

This stabilization has been achieved while protection for the truly needy has been preserved. Data from the Census survey that is used to compile official poverty rates illustrate this point. These data are for 1981 and 1982, which are, respectively, the year prior to the time most reforms took effect and the most recent year for which data are available. They include the market value of in-kind benefits.

Improved Target Efficiency of Low-Income Benefits

(1985 constant dollar amounts in billions)

	Total benefit reported	Amount of benefits reducing poverty	Target efficiency
1981:			
Cash	19.4	13.3	69%
In-kind	37.9	15.0	39%
Total	57.3	28.3	49%
1982:			
Cash	18.8	13.8	73%
In-kind	37.2	16.7	45%
Total	56.0	30.5	54%

[1] Includes AFDC, SSI, food stamps, free and reduced price school lunches, medicaid and housing benefits, but only the amounts which individuals reported receiving.

As can be seen from the table above, the "target efficiency" of low-income benefits—the extent to which low-income benefits raise those with incomes below the poverty level up to the poverty level—has been greatly improved.

- The percentage of means-tested benefits going to reduce the extent of poverty rose from 49 to 54 between 1981 and 1982.
- In real terms, benefits going to reduce the degree of poverty increased by 8% after reforms were enacted, although fewer dollars were spent in total.

Census survey data for 1981 and 1982 also indicate that the portion of households with cash incomes below the poverty line who received any of the means-tested benefits covered by the survey was the same in 1982 as in 1981: approximately 73%. Thus, the data refute recent assertions that the Federal Government's policies have removed poor persons from the benefit rolls.

Another perspective on recent reforms is provided by a comparison of low-income benefit funding reflected in budgets enacted for 1982-1983 with funding for budgets in roughly comparable prior periods. As shown in the table below, relative to similar economic conditions in 1975-1976 and less severe recession conditions in 1971-1972, constant dollar availability of cash and in-kind support for the Nation's poor in 1982-1983 was 35% and 110% greater, respectively, despite the reform measures enacted since 1981.

Major Low-Income Benefit Programs

(Average annual outlays in 1985 constant dollar amounts in billions)

	Average Annual Outlays		
	1971–72	1975–76	1982–83
Cash Assistance	13.8	18.5	20.1
Housing Aid	2.2	4.2	9.6
Medical	9.3	13.7	19.3
Nutrition	6.5	13.1	17.9
Total	31.8	49.4	66.8

An examination of the major low-income benefit programs in turn confirms the success of the reforms suggested by the general indicators:

AFDC and food stamps.—Reforms in these two programs have been designed primarily to improve targeting by ensuring fuller recognition of the income and resources available to applicants and recipients, to enhance their attachment to the labor force and discourage welfare dependency, and to reduce errors in benefit payments.

The comparison of benefit payments in 1981 and 1982 shown in the table below suggests that targeting has been improved. In both programs, the expenditures going to poor persons grew both in constant dollar terms and as a percent of total program expenditures.

Expenditures for the Poor in AFDC and Food Stamps

(1985 constant dollar amounts in billions)

	1981		1982	
	Dollars	Percent of total program	Dollars	Percent of total program
AFDC	8.2	73%	9.2	80%
Food stamps	5.8	78%	6.9	84%

Moreover, the steps taken to improve labor force attachment in AFDC and Food Stamps seem to be working. Because a variety of evidence indicated that earned income deductions and disregards had little, if any, effect on work incentives, reforms enacted in 1981 increased the amount of earned income counted in determining benefits. Some people were concerned that these changes would lead wage-earning recipients to quit their jobs to stay on welfare. Their concerns have proved unwarranted. A study of AFDC found that the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 legislative changes—18%. Indeed, the change produced the necessary incentive for the vast majority of working recipients to make the transition from welfare to self-support. Cases with earned income moved off the AFDC rolls twice as fast after the changes were made as they did before.

Assisted housing.—Although tenant rents were increased in this program to reduce disparities in rents paid by those receiving HUD subsidies and unsubsidized citizens with comparable incomes, the major thrust of reforms has been to shift housing subsidies toward less costly existing units. Under these reforms, the number of households receiving HUD subsidies increased from 3,297,000 in 1981 to 3,663,000 in 1983, an 11% increase. In 1984, an additional 166,000 households will receive assistance.

Medicaid.—To promote system changes in this program, Federal matching rates were reduced and States' flexibility to alter payment policies and modes of service delivery were increased. These changes have been successful in precipitating a rethinking of programs along lines which are benefiting the needy. The Intergovernmental Health Policy Project, which has been systematically surveying State Medicaid programs, outlines the strong contrast between 1981 and 1982 in an April, 1983 report. They note that out-of-control growth prior to the reforms enacted under the Reagan Administration was forcing States to retrench, often to the disadvantage of recipients. In contrast, new flexibilities provided under the reforms have allowed many States to increase services and add beneficiaries.

School lunch.—Under reforms in this program, free lunches have remained available at no cost for children whose families have incomes below 130% of the poverty line, but subsidies have been reduced for higher income families. Census data show that between 1981 and 1982 expenditures on the poor in the school lunch program increased from $1.6 billion to $1.8 billion in constant 1985 dollars and from 42% to 49% of total program expenditures.

As with any change in subsidies, the reductions for higher income families probably affected behavior, causing some of these families to decide the lunches were not worth their cost. In combination with enrollment declines, these behavioral changes resulted in a drop in the number of school lunches served between 1981 and 1982. As a result, schools reportedly are taking steps to make their lunches more attractive to students. These changes should benefit children of all income classes, and they seem to be having an effect. The number of school meals served increased between 1982 and 1983 and is projected to increase further in 1984.

Proposed Reforms

The reforms proposed in the 1985 budget build on the reforms implemented through the last three budgets and are designed to meet the same goals. These proposals would maintain the new equilibrium attained through the reforms enacted in the last three budgets. In aggregate terms, the social safety net of low-income programs would neither expand nor contract. The focus would be on ensuring that runaway growth is not set in motion again through a proliferation of new programs, conversion of discretionary programs to entitlements, and poorly targeted expansions of low-income benefits. Priority would be placed on sustaining economic growth to reduce the level of need, containing medical cost to ensure adequate assistance to the poor and elderly at minimum cost, and marginal program reforms elsewhere to improve targeting and eliminate remaining abuses.

The modest reforms contained in the 1985 budget are consistent with these priorities. They include continuation of the three percent matching reduction in Medicaid and mandatory copayments to restrain excessive utilization; further steps to improve work incentives and targeting in AFDC; minor cost savings in food stamps, largely through reductions in erroneous payments; small savings in child nutrition programs; and funding slightly below current services levels for WIC, low-income home energy and subsidized housing. Taken together, these reforms would result in funding for low-income benefits increasing at an average annual rate of 0.5% between 1984 and 1989, a small reduction in the 1.6% annual rate of increase under current services.

The proposed 1985 reforms are discussed in the factsheets that follow. This chapter contains 11 factsheets in three groups.

Medical and Housing Programs

Medicaid Benefits

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	19,659	21,082	23,799	26,088	28,498	31,042	130,508
Outlays	19,222	21,998	23,799	26,088	28,498	31,042	131,424
1985 Budget Level:							
Budget Authority	19,659	20,015	22,682	24,934	27,309	29,825	124,764
Outlays	19,222	20,931	22,682	24,934	27,309	29,825	125,680
Change:							
Budget Authority	....	−1,067	−1,117	−1,154	−1,189	−1,217	−5,744
Outlays	....	−1,067	−1,117	−1,154	−1,189	−1,217	−5,744

Program Description

The medicaid program makes grants to States to help finance needed medical care for low-income families and individuals. The Federal Government finances 50 to 78% of the cost of medical services under State medicaid programs. Currently, medicaid pays the health care costs of 22.9 million low-income people.

Current Status

The Administration has implemented significant medicaid reforms to improve program effectiveness, slow runaway health care costs, and promote greater flexibility for States in administering their programs.

The Omnibus Budget Reconciliation Act of 1981 (OBRA) set reasonable growth rate targets for health care costs and a schedule of reductions of Federal funds for States with excessive health care costs. The 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) gave States the option of requiring medicaid recipients to share very nominally in the cost of their health care. Medicaid reforms enacted by Congress have slowed the average annual growth of medicaid outlays from 14% (1975-80), to a projected 8% for the period 1981-1985.

Other recent improvements include:

- the home and community based health care waiver program, which helps States finance health services for individuals at home and in the community as an alternative to institutionalization;
- regulations to strengthen medical and dental screening, and treatment for about 2 million children in the Early and Periodic Screening, Diagnosis and Treatment program; and
- more State discretion in eligibility determination and in controlling high hospital costs.

Constant Dollar Trends

Constant dollar outlays for the pre-medicaid state grant program totalled $804 million in 1965. By 1969 when medicaid was fully operational, constant dollar Federal costs reached $6.1 billion—nearly an eight-fold rise over the pre-medicaid level. Due to benefit and coverage liberalizations enacted in the early 1970's, as well as rapid increases in the real costs of health care, constant dollar outlays more than tripled between 1969 and 1981.

Since 1981, the medicaid real growth rate has slowed sharply—averaging 1.2% annually between 1981-1984 compared to 10% per year between 1969 and 1981. Under current services projections, real growth will average 5.5% per year from 1984 through 1989 and 4.7% per year over the same period if the 1985 budget proposals are implemented.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1965 (pre-medicaid)	804
1969	6,056
1975	12,602
1981	19,443
1984	20,161
1989 current services	26,396
1989 budget	25,361

1985 Budget Proposals

The 1985 budget reproposes major 1984 budget proposals to: (1) continue OBRA growth rate targets for health care costs, (2) reduce Federal medicaid funding to States with excessive health costs by 3%, and (3) require modest cost sharing by medicaid recipients (which was optional under TEFRA).

- *Continue medicaid cost growth rate targets and reductions enacted by OBRA.*—The 1984 medicaid cost growth rate targets and reductions would be continued in 1985 and beyond. The reductions would, however, be set at 3% rather than the 4.5% applicable to 1984. Also continued would be special incentives to states to promote hospital cost reviews, and reduce fraud and abuse. States with exceptionally high unemployment rates (150% or more of the national average) would continue to receive a 1% offset to the expenditure reductions for exceeding the growth rate targets.
- *Require nominal co-payments by medicaid recipients.*—This proposal would require medicaid recipients to make nominal copayments per visit for physician, clinic, outpatient and inpatient services. These minimal copayments, ranging from $1.00 to $1.50 for physician visits, and $1.00 to $2.00 for each day in the hospital, would make consumers more aware of the cost and would discourage them from unnecessary or excessive use of medical services. This proposal would save the medicaid program $1.4 billion over five years.
- *Other changes.*—Other medicaid changes include improving third party collections to emphasize enforcement of medical coverage rights in child support enforcement cases; and requiring assignment of certain rights to third-party payments as a condition of medicaid eligibility. In addition, the medicaid budget reflects savings resulting from proposed changes in the AFDC and medicare programs.

Rationale

The Administration's 1985 medicaid proposals seek the continued cooperation of States and consumers in moderating increasingly high health care costs and maintaining adequate medical care for the poor.

Subsidized Housing

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	8,199	9,964	13,195	13,260	13,726	14,187	64,332
Outlays	9,787	10,729	11,354	12,058	12,706	13,342	60,189
1985 Budget Level:							
Budget Authority	7,867	5,390	7,594	9,978	7,392	7,578	37,933
Outlays	9,764	10,489	10,932	11,559	12,102	12,581	57,663
Change:							
Budget Authority	−331	−4,573	−5,601	−3,281	−6,335	−6,609	−26,399
Outlays	−23	−240	−422	−499	−604	−761	−2,526

Program Description

The Department of Housing and Urban Development (HUD) administers subsidy programs that assist 3.7 million low-income individuals in meeting the cost of purchasing or renting adequate housing. Under most of these programs, tenants are required to pay up to 30% of their cash income towards their housing costs. The Federal Government guarantees payment of the remaining portion of the monthly rent, or mortgage, to private landlords, lenders, or local housing authorities through long term (15 to 40 year) contracts. For the public housing program (which includes 1.3 million of the 3.7 million units cited above), operating cost shortfalls are funded each year as the need arises through a separate public housing operating subsidy program.

Constant Dollar Trends

In the 8 years ending in 1970, subsidized housing costs more than doubled—rising from $557 million to $1.2 billion per year. However, the policy shift in the early 1970's toward direct public housing operating subsidies and the Section 8 program—which provided for annual contract payments of both capital and operating subsidies—caused constant dollar outlays to skyrocket over the next 11 years. By 1981, constant dollar subsidized housing outlays totaled $8.2 billion—representing a 18.2% annual real growth rate from the 1970 level. Due to the entitlement reforms, cost constraints, and incremental unit growth reductions implemented by the Reagan Administration, the constant dollar growth rate slowed to 8% per year between 1981 and 1984, and over the next five years is projected to decline to 2% per year under current services and 0.8% per year under policies recommended in the 1985 budget.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	557
1970	1,240
1975	4,032
1981	8,156
1984	10,265
1989 current services	11,346
1989 budget	10,698

Current Status

In 1984, the Congress provided funding to subsidize 100,000 additional households. The 1985 budget would fund the same number of additional households as in 1984 for about $2.2 billion less in budget authority. This budget authority savings reflects the Administration's proposal to expand the use of less costly and more flexible housing vouchers.

In addition, 1985 public housing operating subsidy requirements are expected to decline by $239 million from 1984 as a result of savings achieved through investments in energy conservation measures, higher rental income, and regulatory changes.

1985 Budget Proposal

The 1985 budget continues to rely on the existing private rental housing stock to serve low-income families rather than the construction of new subsidized housing. In 1985, HUD would provide 87,500 housing vouchers to help low-income tenants afford standard quality rental housing. These vouchers—equal to the difference between the area's private market rent levels and the tenant's expected rent contribution—would replace the current Section 8 existing housing program.

Two regulatory changes for public housing operating subsidies are proposed that would:

- Require a year-end reconciliation between the income the public housing authority (PHA) actually received and the amount projected at the beginning of the year; and
- Limit the payment of full subsidies to occupied units, decreasing the subsidies paid for vacant, uninhabitable units.

Rationale

Under the current Section 8 existing housing program, which is designed to help low-income tenants afford market rents, the Federal Government pays the difference between the actual rent and the required tenant rent contribution. With the amounts tenants pay set by their income, there has been no incentive for them to negotiate their own rents. As a result, landlords generally raised rents to the maximum level, which resulted in subsidized units renting for about 26% more than comparable, unassisted units.

The housing voucher subsidy—when used with otherwise unassisted units—would not be related to the actual rent for the unit chosen by the tenant, and subsidy recipients would be encouraged to "shop around" for the lowest cost available. Any rent savings would not reduce the value of the tenant's housing voucher and would therefore accrue to the tenant.

Eliminating the maximum fair market rent will enable families to seek housing in any neighborhood they choose—thus resulting in fewer neighborhoods with concentrations of low-income residents— thereby promoting the goal of economically mixed housing.

The voucher program reduces the Federal Government subsidy commitment from 15 years (currently provided in the Section 8 existing program) to 5 years. Reducing the commitment term substantially reduces the budget authority needed for an equivalent number of units. The Section 8 existing program needs a much larger amount of budget authority set aside to fund the additional 10-year subsidy term. This shortened subsidy commitment will also allow greater flexibility to adjust or reconsider subsidized housing policies in the future.

Because of the cost effectiveness of housing vouchers, the budget proposes to begin converting the 700,000 tenants in the Section 8 existing housing programs to the voucher program as current lease and subsidy commitments expire.

Public housing operating subsidies are allocated based upon a formula which estimates what it costs a well-managed authority to provide housing. Subsidy allocations will continue to be based on this system. The proposed regulatory changes will save $70 million in 1985. They meet the objectives of:

- Compensating for the gap between allowable costs and income raised, eliminating over-payments of subsidy caused by under-projections of income; and
- Only providing subsidies to PHA's for housing low-income families, drastically reducing instances where PHA's can "profit" from payments of subsidy for vacant units.

Nutrition Programs

Food Stamp Benefits and Nutrition Assistance to Puerto Rico

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	11,289	11,079	11,675	12,098	12,254	12,642	59,748
Outlays	11,292	11,079	11,674	12,098	12,254	12,642	59,747
1985 Budget Level:							
Budget Authority	11,289	10,705	11,310	11,738	11,912	12,311	57,976
Outlays	11,292	10,706	11,309	11,738	11,912	12,311	57,975
Change:							
Budget Authority	....	−374	−365	−360	−342	−331	−1,772
Outlays	....	−374	−365	−360	−342	−331	−1,772

Program Description

The Food Stamp program subsidizes food purchases of low-income households. Monthly coupon allotments are redeemable for food through commercial outlets. Given its special needs, the Commonwealth of Puerto Rico has authority to design its own food assistance program.

Constant Dollar Trend

The constant dollar cost of Federal commodity and food distribution programs increased steadily during the 1960's—rising from $45 million in 1962 to $1.5 billion by 1970. However, the conversion of these programs to food stamps on a nationwide basis with uniform eligibility criteria in the early 1970's, caused constant dollar outlays to reach $8.3 billion in 1975—nearly a *sixfold increase* in a half-decade. After several years of stability, further liberalizations during the Carter Administration caused constant dollar outlays to peak at $13.1 billion in 1981.

Due to the reforms implemented by the Reagan Administration, this uncontrolled growth of food stamp program costs has been brought to an abrupt halt. Constant dollar outlays of $11.8 billion in 1984 represent a 9% reduction from 1981 peak levels. Moreover, under current services, constant dollar costs are projected to fall to $10.7 billion by 1989—an 18% reduction from the 1981 level.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962	45
1970	1,473
1975	8,311
1978	8,150
1981	13,058
1984	11,844
1989 current services	10,750

Current Status

The Administration remains committed to restraining the cost of entitlement programs without jeopardizing assistance to those with genuine needs. To achieve this goal, the Administration has sought to reduce overpayments in the Food Stamp program which cost the American taxpayer $1 billion annually.

Significant progress has been made in reducing Food Stamp errors—overissuances have been cut by 25% during the last two years. In fact, preliminary 1983 data reveal that the national average error rate has fallen to approximately 8%—as opposed to the current statutory target rate of 9% for 1983.

Nonetheless, the error rate remains unacceptably high and States lack the incentive to improve their administration of the program since benefits are 100% Federally financed. In 1985, States will continue to misspend over $820 million by issuing erroneous Food Stamp payments.

1985 Budget Proposals

Almost 85% of the proposed 1985-89 savings of $1.8 billion would be achieved by holding States liable for Food Stamp payments exceeding 103% of proper expenditures.

The President's proposals would also:

- Simplify Food Stamp application procedures by making AFDC recipients categorically eligible for Food Stamps.
- Require States to adopt a community work experience program in which able-bodied Food Stamp recipients must participate in work-related activites as a condition of their eligibility.

Rationale

The proposal to hold States liable for Food Stamp payments exceeding 103% of proper expenditures would give States the incentive to further reduce overpayments.

This proposal also has the advantages of:

- Setting the Food Stamp error targets at the same level as those currently applicable for AFDC and Medicaid.
- Not affecting benefits of eligible recipients.

The second proposal, categorical eligibility for AFDC recipients, would also help States meet their target error rates by simplifying program administration.

The third budget proposal, the Community Work Experience Program, would continue past Administration efforts to target assistance on the neediest individuals and assure that able-bodied Food Stamp recipients are encouraged to find work in the private sector, or to perform useful public services when no private job is available.

Supplemental Food Programs

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,341	1,435	1,513	1,578	1,640	1,700	7,867
Outlays	1,318	1,463	1,505	1,570	1,632	1,693	7,863
1985 Budget Level:							
Budget Authority	1,267	1,277	1,299	1,353	1,405	1,456	6,791
Outlays	1,253	1,286	1,298	1,346	1,399	1,449	6,778
Change:							
Budget Authority	−74	−158	−214	−225	−235	−245	−1,076
Outlays	−65	−177	−207	−223	−233	−244	−1,085

Program Description

The Special Supplemental Food Program for Women, Infants and Children (WIC) and the Commodity Supplemental Food Program (CSFP) provide nutritious foods to low-income pregnant, postpartum and breastfeeding women, infants and children who are at nutritional risk. WIC assistance is provided mainly in the form of vouchers redeemable at grocery stores, while CSFP distributes commodities purchased by the Department of Agriculture.

Current Status

WIC participation has grown explosively since the program's inception. Average 1984 participation will be almost 50% higher than in 1980. One out of five babies born in 1984 will receive WIC services. 146,000 women, infants and children will be served by CSFP this year.

Constant Dollar Trends

During 1976 constant dollar WIC outlays totalled $257 million. By 1981, constant dollar costs had risen more than *fourfold* to $1.1 billion. Since 1981 the rate of real growth has slowed compared to the start-up period, but 1984 current services outlays of $1.38 billion in constant dollars still represent a 22% increase over the 1981 level. Under current services, constant dollar outlays will rise slightly through 1989, while under the 1985 budget proposals they will fall slightly from 1984 levels.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1976	257
1981	1,136
1984	1,382
1989 current services	1,439
1989 budget	1,232

1985 Budget Proposals

The President's budget would fund WIC at a budget authority level of $1.25 billion in 1985, sufficient to maintain a 2.7 million average monthly caseload.

Legislation will be introduced to reduce the WIC set-aside for State and local administration from 20 to 18% of the appropriation. States would no longer be required to spend one-sixth of their administrative funds on nutrition education activities, although a nutrition education requirement would be maintained.

CSFP would be funded at the current services program level except that no new funds are requested for the elderly feeding pilot projects. Sufficient funding is expected to be available from current appropriations to support the pilot projects in 1985.

Rationale

The proposed funding would stabilize WIC caseload growth and permit State and local administrators to concentrate on improving program management. Participation levels would remain the highest in the program's history, prior to the infusion of one-time, emergency Jobs Bill funding.

WIC funding would support a 2.7 million monthly caseload, based on national average per person costs. However, States could serve more recipients by taking steps to control their food costs, such as encouraging better tailoring of packages to recipients' needs.

Lowering the set-aside for administrative expenses would create an incentive for State and local health agencies to restrain overhead costs, currently lacking since WIC is 100% Federally-funded in most States.

The present requirement to use one-sixth of administrative monies for nutrition education necessitates elaborate bookkeeping for States and prevents them from providing this service in the manner they consider most appropriate. Under the proposal, specific funding earmarks would be removed to assist States in their efforts to reduce administrative costs.

Other Nutrition Programs

[In millions of dollars]

Agency: USDA/FEMA/HHS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	593	647	545	556	566	576	2,891
Outlays	682	540	542	553	563	573	2,771
1985 Budget Level:							
Budget Authority	593	641	539	549	560	570	2,858
Outlays	682	534	536	546	557	567	2,739
Change:							
Budget Authority	....	−6	−6	−6	−7	−7	−32
Outlays	....	−6	−6	−6	−7	−7	−32

Program Description

Besides the major programs such as Food Stamps and Child Nutrition, the Federal Government provides nutrition assistance through a variety of other mechanisms, including:

- Section 32 funds, which provide commodities to the child nutrition programs through market purchases and surplus removal activities.
- The Special Milk program, which subsidizes milk served in schools and institutions that do not participate in other Federal meal programs.
- The Food Donations program, which delivers commodities to Indian reservations and the Trust Territories, as well as mostly cash assistance to elderly nutrition projects. These elderly sites receive the vast majority of their assistance from the Department of Health and Human Services (HHS), as described in the Older Americans Act factsheet.
- Temporary funding for emergency food distribution and shelter, administered by the Federal Emergency Management Agency (FEMA).
- Commodity Credit Corporation food donations totalling over $1 billion for needy families, charitable institutions and schools. Funds for this activity are included in the CCC factsheet.

Current Status

From 1980 to 1984, constant dollar budget authority for each of these nutrition programs has increased, with the exception of Special Milk.

Savings have been achieved in the Special Milk program by eliminating wasteful duplication of Special Milk and School Lunch benefits. In 1981, the Administration was successful in prohibiting schools from receiving milk subsidies for the same student under both programs. The Special Milk program continues to fund milk served in institutions that do not participate in the School Lunch program.

1985 Budget Proposals

The President's budget would fund these programs at essentially the current services level. The Section 32 appropriation request does not include funds for marketing agreements and orders, which would be financed through user fees.

Since Congress designed FEMA's food and shelter program as an emergency relief measure in response to the 1981-82 recession, it would not be extended past 1984.

Although continuing to fund the Elderly Feeding program at the current services level, the Administration proposes to fund this Department of Agriculture (USDA) program within HHS' Administration on Aging. Since HHS already administers the major elderly nutrition program, this proposal would consolidate the administration of similar programs serving the same grantees.

Rationale

The Administration has requested funding for these programs at essentially the current services level to help assure that low-income households with genuine needs continue to receive assistance.

- The budget proposes a shift of $5.9 million from Section 32 appropriated funds for marketing orders to user fees because the Administration believes that the direct recipients of program benefits can be readily identified and should support the program through a fee system.
- Funding USDA's Elderly Feeding program within HHS would simplify administration and free State and local Governments from dealing with two separate Federal agencies in order to serve meals to the elderly. USDA originally was given authority to administer the elderly program since assistance was provided in the form of commodities. Since over 90% of assistance is now provided as cash, there is little reason to retain the program in USDA.

Child Nutrition Programs

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	3,559	3,805	4,083	4,379	4,702	5,027	21,996
Outlays	3,543	3,786	4,064	4,360	4,681	5,005	21,896
1985 Budget Level: [1]							
Budget Authority	3,559	3,756	3,979	4,206	4,455	4,707	21,103
Outlays	3,543	3,741	3,964	4,191	4,438	4,690	21,025
Change:							
Budget Authority	....	−49	−104	−173	−247	−320	−893
Outlays	....	−46	−100	−169	−242	−314	−871

[1] Both current services and 1985 budget include funds for meals served at Head Start centers. The 1985 budget proposes transferring funding responsibility for these meals to the Department of Health and Human Services.

Program Description

The Child Nutrition programs finance school lunches and breakfasts, meals served at child care facilities and summer feeding sites, and State administrative expenses. Meal subsidies consist of both cash and commodity assistance.

In addition to these programs, children receive nutrition assistance through Special Milk, the Special Supplemental Food Program for Women, Infants, and Children, the Commodity Supplemental Food Program, and Section 32 funding.

Constant Dollar Trends

Between 1962 and 1970, constant dollar outlays for Child Nutrition programs grew at a modest 4.2% per year rate. During the next eight years, however, constant dollar costs surged to $4.46 billion by 1977—representing a 27.1% annual rate of increase. Real costs finally peaked in 1980 at $4.53 billion.

The major reforms implemented by the Reagan Administration will result in 1984 constant dollar outlays of $3.7 billion—an 18% decline from the 1980 peak level. Under both current services and the 1985 budget proposals, constant dollar outlays are projected to grow only modestly over the next five years.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	564
1970	782
1977	4,460
1980	4,527
1984	3,716
1989 current services	4,256
1989 budget	3,988

Current Status

Child Nutrition reforms have targeted assistance to needy youngsters and reduced duplication in subsidies. The programs will continue to subsidize meals for over 24 million children in 1984.

1985 Budget Proposals

The 1985 budget proposes to continue making the reforms necessary to focus assistance on needy children and simplify program administration.

Minor changes would be proposed for the school feeding programs:

- Reimbursement rates for meals in all price categories would be increased by the same cost-of-living adjustment.
- Procedures for verifying eligibility for free and reduced price meals would be strengthened.
- Federal mini-grants for developing nutrition education curricula would be discontinued.

The Child Care and Summer Feeding programs would be consolidated into a Non-School Program Grant to States.

- The grant would be funded at the 1985 current services level for the two programs it would replace. Meal assistance for Head Start centers, at present funded under the Child Care Feeding program, would be available through a corresponding increase in Head Start funding.

1985 savings would be $46 million, while total 1985-89 savings would be $871 million.

Rationale

The Non-School Program Grant would permit States greater flexibility to design assistance programs for meals served to children outside a school setting. States could continue programs similar to those the grant would replace or establish new programs more appropriate to the needs of their population. States would no longer have to apply a complex set of reimbursement rates or comply with cumbersome Federal regulatory requirements—75 pages of Federal regulations would be eliminated.

Through regulatory and legislative changes, procedures for schools to verify income eligibility for free and reduced price meals would be strengthened. The new procedures would lessen the requirements placed on schools and increase cost-effectiveness. More vigorous efforts to verify eligibility would better target meal benefits to those in need.

At present, cost-of-living adjustments to reduced-price meal reimbursements substantially overcompensate for inflation. The proposal would adjust all meal rates, including those for reduced-price meals, by the same inflation factor.

Cash Assistance Programs

Supplemental Security Income Benefits

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	7,459	8,426	8,665	9,025	10,185	9,785	46,086
Outlays	7,607	8,428	8,665	9,025	10,185	9,785	46,089
1985 Budget Level:							
Budget Authority	7,459	8,410	8,649	9,015	10,171	9,770	46,015
Outlays	7,591	8,412	8,649	9,015	10,171	9,770	46,018
Change:							
Budget Authority	....	−16	−16	−10	−14	−15	−71
Outlays	−17	−16	−16	−10	−14	−15	−71

Program Description

Supplemental Security Income (SSI) began in 1974 as a uniform national program to replace previous public assistance programs for the aged, blind and disabled. SSI makes cash payments to eligible persons, aged, blind, and disabled persons. Some states also finance supplemental payments. The Department of Health and Human Services administers the basic Federal grant and, at State option, the supplemental payments. Many SSI recipients also receive monthly Social Security payments.

Constant Dollar Trend

Between 1962 and 1973, pre-SSI constant dollar outlays for public assistance to the elderly, blind and disabled averaged a steady $4.8 billion per year. With the implemenation of SSI, however, constant dollar costs nearly doubled to $8.3 billion by 1975 and remained at about this level through 1981. Since 1981 constant dollar costs have remained stable at the $8 billion level and are projected to rise only slightly under current services through 1989.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962–1973 average	4,780
1975	8,344
1981	7,902
1984	7,979
1989 current services	8,321

Current Status

Several SSI reforms have been enacted during the last three years. These changes were designed to target benefits to the neediest and reduce erroneous payments. SSI benefits are fully indexed to changes in the Consumer Price Index, and are projected to increase by 28% over the 1984-89 period. Total SSI costs remain roughly constant, however, because future caseloads are projected to decline.

The major source of the caseload decline is aged persons who qualify for Social Security benefits (which are higher than maximum SSI payment levels) and, therefore, no longer qualify for SSI.

1985 Budget Proposals

The budget includes several legislative and regulatory changes to improve program administration:

- Recovery of SSI and Social Security overpayments would be strengthened. This proposal would permit past overpayments in one program to be recovered from current benefits payable to the same person in the other program. (1985 savings: $11 million)
- Coordination of payments between SSI and Social Security would be improved to eliminate duplicate and unintended windfall payments. (1985 savings: $5 million)
- Federal Fiscal Liability (FFL) payments to States would be terminated by regulation. Currently, the Federal Government assumes full liability for erroneous payments (above a 4% limit) in SSI State supplements which HHS administers. This proposal would eliminate FFL and return financial responsibility to the States which establish and fund these supplements. Savings would begin in 1986.

Rationale

These proposals would improve program administration, eliminate unintended windfalls which occur because of complicated SSI and Social Security rules, and return financial responsibility to States. The basic SSI program would not be affected by these proposals. All needy individuals would continue to receive the full benefits to which they are entitled.

HHS has been unable to collect more than 40% of SSI overpayments because many previously overpaid persons are no longer receiving SSI. Half of former beneficiaries receive Social Security payments. The 1985 budget proposal would allow SSI overpayments to be recovered from current Social Security benefits for persons who are no longer needy.

HHS administers State supplemental payments without charge to States. The complexity of State supplement systems, with numerous variations by living arrangement, geographic location, and minimum payment levels, is a major cause of high error rates. The 1985 budget proposal would return financial responsibility for excess errors in federally administered State supplements to the States which designed these programs. States could still continue to have HHS administer their supplements, with significant savings in State overhead costs. States could simplify their programs to reduce errors, or they could operate the supplements themselves if they are not satisfied with the free Federal service of administering State supplements. The President's Private Sector Survey on Cost Control also recommends eliminating FFL payments.

Without these changes, Federal efforts to improve program administration could not succeed, resulting in overpayments and windfall benefits to persons no longer in need, and Federal costs for errors in SSI State supplements.

Aid to Families with Dependent Children

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	6,810	6,628	6,963	7,071	7,123	7,272	35,057
Outlays	6,629	6,828	6,963	7,071	7,123	7,272	35,257
1985 Budget Level:							
Budget Authority	6,810	5,835	5,922	6,007	6,046	6,153	29,963
Outlays	6,604	6,035	5,922	6,007	6,046	6,153	30,163
Change:							
Budget Authority	....	–793	–1,041	–1,064	–1,077	–1,119	–5,094
Outlays	–25	–793	–1,041	–1,064	–1,077	–1,119	–5,094

Program Description

Aid to Families with Dependent Children (AFDC) finances cash assistance for needy children deprived of parental support due to death, disability, or continued absence of a parent from the home. About half the States also cover low-income families where both parents are present in the home, but where the principal earner is unemployed. AFDC is administered by State and local governments in conformity with Federal guidelines. Benefits levels are determined by each State, with the Federal Government paying 50% to 77% of benefit costs. The Federal Government also pays 50% of State and local administrative costs, which are discussed in a separate factsheet.

Constant Dollar Trends

Between 1962 and 1967, constant dollar AFDC outlays were stable at slightly under $3 billion per year. However, over the next five years, constant dollar costs grew dramatically, reaching $9.6 billion in 1972—a threefold increase from the 1967 level. During the remainder of the 1970's, constant dollar AFDC outlays remained in the $8 to 9 billion dollar range, reflecting the offsetting pressures of moderately rising caseloads on the one hand, and failure of state-set benefit levels to keep up with inflation, on the other.

The reforms enacted by the Reagan Administration have reduced constant dollar AFDC benefit outlays by 21% between 1981 and 1984. Under the current services baseline, constant dollar costs will fall to $6.2 billion by 1989—a decline of 30% from 1981 levels. If the further reforms recommended in the 1985 budget are enacted, 1989 constant dollar AFDC benefit outlays will be down 41% from 1981 levels and 46% from the 1972 peak.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	2,533
1967	2,975
1972	9,615
1981	8,820
1984	6,953
1989 current services	6,184
1989 budget	5,232

Current Status

AFDC reforms have refocused the program on its original purpose—assistance to families who, through no fault of their own, are temporarily unable to provide for themselves. These reforms, coupled with improved economic conditions, have dramatically slowed the average annual growth in AFDC benefit costs, from 12% annually for 1970-1981, to almost no growth for 1981-1989. During the past two years, 37 states have increased AFDC benefit levels for eligible recipients.

1985 Budget Proposals

A variety of legislative changes to AFDC eligibility rules and benefit calculations is proposed, building on recently enacted reforms.

The major budget proposals are as follows:

- *Require all employable AFDC applicants and recipients to participate in work programs as a condition of eligibility.*—States now have the option to establish Community Work Experience programs (CWEP) and mandatory job search requirements, but only half the States have done so, even on a limited basis. This proposal 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. States would also have the option to require parents of young children to participate in work-related activities if child care is available. These requirements would be closely coordinated with similar requirements in Food Stamps. (1985 benefit savings: $329 million. Offsetting administrative costs of $158 million are included in another factsheet.)
- *Include all parents and minor siblings living in the household as part of the AFDC assistance unit for purposes of computing benefits.*—Parents and minor children currently can be excluded from the AFDC unit at the option of the welfare family. When some family member has significant separate resources or income, this practice can affect the family's AFDC eligibility or benefit level. Including all family members in the AFDC assistance unit would ensure equitable treatment of families with similar needs. Individuals with separate SSI benefits would continue to be excluded from the assistance unit. (1985 savings: $143 million)
- *Prorate the shelter and utilities portion of the AFDC payment for AFDC families living in extended households.*—The AFDC payment includes funds for shelter and utility costs, based on the number of persons in the AFDC family. When recipients share living expenses with non-recipients in the same household, the AFDC benefit is not currently adjusted to reflect reduced levels of need. By taking the economies of shared living arrangements into account, AFDC benefits would be better targeted on those in need. This proposal would also improve equity among families with the same circumstances. (1985 savings: $263 million)
- *Provide assistance to minor mothers only if they live with their parents.*—Unmarried minor mothers can now leave home and establish a separate household in order to become eligible for AFDC. In this situation, the parent's income is not taken into account in calculating AFDC benefit levels. The 1985 budget proposal would eliminate this incentive for family break-up. States could continue to pay AFDC to minor mothers in separate households where there are exceptional circumstances. (1985 savings: $19 million)
- *End the employable parent's share of AFDC benefits when the youngest child reaches age 16.*—Since the parent's presence in the home is no longer essential in these cases, employable adults should be expected to seek private jobs rather than continuing to rely on public assistance. The child's share of the AFDC benefit would not be affected. (1985 savings: $17 million)

A separate factsheet details the 1985 budget proposal to eliminate funding for the Work Incentives (WIN) program, which now registers AFDC applicants and recipients for jobs and job training. The mandatory work requirements outlined above make separate WIN funding unnecessary. The budget effects of several 1985 budget proposals to improve child support enforcement are included in the header above table. These proposals are also discussed in a separate factsheet.

Rationale

Proposed changes would:

- Strengthen AFDC employment and training by requiring all employable applicants and recipients to participate in some work-related activity as a condition of AFDC eligibility.
- Focus benefits on the needy by adjusting payments to reflect actual family circumstances and living arrangements.
- Simplify AFDC rules to streamline administration and reduce erroneous payments.

Earned Income Tax Credit

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,123	1,044	982	923	868	868	4,685
Outlays	1,123	1,044	982	923	868	868	4,685
Tax Expenditures	−330	−280	−225	−180	−145	−120	−950
1985 Budget Level:							
Budget Authority	1,123	1,044	982	923	868	868	4,685
Outlays	1,123	1,044	982	923	868	868	4,685
Tax Expenditures	−330	−280	−225	−180	−145	−120	−950
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....
Tax Expenditures	....	....	....	....	....	....	....

Program Description

The earned income tax credit (EITC) is a major way that income transfers are provided to low-income wage earners with children. The EITC is 10% of earned income up to $5,000 and is phased out in the $6,000 to $10,000 range.

Credits can be received as additions to paychecks or as a lump sum at the end of the year. When the credit exceeds the wage earner's tax liability, a refund is made. Credits against taxes for this purpose are tax expenditures and refund payments are outlays.

Current Status

The intent of the provision is to moderate the burden of the social security payroll tax on low-income workers and thus to remove work disincentives for welfare families. Because the social security payroll tax is payable on the first dollar of labor earnings, without deduction or exemptions, it has a heavy impact on the working poor.

1985 Budget Proposal

In the 1985 budget, outlays for refunds are estimated at $1.0 billion and tax expenditures for the credits that do not exceed tax liability are estimated at $280 million. The decline in outlays and tax expenditures (receipts loss) in the outyears is due to a projected increase in income levels.

Rationale

The current law provisions of the EITC have been maintained during this Administration to offset work disincentives inherent in the relationship between welfare and social insurance programs.

Refugee Assistance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	514	360	332	317	302	303	1,614
Outlays	599	419	352	325	308	304	1,707
1985 Budget Level:							
Budget Authority	514	360	332	317	302	303	1,614
Outlays	599	419	352	325	308	304	1,707
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Federal Government finances initial welfare, health, employment and English language, education, and other services for refugees who come to the United States. Assistance is designed to encourage refugees to become self-sufficient as soon as possible, and to relieve State and local governments of the cost of refugee resettlement. Full reimbursement of State and local welfare costs is available during the initial resettlement period, which varies from 18 to 36 months depending on refugee eligibility. Private voluntary resettlement organizations arrange sponsors for individual refugees and aid in many aspects of the resettlement process. Cuban and Haitian entrants are also covered by these programs. Grants to voluntary agencies for initial reception and placement of refugees are funded by the State Department and are discussed in a separate factsheet.

Constant Dollar Trends

Between 1963 and 1975 constant dollar costs for domestic refugee assistance averaged $192 million per year with only moderate fluctuations in year-to-year outlays. However, the huge influx of Southeast Asia refugees first in 1976 and then again in the late 1970's, and their heavy reliance on welfare benefits, raised constant dollar costs to a peak level of $1.2 billion in 1982. The decline of new entrant numbers to more manageable levels in recent years has permitted constant dollar outlays to fall to $628 million in 1984. Further declines are projected under current services over the next five years such that 1989 constant dollar outlays of $258 million would represent a 78% reduction from the 1982 peak level.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1963–1975 average	192
1976	620
1981	887
1982	1,154
1984	628
1989 current services	258
1989 budget	258

Current Status

Domestic refugee costs depend substantially on the level of admissions to the United States. Arrivals have decreased from a peak of 210,000 in 1980 to about 61,000 in 1983. This reduces the number of refugees who receive special assistance. Continued projected reductions in future years, reflect lower levels of refugees in overseas camps and increased resettlement efforts by other countries.

Refugee costs also depend significantly on the welfare dependency rates for recent arrivals. Over 80% of refugees who have been in the U.S. for 7 to 12 months currently receive welfare. Nearly 99% of refugees receiving welfare payments first applied within 60 days of arriving in the United States.

1985 Budget Proposals

The budget proposes to authorize admission of 72,000 refugees to the U.S. during 1985, the same level as 1984. The highest refugee budget priority is to reduce welfare dependency and accelerate assimilation of new refugees into American society. To help attain this objective, voluntary resettlement agencies would become financially and legally responsible for the basic needs of refugees during their first 90 days in the United States. Fifteen million dollars would be allocated to the State Department to enable voluntary agencies to concentrate their efforts during the critical first 90 days.

Rationale

Successful refugee resettlement depends largely on efforts of voluntary agencies which place individual refugees in U.S. communities and find sponsors such as local church congregations and community organizations. Currently, the roles and responsibilities of the voluntary agencies, particularly in providing employment services to encourage refugee self- sufficiency, are not well-defined. Nearly all refugees are immediately directed to welfare offices for assistance.

The budget proposal would clarify and strengthen the voluntary agency role by making them responsible for refugee needs during the first 90 days. This policy and the accompanying $15 million allocation would help voluntary resettlement organizations and sponsors concentrate their efforts to aid refugees to become self-sufficient and would deter refugees from automatically going on welfare.

Low Income Home Energy Assistance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,875	1,966	2,056	2,144	2,231	2,314	10,711
Outlays	1,887	1,957	2,048	2,136	2,223	2,306	10,670
1985 Budget Level:							
Budget Authority	1,875	1,875	1,875	1,875	1,875	1,875	9,375
Outlays	1,887	1,875	1,875	1,875	1,875	1,875	9,375
Change:							
Budget Authority	....	−91	−181	−269	−356	−439	−1,336
Outlays	....	−82	−173	−261	−348	−431	−1,295

Program Description

The Low Income Home Energy Assistance Program (LIHEAP) helps needy families meet heating, cooling, and other energy needs. States receive block grant payments which they use to tailor programs to meet local needs, such as direct cash assistance, payments to fuel vendors, payments to public housing building operators, and weatherization activities.

Current Status

Federal energy assistance has increased dramatically over the past 7 years, from $110 million in 1977 to $1.9 billion for 1984. Early programs focused on crisis assistance for households facing utility shutoffs. Later programs distributed revenues from the windfall profits tax enacted in 1980. The current program is primarily a subsidy of utility costs for low-income households, financed by the American taxpayer. Attempts to reduce total budget levels by targeting funds to States which have the most severe heating needs have not been successful, and funding has continued to grow.

Constant Dollar Trends

During the first year of funding in 1977, constant dollar outlays totalled $186 million. By 1981 constant dollar outlays reached $2.2 billion—nearly a 1,100% real increase in just four years. Since 1981 constant dollar outlays have averaged about $2 billion, and under current services are projected to remain at that level through 1989. If the funding levels proposed in the 1985 budget are adhered to, constant dollar funding would decline to $1.6 billion by 1989—a 27% drop from the 1981 level.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1977	186
1981	2,175
1984	1,979
1989 current services	1,961
1989 budget	1,594

1985 Budget Proposals

The budget proposes to continue the current level of LIHEAP funding for 1985. A $200 million supplemental in added 1984 funds is also requested to meet extraordinary heating needs due to very cold winter weather this year. No changes to the State allocation formula for LIHEAP block grant funds are proposed.

Beginning in 1985, the Administration proposes legislation to use recoveries from petroleum price overcharges to help finance the block grant. Department of Energy (DOE) programs for low-income home weatherization and energy conservation for schools and hospitals would also be funded through these recoveries.

Rationale

The budget proposes a rational and orderly procedure for distributing funds collected by the Department of Energy through settlements of petroleum price overcharges. To date, distribution mechanisms have been chaotic and varied. Some recoveries have been disbursed by DOE through various mechanisms such as claims funds, price rollbacks, crude oil purchases for the strategic petroleum reserve fund, cash grants to States, and payments to the U.S. Treasury. Other recoveries have recently been disbursed to several specific Federal programs through special Federal legislation. Still other funds are being held in escrow pending final distribution decisions. Distribution policy for overcharge recoveries should be clearly established in law.

The budget proposes to use overcharge funds to finance LIHEAP and DOE energy conservation efforts as the best statutory distribution mechanism. A combination of cash assistance to the poor for high current energy costs, and weatherization programs to reduce future energy costs represents the best use of these funds. By channeling cash assistance through the LIHEAP block grant, States will have flexibility to design programs which best meet local needs and ensure maximum coordination with other public—and private—energy assistance programs.

Based on current State uses of LIHEAP funds, the proposed 1985 budget level of $1,875 million would be adequate to continue current assistance levels. In 1983, 30 States transferred a total of $117 million from LIHEAP to other block grants, and 46 States had a total of $131 million in unobligated funds carried over into 1984. In 35 States, private energy assistance programs are in place, through utility companies which solicit contributions from customers and stockholders, or use other mechanisms. Federal assistance for energy costs is also available through AFDC, public housing, and other low income programs.

Enactment of the budget proposal would focus aid on those who experience the greatest economic burden for energy costs and would return authority, responsibility, and revenues to meet these requirements to the States.

Failure to enact the budget proposal would continue current uncoordinated, piecemeal practices for distributing petroleum price overcharge funds and would permit continued duplication between these funds and LIHEAP block grant resources.

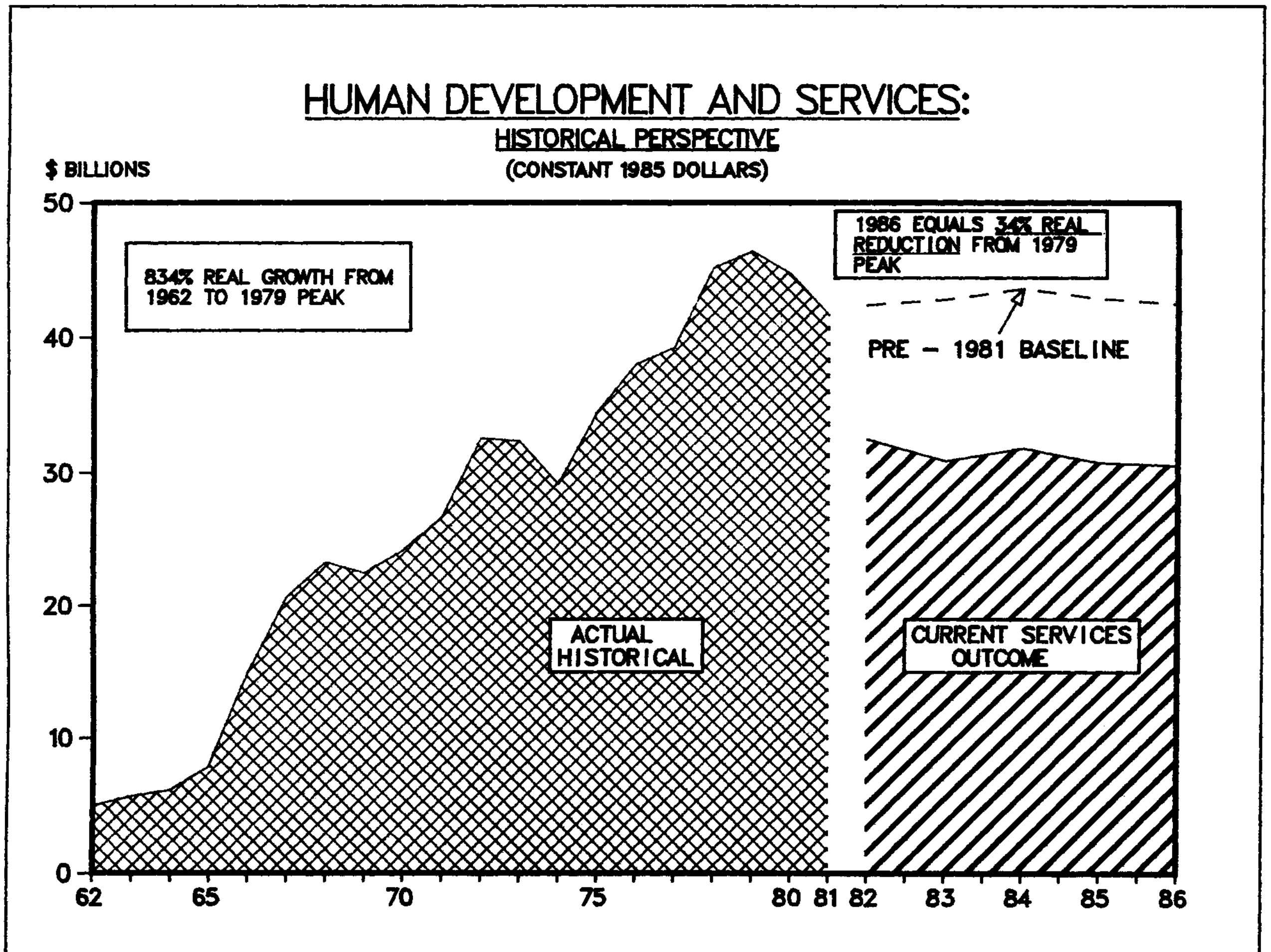
CHAPTER 4

Human Development and Services

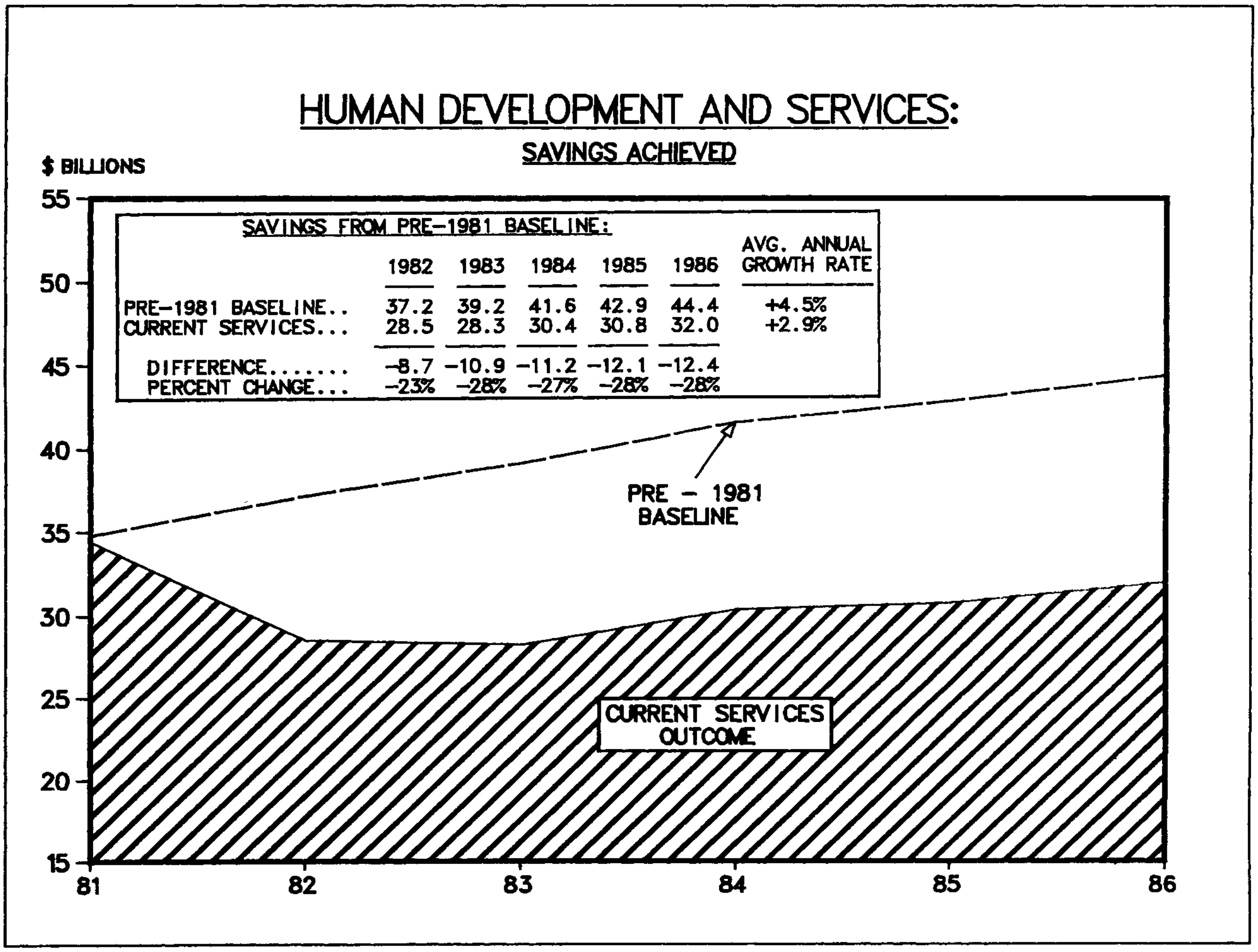
Human Development and Services Overview

Included in the category of human development and services programs is the entire collection of domestic service programs which burgeoned in the 1960's and 1970's. Among these programs are assistance for elementary and secondary education, higher education aid, employment and training activities, social services for various population groups, health services (as opposed to financing) programs, and many of the general service activities originated under the old Office of Economic Opportunity. These programs grew, in constant dollars, from $5 billion in 1962 to $46 billion by their peak year, 1979. Since then, they have been reduced to $32 billion in 1984. Outlays in the 1985 budget would be reduced by another 9%; about 40% of that reduction reflects the effect of changes already enacted.

As indicated in the accompanying chart, "Historical Perspectives," most of the expansion in these programs occurred in the 1960's. From 1964 to 1967 alone the category more than tripled in real terms. For the entire 1962-1969 period, growth averaged 24.1% per year. However, significant increase continued in the 1970's. From 1970 to 1974, the programs grew (in real terms) by 5.3% per year, rising to a 9.3% annual growth from 1975 to 1979.



The chart "Savings Achieved" shows that enactment and successful implementation of most of the reforms proposed by the Administration in 1981 has completely reversed the trend of the 1970's. The decline since the 1979 peak has averaged 7.2% annually through 1984. Of the total $14 billion reduction in those years, in constant dollars, $9 billion was achieved between 1981 and 1982. Six block grants have replaced a myriad of programs in the education, training, health, and social services areas. Programs which were widely recognized as unproductive, such as CETA public service jobs, have been cut out completely. Genuine needs are still being met, local service delivery has hardly been affected, but the economies and efficiencies achieved have brought the mushrooming expansion of these programs to a halt. Even without additional restraint, the decline would continue by about 1% per year through 1989 (primarily because declining interest rates will be reflected in a decline in outlays for guaranteed student loans).



The reductions from peak levels have occurred primarily in those areas where programs were ineffective, national needs were relatively less, or the Federal responsibility was more limited compared to that of State and local governments. The largest cuts (almost 70% below peak) have been taken in public service employment and other Comprehensive Employment and Training Act (CETA) programs, which spent almost $54 billion over 10 years with little to show as a result. The Job Training Partnership Act, which has replaced those programs, will result in a joint public-private program of training for private sector jobs. Similarly, the Great Society community action type programs, which created more action than community or human improvement, have been reduced 60%, while the money and flexibility provided States in the health and social services block grants will enable them to concentrate on the real needs of the people they serve. Elimination of the now duplicative Community Services Block Grant (CSBG), the Legal Services Corporation (LSC), and the vestigial Volunteers In Services to America (VISTA) would essentially complete the termination of these unneeded programs.

Real reductions from peak levels (19%) have been made in Federal financing for elementary and secondary education, reflecting the need for the function but recognizing that the primary responsibility and funding must remain at the State and local level. Since for the remainder of the 80's States and localities are expected to be in a better fiscal situation than the Federal Government, which must devote more resources to national needs that can be met by no one else, further modest reductions must be made in this area. Similarly, health, mental health, and social services programs have been cut between 20% and 40% in constant dollar terms from their peaks, in view of the States' primary responsibility in those fields. Moreover, a large part of the money for these programs is used to pay service providers; the State agencies which deal with them should be in a better position to control costs.

Only higher education aid has so far resisted contraction, being only about 3% below its 1981 peak.

Change From Peak Funding: Education, Training, Health, and Social Services

(1985 constant dollar amounts in billions)

Year	Amount	Reduction from peak year
Total:		
1979 peak	46.4	......
1984 enacted	31.9	−31%
1985 proposed	29.0	−38%
1989 proposed	24.8	−47%
Public employment and job training services:		
1978 peak	17.0	......
1984 enacted	5.3	−69%
1985 proposed	4.8	−72%
1989 proposed	4.2	−75%
Original Great Society: community action, LSC, juvenile justice, ACTION:		
1973 peak	3.4	......
1984 enacted	1.4	−60%
1985 proposed	0.7	80%
1989 proposed	0.5	86%
Elementary and secondary education:		
1980 peak	9.0	......
1984 enacted	7.3	−19%
1985 proposed	7.1	−21%
1989 proposed	6.4	−29%
Social services block grant, foster care, head start, rehabilitation, elderly programs, and other social services:		
1979 peak	8.6	......
1984 enacted	6.8	−20%
1985 proposed	6.4	−25%
1989 proposed	5.6	−35%
Health and mental services:		
1976 peak	4.8	......
1984 enacted	3.0	−37%
1985 proposed	2.8	−41%
1989 proposed	2.6	−47%
Higher education and student aid:		
1981 peak	8.3	.....
1984 enacted	8.1	−3%
1985 proposed	7.1	−14%
1989 proposed	5.6	−33%

Thus, with the primary exception of higher education aid, only relatively small further reductions are proposed for this category in the 1985 budget. About half of the 1985 to 1989 savings from current services in this category results from two factors. First, nominal growth has been restrained slightly below the current services level. Second, reductions are continuing to be made in small programs providing Federal financing for individual projects in areas where States have primary responsibility and are receiving substantial aid from formula and block grants (such as in programs for disadvantaged and handicapped education, training for employment, and rehabilitation services). This continued restraint below inflated current services estimates results in a widening gap below the latter and an average 8% saving over the 1985 to 1989 period.

The other half of the savings for the 5-year budget period results from four program reductions. Three involve elimination of the unneeded or duplicative CSBG, LSC, and Work Incentive Program (WIN). The fourth is the reduction of higher education aid until it is 1/3 below its peak level by 1989 in real terms. It is difficult to justify continued liberal aid to middle-income students when the fiscal constraints on the Federal budget are so severe.

Human Development and Services Further Savings Proposed

(Outlays in billions)

Major program area	1985–89		
	Current services	1985 request	Proposed savings
Elementary and Secondary Education	39.4	36.8	−2.5
Higher Education	39.1	34.0	−5.0
Employment, Training, and PSE:			
Work Incentive Program	1.5	0.1	−1.5
All Other	26.4	24.2	−2.2
Social Services	34.6	32.2	−2.4
Health Services	16.6	14.4	−2.1
Other Services:			
Community Services Program and Legal Services Corporation	3.6	0.2	−3.5
All other	3.7	2.8	−1.0
Total, Human Development and Services	164.9	144.7	−20.2

The details of the 1985 budget proposals for this category are contained in the following 38 factsheets.[1] The first eight factsheets cover Federal assistance to elementary and secondary education; following are five factsheets concerning aid for higher education. The third section includes the five papers on employment and training activities. The social services program proposals are described in the eight factsheets of the fourth section. Then come seven factsheets on programs for provision of health services (which do not include the medicare and medicaid programs covered in Chapters 2 and 3, respectively). The final five factsheets cover miscellaneous service programs, primarily ones originated by the old Office of Economic Opportunity.

[1] No factsheets are included for the Youth Conservation Corps or Public Service Jobs, which were terminated in 1981, or for College Housing Loans, for which the 1985 budget includes no new loan commitments after 1983.

Elementary and Secondary Education

Compensatory Education for the Disadvantaged

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	3,488	3,662	3,834	4,003	4,163	4,317	19,978
Outlays	3,376	3,435	3,633	3,805	3,974	4,135	18,982
1985 Budget Level:							
Budget Authority	3,488	3,480	3,490	3,530	3,570	3,610	17,679
Outlays	3,376	3,424	3,479	3,490	3,523	3,563	17,479
Change:							
Budget Authority	....	−182	−344	−473	−593	−707	−2,299
Outlays	....	−12	−154	−315	−450	−572	−1,503

Program Description

Chapter 1 of the Education Consolidation and Improvement Act (ECIA) supports a variety of activities for disadvantaged children. Payments are made to local school districts to support compensatory education activities for educationally disadvantaged children. Chapter 1 also provides formula grants to State educational agencies to provide compensatory education services to migrant children, handicapped children in State operated programs, and neglected or delinquent children in State institutions. States receive funds to pay the costs of administering the Chapter 1 programs and discretionary grants are awarded for program evaluation.

Current Status

Since 1966, the Federal Government has provided more than $42 billion for the support of programs to help disadvantaged children acquire basic academic skills. In 1981, Chapter 1 of ECIA amended and replaced Title I of the Elementary and Secondary Act. While maintaining Title I's basic purpose of serving educationally disadvantaged children through financial assistance to State and local educational agencies and retaining the same funding formula, Chapter 1:

- simplified the administrative and program requirements of the Title I statute;
- removed unnecessary Federal supervision and control; and
- reduced burdensome paperwork requirements.

The first appropriation under Chapter 1 reached State and local educational agencies for use in the 1982-83 school year. The 1985 appropriation will be available for use in the 1985-86 school year.

1985 Budget Proposal

The 1985 request of $3.5 billion would enable the Federal Government to continue providing substantial assistance to State and local educational agencies for compensatory educational services to the disadvantaged. The amount of the 1985 request for Chapter 1 is the same as the 1984 appropriation. The Administration proposes to redistribute resources among Chapter 1 activities as follows:

- provide a $31 million increase in funding for the major Chapter 1 activity, grants to local educational agencies;
- maintain current funding levels for two State educational agency activities: grants for handicapped children in State operated programs and grants for neglected or delinquent children in State institutions;

- increase funding for evaluation and studies in order to help carry out the Congressionally mandated study of Chapter 1;
- reduce to 2 years the period for which a migrant child remains eligible for migrant education funding after he or she no longer migrates from school district to school district;
- reduce funding for the support of State administrative activities; and
- eliminate funding for two small, excessively high cost discretionary grant programs that support activities for older migrants.

Despite the fact that the 1985 budget provides for modest increases each year in the basic grant program, the 1985 Budget proposal would, if adopted, result in savings of $1.5 billion in the 1985-89 period over what would be required to maintain all activities at their current program levels.

Rationale

The 1985 proposal would continue to provide grants to 14,000 school districts enabling them to maintain services to almost 5 million educationally disadvantaged school children.

The basic grant program has been shown to focus available resources on children most in need of services and to have modest, but consistent success in improving the basic skills of participants.

The migrant program does not target its available funds as effectively as the basic grant program. Data have shown that over one-quarter of the children counted for allocation purposes and eligible for services as migrants have not moved for more than 2 years.

The Chapter 1 programs for handicapped and neglected or delinquent children serve severely educationally disadvantaged populations not served by other Federal education programs.

The discretionary migrant education programs have served only a small number of persons at extremely high cost. Other similar Federal education programs are available to eligible migrants and provide the same services at much lower per capita operating costs.

State Education Block Grant

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	451	473	495	517	538	558	2,582
Outlays	431	443	466	493	515	536	2,452
1985 Budget Level:							
Budget Authority	451	686	686	686	686	686	3,428
Outlays	431	466	634	681	686	686	3,152
Change:							
Budget Authority	....	+213	+191	+169	+148	+128	+847
Outlays	....	+23	+168	+188	+171	+150	+700

Program Description

The State education block grant (Chapter 2 of the Education Consolidation and Improvement Act of 1981) provides grants to States and local school districts for the improvement of elementary and secondary education.

Current Status

The consolidation in 1981 of 29 funded categorical programs under Chapter 2 resulted, for the first time, in provision of flexible Federal aid for educational improvement to all school districts, and also allowed for significant budget savings over the 1982-1984 period.

Chapter 2 is being administered with minimal paperwork and few Federal restrictions on local discretion. Resources are being used by States and localities for small-scale improvement programs such as purchase of books and computer software and equipment, remedial and counseling programs, and staff training.

1985 Budget Proposals

For 1985 the President proposes a $235 million budget authority increase above the 1984 appropriation. The increase would support enhanced State and local educational reform initiatives, including implementation of recommendations made by the National Commission on Excellence in Education. Over the 1985-1989 period the budget provides a $700 million or 29% increase above current services.

The 1985 budget would increase the average State allocation by about 50%, from $8.6 million to $13 million.

Rationale

To most effectively address local needs, educational reforms must be planned and directed at the State and local level. Chapter 2 is the most appropriate vehicle for Federal financing of local reforms of the general education system.

- The additional discretionary funds would enable States and local school systems to purchase or upgrade computer software and equipment, or to experiment with or implement reforms such as increased graduation requirements, changes in the length of the school day or year, teacher training programs, and teacher career ladders.

- States and localities could also use funds to operate programs currently administered at the Federal level for which new funding is not proposed for 1985 (e.g., Civil Rights Training, Women's Educational Equity).

Small Elementary and Secondary Education Programs

[In millions of dollars]

Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	100	105	110	115	119	123	572
Outlays	144	112	107	110	115	120	564
1985 Budget Level:							
Budget Authority	150	106	106	106	106	106	532
Outlays	150	140	114	107	106	106	573
Change:							
Budget Authority	+50	+1	−4	−9	−13	−17	−40
Outlays	+6	+28	+7	−3	−9	−14	+10

Program Description

This category includes:

- Small elementary and secondary categorical programs which have not yet been consolidated under the block grant enacted in Chapter 2 of the Education Consolidation and Improvement Act (ECIA): Civil Rights Training, Women's Educational Equity, Follow Through, Ellender Fellowships, and the two territorial assistance programs.
- The Secretary of Education's discretionary fund, first funded in 1982 under the authority of Chapter 2 of the ECIA.
- Payments to special elementary and secondary institutions to support R&D and operations: the American Printing House for the Blind (APHB), the Model Secondary School for the Deaf (MSSD), and the Kendall Demonstration Elementary School (KDES) for the deaf.

The table above also includes funding for the President's proposed initiative to help States train additional science and mathematics teachers.

Current Status

The shift of national priorities away from narrow-purpose education programs toward more flexible State aid has unnecessarily left six small categorical programs, with total enacted funding in 1984 of $48 million, outside the block grant structure.

The Secretary's discretionary funds have remained at or near $28 million since the Chapter 2 program began in 1982. About $11 million of the discretionary funds are statutorily earmarked for arts education, alcohol and drug abuse education, and inexpensive book distribution, leaving approximately $17 million for Secretarial initiatives.

Funding for the elementary and secondary special institutions has been essentially unchanged in nominal terms since 1981.

1985 Budget Proposals

The 1985 budget proposes a new $50 million per year block grant to States, to begin in 1984, to provide scholarship funds for the training of new secondary school science and mathematics teachers. The remaining six small categorical programs not yet consolidated under the Chapter 2 block grant would be eliminated. The Secretary's discretionary funds would be increased $14 million or

50% increase to expand initiatives aimed at improving the quality of elementary and secondary education. For special institutions:

- The APHB appropriation would be maintained at $5 million, the level since 1982. Legislation is proposed to terminate a century-old trust fund, now cost-ineffective, that provides $10,000 annually in interest income to APHB.
- MSSD and KDES appropriations are proposed only for R&D costs. Legislation is proposed that would allow Gallaudet College, which operates the schools, to charge local school districts for the direct educational expenses incurred by students from those districts attending MSSD or KDES.

Rationale

There is a nationwide shortage of qualified science and mathematics teachers. The proposed science and mathematics block grant is intended to address the immediate problem of teacher shortages while stimulating further action by States, local school districts and private industry to improve the overall quality of mathematics and science education.

Prescriptive categorical programs are less effective in addressing local educational needs than more flexible funding mechanisms. The proposed $235 million funding increase for the Chapter 2 block grant (see separate factsheet on State Education Block Grant) would enable States and local school districts to operate such programs on their own if they saw the need.

Additional research and development is needed on strategies for improving educational quality. The increased discretionary funds would enable Federal support and study of State and local experiments with educational reforms, especially those related to the recommendations of the National Commission on Excellence in Education (for example, career ladder and merit pay systems for teachers).

For special institutions:

- The current level is sufficient for APHB. Eliminating the obsolete trust fund would have little impact because its $10,000 in annual interest represents less than one-tenth of 1% of the total APHB budget from all sources.
- There is no justification for the current discrimination among local school districts with regard to educating deaf children, a situation in which some districts escape costs because students attend MSSD or KDES while others incur those costs. The proposed legislation would end this inequitable treatment, resulting in all school districts paying educational expenses regardless of where their students attend school. The Federal demonstration would continue with R&D funding at current levels.

Bilingual Education

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	139	147	154	161	168	174	803
Outlays	143	138	145	152	159	166	761
1985 Budget Level:							
Budget Authority	139	139	139	139	139	139	696
Outlays	143	138	139	139	139	139	695
Change:							
Budget Authority	....	−7	−14	−21	−28	−35	−106
Outlays	....	....	−6	−13	−20	−27	−66

Program Description

Bilingual education programs are intended to improve educational opportunities for individuals with limited English proficiency by helping them to read, write, and speak English. Grantees are required to use a student's native language as well as English in their bilingual education programs.

Current Status

Federal bilingual education projects will serve about 195,000 children in 1984. Forty percent of the school districts now participating in the program have received aid for six or more years. Outlays for bilingual education, in constant 1985 dollars, have decreased from $211 million in 1981 to $150 million in 1984.

1985 Budget Proposals

Funding for bilingual education would be held level with the 1984 appropriation at $139 million. Legislative changes are proposed to authorize a broader range of educational approaches, including those that do not use a student's native language, and to end long-term aid to school districts. Proposed legislation would also target aid on children most in need and would enhance State responsibility for coordination and monitoring of Federally funded local projects.

Rationale

The 1985 budget request reflects modest savings while making significant improvements in program structure and effectiveness.

- Research has been unable to show that the currently mandated teaching approach requiring instruction in the native language is more effective than alternative approaches. Data from the field indicate that preferred teaching techniques vary considerably across communities. Asian and mixed populations, for example, tend to use intensive English instruction with limited or no use of the native language. The proposed legislation would enable local school systems to use instructional techniques that will best serve the needs of their limited English proficient students.
- Long term support for school districts is inappropriate. Federal funds should provide the initial catalyst for development of local programs; funds should not finance routine, on-going local responsibilities.

- Children whose usual language is other than English should be given priority, freeing up resources that currently serve children who speak English regularly and whose other education problems should be dealt with by different programs.

Indian Education

[In millions of dollars]

Agency: DOI/ED

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	327	346	368	390	413	435	1,952
Outlays	326	340	360	382	405	427	1,914
1985 Budget Level:							
Budget Authority	327	344	363	379	395	414	1,895
Outlays	326	334	356	372	388	407	1,858
Change:							
Budget Authority	....	−2	−5	−12	−18	−21	−57
Outlays	....	−6	−4	−10	−16	−19	−56

Program Description

The Department of the Interior, Bureau of Indian Affairs' (BIA's) education programs support the direct operation of schools on Indian lands as well as tribally operated schools, and provide financial assistance to public schools that serve Indian children from Federally recognized tribes. BIA also assists Indian adults through financial aid to Indian postsecondary students, by support of tribally operated postsecondary institutions, and by offering continuing education programs in many communities.

The Department of Education Indian programs provide financial assistance to public schools and some tribally controlled schools for special services to Indian children from both Federally recognized and non-recognized tribes. The Education Department also operates small discretionary programs that support demonstration projects, teacher training, higher education fellowships, and adult education.

Current Status

The Bureau of Indian Affairs programs have maintained a stable level of services since 1981 with resources that have remained generally level in constant dollars. Most of the funds support a Federally operated school system now comprised of 191 schools and 15 dormitories for Indian students. Sixty-two of these schools are controlled and managed by Indian groups under contractual arrangements with BIA.

BIA programs presently serve over 43,000 children enrolled in Federal and tribal schools, about 175,000 Indian children in public schools, and over 30,000 Indians in postsecondary or adult education programs.

Spending levels for Education Department programs peaked in 1980 at $125 million (in constant 1985 dollars) and have not exceeded $90 million since, decreasing in 1985 to $69 million, slightly more than half the 1980 level. Most of these funds are distributed to public school systems and some Indian-controlled schools that enroll more than 300,000 Indian students.

1985 Budget Proposals

The proposed budget for Indian education programs of the Bureau of Indian Affairs and the Education Department would essentially maintain the 1984 funding level. The President has requested $273 million for BIA programs and $69 million for Education programs.

For the most part, current policy would be continued in both agencies' programs. The remaining 10 Alaska day schools operated by BIA would be transferred to the State of Alaska as part of the continuing effort to establish in Alaska a single system of education consistent with the State's constitution.

Rationale

The proposed BIA budget level would continue meeting the basic educational needs of Indian students attending BIA and tribally operated schools.

BIA and Education Department funding for Indians enrolled in public schools would maintain services for these Indian students at roughly current levels.

Impact Aid

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	585	617	647	678	708	736	3,386
Outlays	613	642	654	670	699	727	3,392
1985 Budget Level:							
Budget Authority	585	507	515	525	534	550	2,631
Outlays	613	572	543	526	532	546	2,719
Change:							
Budget Authority	....	−110	−132	−153	−173	−186	−755
Outlays	....	−70	−112	−144	−167	−182	−673

Program Description

The Federal Government makes direct payments to school districts when enrollments and the availability of revenues from local sources have been adversely affected by Federal activities. Most of the direct payments are made on behalf of two kinds of federally connected children: "a" children who live *and* whose parents work on Federal property; and "b" children, who either live on Federal property *or* whose parents work on Federal property. There are 335,000 "a" children and more than 2 million "b" children. Under the Impact Aid program, assistance is also provided to school districts that have suffered major disasters and for the construction of school facilities.

Current Status

Funding for Impact Aid activities peaked in 1980. Since that time, amendments to the basic Impact Aid statutes (most contained in the Omnibus Budget Reconciliation Act of 1981) have made a number of changes in the authorizing legislation:

- eliminated, beginning in 1985, payments on behalf of "b" children;
- established, for the first time, specific ceilings on the appropriations for the various activities; and
- transferred funding responsibility for certain activities to the Department of Defense.

Since 1981, appropriations for "b" children have been reduced, while appropriations for "a" children have been steadily increasing.

1985 Budget Proposal

The 1985 budget proposes to implement and extend existing policy to target Impact Aid funds. Specifically, it would:

- Implement Congressional policy to reimburse school districts only for their "a" children. Under the 1985 proposal, payments would be made to approximately 1,300 school districts which educate "a" children, almost 2/3 of whom live on military installations and 1/3 live on Indian lands.
- Make payments for all "a" children, but at a higher rate to districts in which "a" children comprise at least 20% of the enrollment.
- Continue to make payments for disaster assistance at the current level.
- Provide no new support for school construction.

- Provide for modest program increases in 1986 through 1989.

Rationale

The Administration's budget proposal for 1985 continues the policy of focusing limited available resources on the school districts that are most directly and most heavily affected by Federal activities. The budget proposal, if adopted, would result in savings of $673 million in the 1985-89 period over what would be required to maintain all activities at their current levels.

Funding for "b" children would be eliminated in keeping with the Congressional decision to do so and in recognition of the fact that "b" children represent little or no burden to local school districts. School districts have in the past received most of their "b" payments on behalf of children whose families live in the community and contribute to the support of local school systems.

The elimination of funding for school construction recognizes that $100 million has been appropriated for construction in the past two years enabling the Department of Education to meet the most urgently needed construction requests.

Out-year increases provide some limited protection against inflation and maintain high payment levels for "a" children.

Education for the Handicapped

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,239	1,301	1,361	1,421	1,477	1,531	7,091
Outlays	1,108	1,183	1,299	1,353	1,407	1,464	6,706
1985 Budget Level:							
Budget Authority	1,239	1,214	1,214	1,239	1,264	1,289	6,222
Outlays	1,108	1,176	1,223	1,219	1,234	1,258	6,109
Change:							
Budget Authority	....	−86	−147	−181	−213	−242	−869
Outlays	....	−7	−76	−134	−173	−206	−597

Program Description

Under the Education of the Handicapped Act, formula grants help States and localities educate handicapped children; smaller discretionary programs support demonstrations, research, and training. State grants are the major mechanism of Federal assistance, comprising more than 85% of total outlays.

Current Status

From 1975 to 1981, outlays for education for the handicapped grew more than 4 times in real terms, a rate of increase that was clearly unsustainable. The Reagan budget proposals to date have helped moderate program growth, but further effort is needed to place the long-term funding pattern on an acceptable path.

1985 Budget Proposals

The budget proposals for 1985:

- would maintain the State grant programs in 1985 at their 1984 level and include $25 million annually in out-year growth;
- would make reductions in four of the eleven discretionary project grants, including personnel training; and
- would continue at the 1984 level of $6 million the new program to improve secondary level special education and the transition of handicapped youth from school to work or further education.

The net effect is an outlay savings from current services of $597 million (9%) over 1985-1989.

Rationale

The 1985 budget would provide both substantial support for the education of handicapped children and an outlay pattern which reflects necessary spending restraint.

- In the major State grant program which provides assistance to States and localities in educating more than four million handicapped children, the budget would maintain the 1984 average Federal share per child at about 8% of the additional, special educational costs for a handicapped child.

- By trimming certain discretionary programs, the budget would provide outlays that remain about level in constant dollars from 1984 through 1986, thereby reversing the unacceptable runaway growth of the late 1970's.
- Personnel training, the largest of the discretionary programs, would be reduced to place an emphasis on the appropriate Federal role of preservice training for special education personnel in fields with identified shortages.

Vocational and Adult Education

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	838	880	921	961	999	1,036	4,797
Outlays	790	879	862	908	948	986	4,583
1985 Budget Level:							
Budget Authority	838	838	838	838	838	838	4,192
Outlays	790	878	830	839	838	838	4,224
Change:							
Budget Authority	....	−42	−82	−123	−161	−197	−605
Outlays	....	−1	−32	−69	−109	−148	−359

Program Description

This activity provides several formula grants to States for a wide variety of vocational training and adult basic education activities. About 2% of the funds are used for discretionary national R&D projects in vocational education.

Current Status

In constant 1985 dollars, annual Federal spending for these activities exceeded $1 billion throughout the 1970's, reaching $1.4 billion in 1976. Spending has been somewhat moderated at under $1 billion since 1981 and can be stabilized at the current level without undermining program goals.

1985 Budget Proposals

The 1985 budget would continue 1984 funding levels for both vocational and adult education programs. Legislation is proposed for each program to consolidate several small categorical grants and reduce Federal reporting and recordkeeping requirements.

Rationale

Federal matching grants are achieving their purpose of stimulating State and local spending. The State grant matching requirement in vocational education is 50%, yet currently States pay 90% of every dollar. In adult education, the required match is 10%, yet States now pay about 50% of program costs. Indeed, States and localities so substantially "over-match" Federal grants—i.e., spend more than needed to be eligible for available Federal funds—that additional Federal funds would have little or no "leverage" or program effect, possibly resulting only in offsetting State spending reductions.

The current program has been widely criticized for administrative complexity and for attempting (and failing) to achieve too many different program objectives. The Administration's proposals would streamline the current adult education program and consolidate six current categorical vocational education grants into a single grant with two clear purposes: economic development and improvement of vocational education programs.

The proposal includes vocational education set-asides for the handicapped and the disadvantaged, ensuring no reduction in service to either group, while providing increased flexibility to States and localities to design and operate programs that best meet their needs.

Higher Education

Postsecondary Student Financial Assistance

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	3,987	4,175	4,354	4,532	4,701	4,861	22,623
Outlays	4,098	4,001	4,198	4,381	4,555	4,722	21,858
1985 Budget Level:							
Budget Authority	3,987	3,654	3,710	3,766	3,824	3,883	18,836
Outlays	4,098	3,864	3,682	3,718	3,775	3,833	18,871
Change:							
Budget Authority	....	−521	−645	−766	−877	−978	−3,787
Outlays	....	−137	−516	−663	−781	−889	−2,986

Program Description

Programs in this category provide financial aid to postsecondary students with varying degrees of demonstrated need:

- The Pell Grant program is the largest with $2.8 billion appropriated in 1984. Funds are provided to students based upon a uniform national need test. The maximum grant and the expected family contribution are set annually.
- College Work Study (CWS) and Supplemental Educational Opportunity Grant (SEOG) program funds are distributed to schools under State-based formulas and granted to students using a variety of Federally approved need tests.
- Federal capital contributions are made through the National Direct Student Loan (NDSL) program to institutions to help finance revolving loan funds as a source of low cost loans to needy students. Over $5 billion is in revolving status.
- Support is provided to States through the State Student Incentive Grant (SSIG) program to encourage them to set up additional programs of need-based grants. Currently, all States have such a program and provide over $1 billion annually to needy students.

Current Status

The 1984 appropriation for these programs of $3.99 billion will generate for the 1984–1985 school year over $4.6 billion in aid. This includes 2.6 million Pell grants, 655,000 SEOG grants, 870,000 work study awards, 304,000 SSIG grants and 881,000 direct loans. Many students will receive more than one award. Significant savings were achieved in these programs in 1982 and 1983 but the 1984 appropriation reversed this trend, providing a 10% nominal increase over 1983.

1985 Budget Proposals

Pell Self-help Grants would be funded at $2.8 billion. After taking into account an increased family contribution, the student would be required to provide $500 or 40% of educational costs, whichever is greater, before becoming eligible for a Pell Self-help Grant. This requirement could be met by work study awards or loans. The maximum Pell grant available to a needy student would be increased from $1,900 in 1984 to a maximum of $3,000 in 1985. This would provide about 2.3 million awards, eliminating grants to about 300,000 better off students.

College Work Study funding would be increased by over 50% to $850 million. This would furnish 1.2 million students with awards. To allow schools some flexibility to address the different needs of their students, up to 50% of CWS funds may be awarded as grants. A cap of $4,500 would be set for the combination of Pell and Work Study funded grants.

Over $585 million will be available on-campus for relending in the NDSL program as a result of repayments to institutions' loan funds.

No funds are requested for new capital contributions for the National Direct Student Loan program, Supplemental Educational Opportunity Grants or State Student Incentive Grants.

Modest growth is built into the outyears for Pell funding.

Rationale

The 1985 budget would help restore the primary role of the family and the student in meeting the responsibility for postsecondary educational costs. The Administration also continues to support the increased targeting of funds on students with greatest need. These policies allow movement towards achieving Federal objectives while providing savings of $3 billion over 5 years.

- Between 1972 and 1982, Federal support for student assistance programs including the Guaranteed Student Loan program (see factsheet on Guaranteed Student Loans) increased by $5.5 billion. This expansion in funding was accompanied by a shift in the traditional responsibility for financing college costs, from students and families to the Federal Government.
- Recent analyses indicate that as the proportion of Federal funds assisting students in meeting educational costs has increased, parental contributions have declined—despite concurrent increases in parental disposable income. (Between 1970 and 1980, for example, average student charges at public universities, as a percent of median family income, declined by over 2%.)
- Excessive reliance on federally supported student financial assistance abuses the spirit of student aid as a supplement to, not a replacement for, other sources of college financing.
- The proposed restructuring of Federal student aid would allow funds to be targeted better to students most in need of assistance within a reasonable funding level. Such students will be able to qualify for maximum grants from all Federal programs equaling $4,500, compared to the current combined $3,900 maximum. Pell Self-help grants will meet a larger portion of educational costs (60 versus 50%) for needy students and be more sensitive to college costs.
- Elimination of separate funding for three programs reduces redundancy, simplifies administration and permits more consistent targeting of funds on needy students.
- Outyear growth provides a partial offset to rising costs within the limitations of overall necessary budgetary constraints.

Guaranteed Student Loans

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,256	3,079	3,089	2,917	2,775	2,642	14,502
Outlays	2,975	2,913	3,086	2,960	2,810	2,675	14,445
1985 Budget Level:							
Budget Authority	2,256	2,841	2,936	2,720	2,527	2,329	13,353
Outlays	2,962	2,747	2,912	2,774	2,575	2,379	13,387
Change:							
Budget Authority	....	−239	−153	−197	−248	−313	−1,150
Outlays	−13	−166	−174	−186	−235	−297	−1,058

Program Description

This program promotes the availability of loans from banks and other lenders to students and their parents to help meet the costs of attending postsecondary institutions after taking into consideration family financial resources and other student financial aid. This is accomplished through the provision of Federal insurance and reinsurance against borrower default, as well as through substantial Federal interest subsidy payments. In general, the program is administered by State and private nonprofit guarantee agencies which serve as intermediate loan insurers, defaulted loan collectors, and providers of various services to lenders. Since 1982, students from families with annual incomes over $30,000 have had to satisfy a need test to become eligible for a guaranteed loan.

Current Status

Between 1979 and 1985 the Guaranteed Student Loan program will have grown from an annual volume of $2.9 billion to an expected volume of $7.5 billion. Latest data indicates that over 70% of this volume is still not need tested.

During this same time period the volume of loans in default will have *nearly tripled,* growing from $1 billion to $3 billion. The financial responsibility of the State and nonprofit agencies has declined as 100% Federal reinsurance has become the rule.

The Government has continued to provide the State and nonprofit guarantee agencies advances (interest-free loans) and administrative allowances without regard to the agencies' profitability; some of these agencies have therefore been able to amass considerable reserves.

Continued efforts are necessary to eliminate the middle-income subsidy aspect of this program and to help stabilize program costs.

1985 Budget Proposals

The Guaranteed Student Loan program will guarantee 3.2 million loans worth $7.5 billion in 1985. Also $2.7 billion will be spent to pay interest subsidies, default claims and other costs. Between 1985 and 1989, the 1985 proposals will provide for outlay savings of $1.1 billion.

Proposed legislation would provide that loan applications from students at all income levels be subject to a need analysis.

Other legislative changes would eliminate administrative cost allowances, reduce the Federal reinsurance coverage on new loans from 100 to 80%, recall advances (interest-free loans) and modify billing procedures used by lenders to reflect actual subsidies earned.

Regulatory changes to be made in 1984 will also require banks, States and other guarantee agencies to be more diligent in default prevention and collection.

Rationale

The proposed changes would improve the integrity of the program and reduce costs without reducing benefits to the needy student.

Requiring a need test for all applicants will help assure that Federal interest subsidy benefits only go to those who need them most. The primary role of the family and the student in meeting the responsibility of postsecondary educational costs would be reinforced by this change.

The GSL reinsurance program is now well established and financially stable. States or their designated guarantee agencies can now readily assume more of the costs of the GSL program without endangering their insurance and related activities. Federal advances and administrative allowances are therefore not needed and represent unnecessary Federal costs.

Defaults are a large and growing problem. Changes in reinsurance rates and the regulatory improvements would provide greater incentives and requirements for the guarantee agencies and lenders to act to forestall defaults and collect defaults in a more timely and equitable manner.

Aid to Developing Institutions

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	134	141	147	154	160	166	768
Outlays	182	132	139	146	153	159	729
1985 Budget Level:							
Budget Authority	136	134	134	134	134	134	672
Outlays	182	129	137	136	135	134	671
Change:							
Budget Authority [1]	+2	−7	−13	−19	−26	−31	−96
Outlays	−1	−3	−2	−11	−18	−25	−59

[1] 1984 budget authority increase over 1984 appropriation is the result of an estimate of the reappropriation necessary to ensure the continued availability of funds for endowment grants.

Program Description

This program provides grants to developing institutions with limited financial resources serving disadvantaged students—especially the 100 plus historically black colleges (HBC's) serving predominantly minority students—to improve academic quality, enhance program and financial administration, and establish or increase endowments. Grants are intended to help these schools become self-sufficient, viable institutions.

Current Status

The program has been financed at $134.4 million since 1982. In 1983 a new authority for matching grants was enacted, as proposed by the Administration, to provide increased aid for endowments.

1985 Budget Proposal

The 1985 budget would continue the current funding level, including a set-aside of $45.7 million for HBC's.

Legislation is proposed to consolidate two similar categorical grants and eliminate a third; improve targeting; and simplify administrative requirements. The new program would establish annually increasing non-Federal match requirements and limit eligibility to one multi-year grant award.

Rationale

The current level of funding has been considered adequate for several years by both the Administration and Congress to continue to help developing institutions of higher education to move toward self-sufficiency.

The importance of HBC's in the education of minorities at the postsecondary level justifies continuation of the substantial HBC set-aside sought by the Administration last year and enacted by the Congress.

The proposed legislation would continue the Administration's emphasis on long-term self-sufficiency as the major objective of this program by eliminating all renewable grants and confining awards to one multi-year grant with an annually increasing non-Federal match requirement. Institutions would thus have to "graduate" from the program eventually. Failure to provide incentives for this type of progress has dissipated the effect of funds in prior years.

The new endowment grant program, enacted last year in response to an Administration initiative, would be continued in essentially its current form. The Administration intends to convert all Title III grants to endowment grants over the longer term, believing that these grants represent the best strategy for making institutions self-sufficient and, with the 50/50 match requirement, offer the best opportunity for mobilizing private sector resources in support of developing institutions.

Other Higher Education Programs

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	274	276	292	303	314	324	1,510
Outlays	271	284	288	290	301	312	1,474
1985 Budget Level:							
Budget Authority	274	118	122	122	121	121	604
Outlays	271	271	164	125	121	121	802
Change:							
Budget Authority	....	−158	−170	−181	−193	−203	−906
Outlays	....	−13	−124	−165	−180	−191	−672

Program Description

This category includes a variety of small categorical grant programs aimed at different groups, different academic areas, different levels of postsecondary education, and different types of expenditure.

Current Status

Several of these programs provide financial assistance to students; most were started prior to the recent substantial increases in the major student financial assistance programs. Other grants are meant to demonstrate new educational approaches, stimulate renewed academic interest and support for high national priority areas of study, or help groups with special one-time education needs (e.g., Vietnam war veterans). Most of these programs have accomplished their objectives or are otherwise unnecessary. Continued funding of them at current services is, therefore, of questionable merit.

1985 Budget Proposals

The 1985 request would fund at current levels postsecondary research (Fund for the Improvement of Postsecondary Education (FIPSE)) and science improvement grants to predominantly minority schools (Minority Institutions Science Improvement Program (MISIP)).

Cooperative education would be authorized as an allowable activity under college work study, accompanied by a substantial funding increase for the work study program. (See factsheet on Postsecondary Student Financial Assistance.)

Non-Federal matching requirements would be instituted for grants under special programs for the disadvantaged (TRIO) and direct funding would be reduced by 50%.

The budget proposal would also eliminate grants for:

- Vietnam veterans counseling and support services;
- fellowships for graduate students in law, public service programs, and other areas;
- demonstration law school clinical experience program; and
- international education.

Rationale

Programs proposed for reduced or no funding have outlived their original purposes, have been superseded by other funded activity, or are of low priority and should not use up scarce resources needed elsewhere.

- The Law School Clinical Experience Program was started explicitly as a demonstration program to show the value of clinical experience as part of legal education and has been well received. Thus it is time to conclude the demonstration.
- The Veterans Cost-of-Instruction Program, begun in 1972, provides funds for outreach, recruiting, counseling, and special education services for Vietnam veterans—even though the number of these veterans has dropped by about 80% since its 1976 high and will continue to decline steadily in the future. Normal services at postsecondary institutions are able to accommodate these remaining veterans.
- Special graduate-level fellowships duplicate the much larger (and, often, more equitably designed) student financial aid programs.
- Most schools receiving international education funds have received such assistance for many years; the funding has had the desired result of increasing academic activity and non-Federal spending in this area. For example, Federal funds now account for only about 10% of support for national resource centers—the largest of the international education programs. Reduction of Federal support would have little significant impact on the centers. A recent Rand study found that most participants in international education programs work in academia, the private sector, or unrelated employment. This suggests that Federal needs for experts in these areas are better and more efficiently met through targeted programs in affected agencies, such as State, Defense, and USIA.
- The matching requirement that would be established in TRIO programs (Special Services, Upward Bound) recognizes the value of the programs and the benefits accruing to the host institution. The match allows significant Federal funding reductions without commensurate reductions in program levels.

Special Postsecondary Institutions

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	209	225	236	246	254	262	1,224
Outlays	227	228	237	246	254	262	1,226
1985 Budget Level:							
Budget Authority	209	228	228	228	227	226	1,139
Outlays	227	231	229	229	227	226	1,142
Change:							
Budget Authority	....	+3	−8	−18	−27	−36	−85
Outlays	....	+3	−8	−17	−27	−36	−85

Program Description

This category includes direct Federal assistance to three postsecondary institutions: Gallaudet College, the National Technical Institute for the Deaf (NTID), and Howard University. The first two are the Nation's two major colleges for deaf individuals; the latter is the Nation's largest historically black university.

Current Status

Earlier appropriations for Gallaudet and NTID were substantially lower in constant dollars. Funding for these schools has increased steadily with increased enrollment, enhanced curriculum offerings, and, in the case of Gallaudet, ancillary research and public service activities. Their funding has recently risen sharply as the first victims of the 1964-65 rubella (measles) epidemic have reached college. This "rubella bulge" will cause increased enrollments, and costs, at both schools through the late 1980's.

Howard has been consistently financed, in constant 1985 dollars, at between $150 and $175 million since the early 1970's.

1985 Budget Proposals

Gallaudet and NTID.—The current dollar level for the basic educational program would be essentially continued at both schools. One-time construction costs would be funded at NTID for necessary dormitory repair work. Increased funding would be provided for "rubella bulge" students. Research and public service programs at Gallaudet not related directly to the college's postsecondary educational mission would be reduced, in part to offset the substantial increase in "rubella bulge" costs.

Howard.—Basic support would be maintained at the 1984 level, adjusted for inflation. Two initiatives are proposed: $2 million for a 50/50 matching endowment grant and $5 million for increased research in the sciences. Support for Howard's teaching hospital is continued at the current level.

Rationale

Each of these schools has a unique statutory relationship to the Federal Government. The 1985 budget recognizes this and, with the exception of the two Howard initiatives, would basically continue the current level of funding with adjustments for inflation at Howard and special enrollment demands at the schools for the deaf.

The Howard *endowment* initiative is patterned on similar legislation enacted last year for the Title III program (for which Howard is ineligible because of its direct Federal appropriation; see the factsheet on Aid to Developing Institutions). The intent, as with Title III, is to increase institutional self-sufficiency and reduce the need over the long-term for ongoing annual Federal appropriations.

The *research* initiative is intended to increase Howard's capacity in the area of scientific research and would finance fellowships, facilities renovation, new equipment, seminars and symposia, and research travel. The long-term goal of this seed money is to increase Howard's competitiveness with other major universities so it may more successfully compete for available Federal research funds.

Employment, Training and Public Service Employment

Job Corps

[In millions of dollars]

Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority [1]	992	615	644	672	700	727	3,358
Outlays	610	599	625	648	677	704	3,253
1985 Budget Level:							
Budget Authority [1]	992	600	616	630	645	661	3,153
Outlays	610	590	609	619	634	649	3,100
Change:							
Budget Authority	....	−14	−28	−42	−55	−66	−205
Outlays	....	−9	−16	−29	−43	−55	−152

[1] 1984 includes $415 million for the 9-month period October 1, 1983, to June 30, 1984, to change to a program year financing basis; and $578 million for the July 1, 1984, to June 30, 1985, program year.

Program Description

Job Corps is an intensive training program designed to increase the future employability of economically disadvantaged, unemployed, and out of school youth between the ages of 16 and 21. The Job Corps program is operated through 107 residential centers located throughout the country which can train 40,000 youth at a time. They provide a highly structured program of basic education, vocational skills, and supportive services to about 80,000 youth a year. Intensive placement assistance is provided when youth complete their instructional program.

Current Status

Funding for the Job Corps has increased by almost $40 million since 1981, and the enrollment capacity of the program has been maintained.

1985 Budget Proposal

The requested level of $600 million is an increase of $22.5 million over 1984. The proposal incorporates a number of cost-saving measures in order to maintain the current enrollment capacity and keep the annual cost of a Job Corps slot below $14,500.

Rationale

Job Corps serves some of the most disadvantaged youth who lack job skills. This program will continue to address the problem of structural unemployment among school dropouts and minority youth.

Constraining budget growth for the Job Corps is consistent with the overall budget philosophy of freezing real domestic spending:

- The Job Corps is the most expensive Federal training program and one in which cost pressures are continually building.
- This necessitates a vigilant program of cost control to assure that the public is not paying more than necessary to support this high cost residential job training program.

Among the areas planned to realize cost savings sufficient to maintain current enrollment levels are:

- more vigorous private sector bidding for Job Corps center operation contracts as well as for other procurement activities;
- targeting capital expenditures on safety and health; and
- reassessing staff needs and other management support activities.

Training and Employment

[In millions of dollars]

Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority [2]	5,433	3,145	3,260	3,372	3,481	3,586	16,844
Outlays	2,974	3,056	3,146	3,262	3,374	3,478	16,315
1985 Budget Level: [1]							
Budget Authority	5,259	2,924	2,924	2,924	2,924	2,941	14,635
Outlays	2,895	2,938	2,929	2,928	2,928	2,927	14,651
Change:							
Budget Authority	−174	−221	−336	−449	−557	−646	−2,209
Outlays	−78	−118	−216	−333	−446	−552	−1,665

[1] Includes all amounts requested for the Job Training Partnership Act (JTPA) programs except the Job Corps which is discussed elsewhere.
[2] 1984 includes $2,379 million for the 9-month period October 1, 1984, to June 30, 1985, to change to the program year financing basis; and $3,028 million for the July 1, 1984, to June 30, 1985 program year.

Program Description

The Federal Government's principal training and employment programs are authorized by the Job Training Partnership Act (JTPA) of 1982. JTPA grants are allocated to States which then distribute them among service delivery areas they have designated to run local programs. Grants to States are used to provide various types of training, counseling, and other supportive services to unemployed and economically disadvantaged persons and dislocated workers, and for subsidized work experience for disadvantaged youth during the summer. JTPA also authorizes training assistance through grants and nationally administered contracts for special segments of the population that have particular disadvantages in the labor market such as Indians, migrant and seasonal farmworkers, and veterans. Programs of technical assistance, research, and evaluation are also authorized. The Job Corps program is discussed elsewhere.

Current Status

1984 was the first year of full implementation of the JTPA which replaced the Comprehensive Employment and Training Act (CETA) programs. Reforms included in JTPA that assure participants will be trained for jobs include:

- Reducing the number of categorical grant programs which often lead to small inefficient projects.
- Vesting the principal responsibility for job training programs with the States which already have the responsibility for related programs such as vocational education and the Employment Service.
- Assuring business has a major role in the development of job training programs through local private industry councils which will provide policy guidance and oversee local programs.
- Requiring that 70% of resources be spent on training (only 18% of CETA grant resources were spent on training) and limiting to 30% the amount that could be spent for administration and support services.

The 1984 appropriation provided resources for a 9-month transition period from October 1, 1983, to June 30, 1984, to place JTPA on a program year basis, and financing for the first program year from July 1, 1984, to June 30, 1985. Subsequent appropriations will be for program year periods.

In addition to grants provided for JTPA programs assisting dislocated workers, the 1984 appropriation provided another $26 million specifically for training assistance to workers determined to have been displaced by increased imports.

1985 Budget Proposal

The 1985 request continues all major grant programs and most nationally administered programs at the 1984 level. Beginning with 1985, the Secretary of Labor will assure that adequate amounts are made available within the discretionary portion of the resources available for dislocated workers for training and relocating workers displaced by increased imports.

In order to open more jobs to unskilled youth, the Administration urges the Congress to enact legislation to establish a differential minimum wage for youth under the age of 22 for summer jobs held between May 1 and to September 30. This youth employment opportunity wage would be $2.50 an hour, 25% below the regular minimum wage of $3.35. Previously hired youth and workers would be protected. Savings would be realized in the cost of the 1984 and 1985 Summer Youth Employment Programs if this legislation were passed.

Rationale

Constraining budget growth for the training and employment programs is consistent with the overall budget philosophy of freezing domestic spending.

Services will remain relatively constant:

- About 1.4 million disadvantaged youth, adults, and dislocated workers would be trained in 1984 and 1985.
- The Summer Youth Employment Program would be maintained at historic levels providing about 718,000 disadvantaged youth with summer work opportunities. This service level would be maintained if the youth opportunity wage is enacted, although the cost would be $87 million less.

The current minimum wage keeps many youth from finding jobs:

- Many inexperienced youth do not have the skills to produce enough of value to make it worthwhile for employers to pay them the current minimum wage. This is particularly true for summer jobs when employers cannot expect to benefit from productivity improvement realized in long-term jobs.
- The proposal for a summer youth employment differential would help at least 200,000 additional youth find private sector summer jobs that would give them valuable work experience and help them subsequently find full-time jobs.

Inefficiencies and duplication of services would be eliminated by serving dislocated workers and those displaced by increased imports under one program and through one delivery system. Amounts already enacted for dislocated worker training in the program year ending June 30, 1985, exceed the total available in fiscal year 1984 for both that program and the special program for those displaced by increased imports. The higher amount is also requested for 1985.

Older Americans Employment

[In millions of dollars] Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	317	317	317	317	317	317	1,586
Outlays	319	317	317	317	317	317	1,586
1985 Budget Level:							
Budget Authority	317	317	317	317	317	317	1,586
Outlays	319	317	317	317	317	317	1,586
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Community Service Employment for Older Americans program is authorized under Title V of the Older Americans Act. This program subsidizes part-time jobs in community service activities for unemployed low-income persons aged 55 and over through contracts with public and private non-profit national-level organizations and grants to units of State government. Subsidized jobs, which usually involve 20-25 hours of work a week, are provided in a wide variety of activities including work in day care centers, schools, libraries, hospitals, senior citizens' centers, nutrition programs, and in beautification, conservation, and restoration projects.

Current Status

Funding for this program has increased by about $40 million since 1981, adding about 8,000 subsidized jobs.

1985 Budget Proposal

The requested level of $317 million would finance 62,000 subsidized jobs in 1985, about the same as in the previous two years. In 1985 the approximately $70 million in grants that is provided to States would be transferred to the Department of Health and Human Services (HHS), which administers grants for other services for Older Americans under Title III of the Act. The resources will be allotted by HHS to the States for subsidized jobs.

Rationale

Maintaining current budget levels in this program is consistent with the overall budget philosophy of freezing domestic spending.

Transferring the grant resources to HHS would promote efficiencies in the Title V program:

- State offices would no longer have to apply to both DOL and HHS for grant resources for the aging;
- this would make it easier for States to plan their programs; and
- better planning could lead to the creation of more subsidized jobs serving the elderly at locations such as nutrition sites and senior service centers.

Work Incentive Program

[In millions of dollars]

Agency: HHS/DOL

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	271	285	299	312	326	339	1,561
Outlays	273	285	296	310	323	336	1,550
1985 Budget Level:							
Budget Authority	271	....	....	....	....	....	....
Outlays	273	57	....	....	....	....	57
Change:							
Budget Authority	....	−285	−299	−312	−326	−339	−1,561
Outlays	....	−228	−296	−310	−323	−336	−1,493

Program Description

The Work Incentive Program (WIN) was developed in the 1960's to implement the work test requirement for individuals receiving Aid to Families with Dependent Children (AFDC). Applicants for and recipients of AFDC who are able to work are required to register for job search, training, and supportive services designed to enable them to find and accept employment leading to self sufficiency. Job referral and training is provided under the Department of Labor; supportive services under the Department of Health and Human Services.

Current Status

Constant dollar funding for the WIN program peaked in the mid-1970's and began a downward decline in the late 1970's, a trend accelerated by the Reagan Administration. By 1984, constant dollar costs of the program had been reduced by $194 million or 42% from its 1981 level.

Nevertheless, the WIN program still costs more than it saves:

- Although there are individual cases where WIN has marginally increased a welfare recipient's income, these increases usually have not been sufficient to enable recipients to leave the welfare rolls and become economically independent.
- A 1982 GAO survey estimated that the benefits of WIN in terms of reducing welfare grants and other costs were much less than the costs of the program; only $91 million in savings was attributed to WIN for 1980 yet the program spent $395 million in that year.

1985 Budget Proposal

No resources are requested for WIN in 1985. Existing programs would be phased out with unexpended carryover funds.

Rationale

This separate categorical program is no longer necessary:

- The Job Training Partnership Act (JTPA) requires equitable service to AFDC recipients through programs better designed to provide skills needed for private sector jobs.
- Over 75% of the Service Delivery Areas under JTPA intend to make welfare recipients a priority target group for job training services.

- The Omnibus Budget Reconciliation Act of 1981 reformed the AFDC program creating new opportunities for work and work experience.
- Legislation is being proposed that would establish comprehensive programs of work-related activity for AFDC applicants and recipients in all States; those who are eligible to work would be required to do so as a condition of AFDC eligibility.

Financing the WIN program would continue the existing inefficiencies and duplication created when separate Federal programs provide identical services to the same population.

Employment Service

[In millions of dollars] Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority [1]	1,465	983	1,030	1,075	1,119	1,162	5,369
Outlays	902	956	1,002	1,048	1,093	1,136	5,235
1985 Budget Level:							
Budget Authority [1]	1,465	938	960	982	1,005	1,028	4,914
Outlays	902	939	949	971	994	1,016	4,869
Change:							
Budget Authority	....	−45	−70	−93	−114	−134	−455
Outlays	....	−17	−53	−77	−99	−120	−366

[1] 1984 includes $531 million for the 9-month period October 1, 1983 to June 30, 1984, to change the basic employment service grants to a program year financing basis; and $740 million for the July 1, 1984, to June 30, 1985, program year.

Program Description

This program of grants to States supports 100% of the operating costs of State agencies with local offices throughout the Nation which provide job search and placement services to job seekers and recruitment and special technical services for employers. Grants covering basic employment services (79% of 1985 outlays) are distributed under a formula based on each State's share of the civilian labor force and unemployed individuals. Additional grants (18% of 1985 outlays) cover costs of special services to veterans, collection of labor statistics, and other services of national interest. Remaining outlays (3%) finance Federal administrative costs.

Current Status

The 1982 amendments to the Wagner-Peyser Act give States considerably more latitude in how they may use the Federal basic employment service grant to deliver employment services. Because of the statutory formula under which the basic grant is distributed, the amount of resources each State receives varies from year to year. By 1984, a reduction of 15% (measured in constant dollars) from pre-1982 employment service funding levels had already been achieved.

1985 Budget Proposal

The $740 million requested for basic employment service grants in 1985 finances the 1985-86 program year (from July 1, 1985, to June 30, 1986); it is equal to the amount appropriated in 1984 to finance the 1984-85 program year. For later years the estimates include an allowance for increased costs sufficient to restrain growth below the current services level.

Rationale

Restraining appropriation increases below the estimates for inflation continues to be appropriate:

- It provides some cushion for cost increases while providing a powerful incentive to achieve efficiencies and to develop more cost-effective operations.
- The rate of increases in wages, the primary cost of the Employment Service, is not uniform among States. With a fixed formula allocation of grant monies to the States, increases for inflation can not be allocated in proportion to the impact of inflation across States.

Social Services

Social Services Block Grant

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,675	2,700	2,700	2,700	2,700	2,700	13,500
Outlays	2,772	2,757	2,702	2,700	2,700	2,700	13,558
1985 Budget Level:							
Budget Authority	2,675	2,700	2,700	2,700	2,700	2,700	13,500
Outlays	2,772	2,796	2,703	2,700	2,700	2,700	13,599
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	+39	+1	....	....	....	+40

Program Description

The Social Services Block Grant (SSBG) gives States maximum flexibility to offer services that reduce dependence on welfare and increase self-sufficiency, minimize the need for institutional care, and protect persons who require placement in institutions. States determine eligibility criteria, and the mix of services to be offered.

Current Status

The SSBG consolidated Title XX Social Services, State and Local Training, and Day Care programs. The consolidation streamlined these programs, eliminated burdensome and unnecessary reporting requirements, and gave States an opportunity to choose the mix of services that best meet the needs of their unique populations.

1985 Budget Proposal

The 1985 budget request for the SSBG is at the authorization level of $2,700 million, an increase of $25 million over 1984. No further funding is requested for the Community Services Block Grant (CSBG), which duplicates services offered by the SSBG. States may continue to fund those community services which are most effective in meeting the needs of their residents using other funding sources, including the SSBG.

Rationale

Consolidation and subsequent simplification of many social services programs has given the States ample opportunity to improve the social services offered their populations. In many cases, States have flexibility to choose for themselves the most effective programs; programs that best meet their needs as they define them. However, one block grant, the Community Services Block Grant (CSBG), remains unduly restrictive and duplicative. The Administration's proposal would offer States a simple, unrestricted funding source for social services and would eliminate the duplication that results from funding both the SSBG and the CSBG.

Head Start

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	996	1,050	1,105	1,155	1,206	1,255	5,770
Outlays	958	979	1,069	1,124	1,174	1,224	5,570
1985 Budget Level: [1]							
Budget Authority	996	995	1,020	1,040	1,062	1,082	5,198
Outlays	958	955	1,002	1,026	1,047	1,068	5,098
Change:							
Budget Authority	....	−55	−85	−114	−144	−173	−572
Outlays	....	−25	−67	−97	−127	−156	−472

[1] Table does not include USDA funds for the Child Care feeding program ($80 million) proposed for inclusion in the Head Start appropriation beginning in 1985.

Program Description

In 1984, Head Start financed comprehensive education, health, nutrition, and social services for 430,000 low-income children and their families. At least 10% of children served were handicapped. Grants were made directly to 1,200 grantees in 2,000 communities nationwide.

Like other child care programs, Head Start projects are eligible for reimbursement from the Department of Agriculture's Child Care Feeding program.

Current Status

Since 1980, annual Head Start enrollment has increased 17% (64,000 additional children). Expansion of the Head Start program in 1984 increased enrollment in all the States, and in Indian and Migrant Head Start programs as well. Increased enrollment has occurred because of program management improvements and funding supplements.

1985 Budget Proposal

The 1985 budget for Head Start would maintain the current level of enrollment and direct services. Approximately $4 million would be diverted from low priority evaluation, research, training, and demonstration in order to support funding for direct services for low-income, and/or handicapped children and their families.

The 1985 budget proposes that Head Start grantees receive all of their nutrition funds directly from HHS as part of their program grant.

Rationale

The Administration's 1985 Head Start budget would maintain enrollment and services to children while limiting program cost growth. Communities served by the Head Start program would see no drop in resources, yet cost growth would be curtailed.

Additional savings for the Head Start program would be achieved by including nutrition funds in Head Start program grants. Grantee administration would be simplified because each grantee would no longer be required to monitor meals and funds for two separate agencies with different tracking requirements.

Older Americans Act

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	674	711	747	783	819	852	3,913
Outlays	685	700	736	772	807	841	3,856
1985 Budget Level: [1]							
Budget Authority	674	658	674	689	704	717	3,441
Outlays	685	677	673	684	699	713	3,446
Change:							
Budget Authority	....	−54	−74	−94	−115	−135	−471
Outlays	....	−23	−63	−88	−108	−128	−411

[1] Table does not include USDA funds for the Elderly Feeding program ($116 million) proposed for inclusion in the AoA appropriation beginning in 1985.

Program Description

The Administration on Aging (AoA), which administers all but Title V of the Older Americans Act, makes grants to 57 State Agencies on Aging who in turn fund 670 Area Agencies on Aging. Title III of the Older Americans Act authorizes these agencies to either purchase or offer directly a variety of services including congreate and home delivered meals, transportation, legal advice, homemaker/home health services, and information. All persons over age 60, regardless of income, are eligible for AoA meals and services.

In addition, under the Department of Agriculture's (USDA's) Elderly Feeding Program, AoA nutrition projects are entitled to reimbursement in cash or commodities for each meal they serve, subject to an overall annual funding level.

Current Status

Since 1980, the States, through use of Administration on Aging funds, have provided supportive services to approximately 36 million older persons, and served 800 million meals to 12 million older persons. AoA has also funded more than 80 tribal organizations which serve approxiamtely 20,000 older Indians annually.

1985 Budget Proposal

Under the Administration's 1985 budget proposal, States would be free to allocate aging resources in ways which maximize local benefits from the programs. The 1985 Budget would consolidate the four separate Title III grants for services, group meals, home-delivered meals, and State administration into one less restricted grant. The proposal would give States maximum flexibility but would not turn the Older Americans Act programs into a block grant; States receiving AoA funds would still be required to offer the various services described in the Older Americans Act.

The Administration also proposes that USDA's Elderly Feeding program be funded in the Department of Health and Human Services and administered by AoA as part of the consolidated Title III grant.

Rationale

At present, each State receives its share of AoA funds based upon the size of its elderly population. States receive a fixed percentage of each separate program's funds and must spend their share on that specific program. As a result, States must spend their funds for home-delivered meals, services, and group meals in roughly the same way—even if their elderly populations have vastly different needs. Congress made some effort to correct this problem with the 1981 amendments to the Act in which they allowed States to transfer up to 20% of any Title III grant to any of the other Title III grants. In 1983 States made considerable use of this provision, transferring $38 million from the group meals grant to the other Title III programs. States are now ready to take full responsibility for allocating Title III funds.

Transfer of USDA's Elderly Feeding program to HHS is desirable because:

- the program began as a commodity outlet, but was redesigned in 1977 to allow the delivery of cash in lieu of commodities;
- more than 90% of the program is on a cash basis;
- USDA has complained that it has virtually no control over the operations of the program and that it is extremely difficult to resolve reporting discrepancies and administrative problems; and
- transfer of the Elderly Feeding program simplifies administration of the program and frees State and Area Agencies on Aging from dealing with two separate Federal agencies in order to serve meals to the elderly.

Child Welfare Services and Training

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	181	178	187	196	204	215	980
Outlays	178	177	184	193	202	210	966
1985 Budget Level:							
Budget Authority	181	169	173	176	180	183	881
Outlays	178	169	172	175	179	182	877
Change:							
Budget Authority	....	−9	−14	−19	−24	−32	−99
Outlays	....	−8	−13	−18	−23	−28	−89

Program Description

Child Welfare Services grants are made to States to help finance child protective services such as counseling for parents, removal of children from dangerous homes, placement of children in foster care or group homes, and training for staff.

Funds are distributed to the States by a formula based on number of children, per capita income, and a base allocation of $70,000 per State.

Child Welfare Training grants are made to schools of social work rather than directly to the States which employ trained child welfare workers.

Current Status

At present, Child Welfare grants are awarded from two separate categorical funds, one for services and one for training. Training grants are made to universities and colleges rather than directly to States and as a result are not focused on meeting State training needs. Schools of social work tend to concentrate on training students to become social workers, but States place a higher priority on training existing staff.

1985 Budget Proposal

The Administration's budget would combine the Child Welfare grants as one grant to States, and would leave up to State discretion the percentage of total funds to be devoted to services and to training.

Rationale

Carrying out child protective services is a State responsibility. The Federal role is to provide financial assistance for services when necessary. Children, who receive protection from States, would be better served if States could use Federal training money to improve their staffs. The 1985 budget would give States, rather than third parties (schools of social work), control over training funds. In this way, the Federal Government could help States improve their staffs as they see fit.

Foster Care and Adoption Assistance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	488	493	545	603	667	738	3,046
Outlays	486	493	533	589	651	721	2,987
1985 Budget Level:							
Budget Authority	488	473	488	503	519	535	2,517
Outlays	486	485	484	498	513	529	2,509
Change:							
Budget Authority	....	−20	−57	−100	−148	−203	−529
Outlays	....	−9	−50	−91	−138	−192	−479

Program Description

The Foster Care program reimburses States for their expenditures on behalf of AFDC eligible children placed in foster care. Reimbursements are made at the Medicaid matching rate (on average, 54%).

The Adoption Assistance program makes payments to parents who adopt AFDC eligible children with special needs. Special needs children are older, handicapped, members of sibling groups or racial minorities. Adoption subsidies may be equal to foster care payments but may not exceed them.

Both programs are open-ended entitlements.

Current Status

Recent data show that even with the foster care system reforms enacted in 1980, *45%* of the children *in foster care* have been there for *more than two years*. In several States, *more than 60%* have been held in foster care for over two years. Foster care is being used as permanent placement for many children who should either be returned to their families or placed in adoptive homes.

The adoption assistance program is projected to serve 6,000 children per month during 1984. It is likely that these children would have remained in foster care were it not for adoption assistance.

1985 Budget Proposal

Due to a new incentive system to be proposed by the Administration for 1985, cost of the foster care program would grow more slowly in 1985 than in previous years. The new system would discourage lengthy and inappropriate foster care placement, and as a result, constrain program cost growth.

Rationale

The 1985 budget reflects a policy that foster care should become a short term solution to children's problems. Existing incentives do not appear effective in encouraging States to return long duration foster care children to their families or to place them in other permanent homes.

Available data indicate that too many children are spending their childhoods in foster care instead of permanent natural, or adoptive homes. The Administration's legislative proposal would build effective incentives for States to make more compassionate use of the program.

The 1985 budget proposes no changes to the adoption assistance program. Adoption assistance complements Administration efforts to reduce duration of foster care by providing permanent homes for hard to place children who cannot return to their natural parents.

Federal Categorical Social Services

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	196	216	225	235	244	253	1,173
Outlays	200	211	220	230	239	249	1,149
1985 Budget Level:							
Budget Authority	196	178	183	188	193	197	939
Outlays	200	191	183	187	191	196	948
Change:							
Budget Authority	....	−37	−42	−47	−52	−56	−233
Outlays	....	−20	−37	−43	−48	−53	−202

Program Description

This grouping includes the Administration for Developmental Disabilities (ADD), the Administration for Native Americans (ANA), Child Abuse and Neglect, Runaway and Homeless Youth, and related Federal administration costs.

All of these programs serve special groups by funding grants to States, Tribal/Indian groups, public and private shelters, and/or public and private researchers.

ADD helps States to meet the needs of their developmentally disabled populations by funding planning councils, protection and advocacy offices, University Affiliated Facilities, and discretionary demonstration projects.

ANA makes grants to federally and non-federally recognized tribes and Indian groups for social and economic development.

The child abuse and neglect program helps States improve prevention and treatment of child abuse. Grants are made by a formula based on the number of children under 18 in each State.

The runaway and homeless youth program makes grants to youth shelters across the country. On average, each center receives about 25% of its total funds from the runaway and homeless youth budget.

Federal administration supports salaries and expenses for over 1,000 Federal employees working in the Office of Human Development Services.

Current Status

Federal categorical social services programs continue to offer economic development, planning, protection, and shelter services to specific, vulnerable populations. Funding for these programs has been generally level since 1980.

1985 Budget Proposal

The 1985 budget proposes that ADD receive a $2 million increase in funding over its 1984 enacted level; child abuse and prevention funding remain level; ANA funds be trimmed by 3.4%; and that the runaway and homeless youth program be returned to its historic funding level.

Rationale

Federal funding for these human development services is meant to augment State, local, and Federal resources already devoted to the special problems experienced by the disabled, by Native Americans, and by children. The 1985 budget would increase or maintain funding where necessary (ADD and child abuse and neglect), make reductions where possible (ANA), and redirect programs to a more appropriate Federal role (runaway and homeless youth).

Rehabilitation Services

[In millions of dollars] Agency: Department of Education

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,121	1,181	1,240	1,298	1,354	1,408	6,481
Outlays	1,207	1,160	1,222	1,280	1,337	1,392	6,391
1985 Budget Level:							
Budget Authority	1,121	1,092	1,112	1,132	1,152	1,172	5,658
Outlays	1,207	1,091	1,109	1,126	1,146	1,166	5,637
Change:							
Budget Authority	....	−90	−128	−166	−203	−236	−823
Outlays	....	−69	−113	−155	−192	−226	−754

Program Description

Formula grants are made to States for vocational rehabilitation (VR) services to help mentally and physically handicapped individuals become gainfully employed. Smaller discretionary programs support research, model programs, centers to teach severely handicapped individuals how to live more independently, and personnel training. The VR State grant comprises about 90% of total outlays.

Current Status

Outlays for these programs increased by more than five times in constant dollars from 1965 to 1975, a clearly unsupportable rate of growth. Initial Administration progress in reducing constant dollar outlays has been halted, however, by significant appropriation increases in 1983 and 1984.

1985 Budget Proposals

The 1985 request:

- would maintain in 1985 the 1984 level in the VR State grant and provide $20 million annually in out-year growth;
- would make reductions in several of the smaller discretionary grant programs, particularly personnel training; and
- includes a $5 million new initiative to assist selected States plan and implement supported work programs for severely disabled individuals.

The net effect is an outlay savings from current services of $754 million (12%) over 1985-1989.

Rationale

The 1985 budget would maintain significant support of vocational rehabilitation services, while implementing requisite budget control.

- Continuing the 1984 level in the VR State grant would provide for the rehabilitation of about the same number of persons and serve nearly a million individuals in total.
- Cutting back some of the smaller discretionary programs would help deflate the renewed budget pressure caused by the last two appropriation cycles.
- Training for rehabilitation personnel, in particular, would be refocused to address the appropriate Federal role of preservice training in fields of identified shortages.

Housing Counseling, Rehabilitation Services Program Management, and Other Activities

[In millions of dollars]

Agency: HUD/ED/HHS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	24	25	26	28	29	30	138
Outlays	30	27	27	27	29	30	141
1985 Budget Level:							
Budget Authority	24	21	21	22	23	24	110
Outlays	30	26	24	22	23	24	119
Change:							
Budget Authority	....	−5	−6	−6	−6	−6	−28
Outlays	....	−1	−4	−6	−6	−6	−22

Program Description

This category includes several small programs in three cabinet departments: Education (ED), Health and Human Services (HHS), and Housing and Urban Development (HUD). The largest of these items, representing almost 90% of the 1985 budget authority requested for this category, is the Federal administrative cost in the Education Department of managing rehabilitation services and handicapped education grant programs. Other programs include:

- Housing counseling assistance (HUD) (grants to local social service agencies to provide default, prepurchase, and renter counseling).
- Excess foreign currency supporting rehabilitation services research in foreign countries (ED).
- Consumer affairs office (HHS) (provides consumer education, fosters recognition of consumer interests in Federal policies, and promotes voluntary consideration of consumer needs by private sector organizations).

Current Status

The Federal staff activities in ED and HHS are relatively constant from year to year, the former depending on numbers (not size) of grants, which has been steady in recent years, and the latter representing a relatively constant ongoing level of consumer affairs activity. The housing counseling assistance program has been continued since 1982 at a $3.5 million appropriation level. The special foreign currency appropriation is tied to the amounts of excess foreign currencies available and their countries of origin, where funded activity takes place; these currencies are now generally expected to be depleted within the next few fiscal years.

1985 Budget Proposal

The Federal staff operations in ED and HHS would be continued at roughly current levels. No funds are requested for either the housing counseling assistance program or the special foreign currency program.

Rationale

Federal staffing proposed for ED and HHS in this category is adequate to carry out all required tasks. Funding for the HHS consumer affairs office is necessary to provide a focal point to ensure that the needs of individuals are adequately and consistently represented in Federal policies and regulations.

The housing counseling assistance program would be zeroed out because evaluations of this program's effectiveness have produced inconclusive results and because States and localities can use Community Development Block Grant funds to provide housing counseling services.

The special foreign currency program would be zeroed out in recognition of the imminent depletion of excess foreign currencies. It is easier and more sensible programmatically to begin phasing out the smaller of these accounts now so that fewer accounts will remain to be phased out when the excess foreign funds disappear in the near future.

Health Services

Indian Health Services

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	824	868	917	969	1,021	1,075	4,850
Outlays	839	866	917	968	1,021	1,074	4,845
1985 Budget Level:							
Budget Authority	824	745	776	803	830	857	4,011
Outlays	839	808	800	813	833	859	4,113
Change:							
Budget Authority	....	−123	−141	−165	−191	−218	−839
Outlays	....	−58	−116	−155	−187	−216	−732

Program Description

The Indian Health Service (IHS) provides free health care services to over 931,000 Indians and Alaska natives. Health care is provided without charge to all Indians who request service and are members of federally recognized tribes, regardless of ability to pay or the availability of employer or other (workman's compensation, automobile indemnity, etc.) health insurance coverage.

Current Status

Federal funding for the IHS has exceeded $5 billion over the last decade. In addition to annual appropriations, the IHS receives reimbursement when it provides care to an individual also eligible for Medicare or Medicaid. The total of such reimbursements has risen steadily, from $2.1 million in 1978 to $25 million in 1983. These funds supplement annual appropriations and enable the IHS to offer a broad array of health services.

1985 Budget Proposal

The major differences between current services and the proposed 1985 level reflect over $50 million appropriated in 1984 for construction that is not required annually for 1985-89, as well as increased obligations from third-party reimbursements, thus reducing the need for a major annual increase in budget authority. The 1985 budget proposals recognize that continued automation of IHS accounting procedures would permit increased third-party collections both in 1985 and through 1989. Medicare/Medicaid reimbursements are expected to total $40 million in 1984 and $55.4 million in 1985. IHS would continue its policy of billing third-party payors for services rendered to policy-holders. No funds would be required for IHS construction, since over $120 million was appropriated in 1983-84.

Rationale

The 1985 request would enhance the resources available to maintain the traditional Federal role in delivering health care to the Indians. In addition to the annual appropriations request, this proposal would increase IHS flexibility to maintain existing health services levels despite the increasing costs of medical care. It would be appropriate to use third-party coverage as an untapped source of additional revenue to the extent that Indians have their own health insurance coverage.

Primary Care Block Grant

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	523	552	579	606	632	658	3,026
Outlays	500	552	579	606	632	658	3,026
1985 Budget Level:							
Budget Authority	523	534	550	566	580	593	2,823
Outlays	500	656	550	566	580	593	2,945
Change:							
Budget Authority	....	−18	−28	−40	−52	−65	−203
Outlays	....	+104	−28	−40	−52	−65	−81

Program Description

The Omnibus Budget Reconciliation Act of 1981 authorized Primary Care Block Grants to support community health centers (CHC's) providing health care services to medically underserved populations. States have the option of having the Federal Government administer this primary health care program as a categorical grant.

Current Status

Because of State matching requirements and other numerous restrictions contained in the 1981 Reconciliation Act, and the de-centralized management of this and other health block grants, the full savings and program improvements possible with creation of the Primary Care Block Grant have not been realized. Due to these restrictions, few States have chosen to operate the old CHC program as a block grant.

1985 Budget Proposal

The 1985 budget proposal would remove the matching requirement and other unnecessary restrictions, and would consolidate the migrant health, black lung clinics, and family planning categorical programs into the Primary Care Block Grant. Funding of $534 million, $11 million above 1984, would ensure a continued level-of-effort for State primary care activities. Finally, the President's budget would consolidate block grants' management in the Office of the Assistant Secretary for Health.

Rationale

Efforts were begun in 1982 to allow States more opportunity and flexibility in coordinating and improving the effectiveness of primary care health services. Further program consolidation; management of the health block grants by a single Public Health Service agency (rather than three); and relaxation of various requirements still imposed on the States would enhance these efforts. Fragmented delivery of primary health care services programs would also be reduced.

Alcohol, Drug Abuse, and Mental Health Block Grant

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	462	489	512	536	560	582	2,678
Outlays	472	604	512	536	560	582	2,793
1985 Budget Level:							
Budget Authority	462	473	487	501	514	525	2,500
Outlays	472	379	487	501	514	525	2,406
Change:							
Budget Authority	....	−16	−24	−35	−46	−57	−178
Outlays	....	−225	−24	−35	−46	−57	−387

Program Description

The Omnibus Budget Reconciliation Act of 1981 consolidated six narrow categorical programs directed at alcoholism, drug abuse, and mental health into one block grant. States now have the flexibility needed to focus mental health and substance abuse services on local priorities.

Current Status

The present level of Federal support reflects most of the savings associated with conversion of categorical programs to a block grant. As such, the 1985 request represents basic level-of-effort support, reflecting the fact that the reform goals proposed in 1981 have been substantially achieved.

1985 Budget Proposal

The 1985 budget proposal would consolidate management of this and other health block grants in the Office of the Assistant Secretary for Health, and increase funding by $11 million over 1984.

Rationale

Administrative management of the block grants by a single Public Health Service agency (rather than three) and relaxation of requirements imposed on the States would enhance efforts, begun in 1982, to allow States more opportunity and flexibility in coordinating and improving the effectiveness of alcohol, drug abuse and mental health services.

Preventive Health Block Grant

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	88	95	100	106	111	116	528
Outlays	81	95	100	106	111	116	528
1985 Budget Level:							
Budget Authority	88	90	94	97	100	103	484
Outlays	81	85	94	97	100	103	480
Change:							
Budget Authority	....	−5	−6	−9	−11	−13	−44
Outlays	....	−9	−7	−9	−11	−13	−48

Program Description

The Omnibus Reconciliation Act of 1981 consolidated eight narrow categorical programs directed at preventive health into one Preventive Health Block Grant. Consolidated programs included grants for hypertension, health education, home health, health incentives, fluoridation, rodent control, emergency medical services, and rape crisis counseling. States now have the flexibility to tailor preventive health services to their own particular needs.

Current Status

The projected level of Federal support reflects most of the savings associated with the 1981 conversion of categorical programs to a block grant. As such, the 1985 request represents basic level-of-effort support that insures responsiveness to State priorities without unnecessary Federal oversight.

1985 Budget Proposal

The 1985 budget proposes to consolidate management of this and other health block grants in the Office of the Assistant Secretary for Health.

Rationale

Administrative management of the block grants by a single Public Health Service agency (rather than three), and relaxation of requirements imposed on the States would enhance efforts, begun in 1982, to allow States more opportunity and flexibility in coordinating and improving the effectiveness of preventive health services for their citizens.

Maternal and Child Health Block Grant

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	400	422	442	463	483	503	2,313
Outlays	425	422	442	463	483	503	2,313
1985 Budget Level:							
Budget Authority	400	408	420	432	443	453	2,156
Outlays	425	418	420	432	443	453	2,167
Change:							
Budget Authority	....	−14	−22	−31	−40	−50	−157
Outlays	....	−4	−22	−31	−40	−50	−147

Program Description

The Omnibus Budget Reconciliation Act of 1981 consolidated eight narrow categorical programs directed at improving maternal and child health into one Maternal and Child Health (MCH) Block Grant. Consolidated programs included MCH grants to States, MCH research and training, Special Supplemental Income (SSI) disabled children, genetic diseases, hemophilia, sudden infant death syndrome, lead-based paint, and adolescent health. States now have the flexibility needed to develop MCH programs unencumbered by restrictive Federal requirements.

Current Status

The present level of Federal support reflects most of the savings associated with conversion of categorical programs to a block grant. As such, the 1985 request maintains the MCH Block Grants at a level of $8 million above 1984 to ensure continued support of State MCH priorities.

1985 Budget Proposal

The 1985 budget would consolidate management of this and other health block grants in the Office of the Assistant Secretary for Health. Legislation would be proposed to remove the restrictive 15% discretionary set-aside that diverts funds from State needs.

Rationale

Administrative management of the health block grants by a single Public Health Service agency (rather than three), and relaxation of requirements imposed on the States would enhance efforts, begun in 1982, to allow States more opportunity and flexibility in coordinating and improving the effectiveness of MCH services for their citizens.

Federal Categorical Health Services

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	470	496	524	552	581	610	2,763
Outlays	484	496	523	552	580	609	2,760
1985 Budget Level:							
Budget Authority	470	352	374	394	413	433	1,966
Outlays	484	428	374	393	413	432	2,041
Change:							
Budget Authority	....	−145	−149	−158	−168	−177	−797
Outlays	....	−68	−149	−158	−167	−177	−720

Program Description

In addition to the four State health block grants, the Department of Health and Human Services administers categorical health services grants for areas such as immunizations and venereal disease control. Other major categorical health programs remaining outside the block grants include epidemic services and infectious diseases administered by the Centers for Disease Control, health planning and the National Health Service Corps (NHSC).

Current Status

With the continuing Federal expansion of narrow categorical health services programs throughout the 1960's and early 1970's, constant dollar Federal outlays nearly doubled between 1962 and 1968. This rapid growth continued into the 1970's with the creation of dozens of uncoordinated categorical programs and reached a peak of $4.1 billion in 1976. Between 1977 and 1980, constant dollar outlays declined to $3.3 billion, or 20% below the peak level. With the implementation of the health block grants in 1982 and other major program improvements, categorical health services outlays dropped dramatically and in 1985 will be down to $428 million—nearly 90% from the peak level. Implementation of the 1985 budget recommendations will reduce constant dollar outlays to $368 million in 1989.

1985 Budget Proposals

The 1985 budget would maintain current levels of activity for a variety of categorical health services programs administered by the Centers for Disease Control (CDC), such as venereal diseases, chronic and environmental diseases and infectious diseases. In support of childhood immunizations, the budget would increase funding by 10% and initiate a campaign to eliminate rubella in pregnant women, a primary cause of deafness in newborn children. The budget would also implement GAO-recommended user fees for certain CDC diagnostic laboratory services.

With regard to other categorical health services, the 1985 budget would support an increase of 600 in NHSC field staff to a total of over 3,500, while permitting a decrease of $24 million in Federal funding through increased reliance on the private practice option (PPO). The health planning program would not be funded in 1985. Other reductions would occur through Federal staffing reallocations associated with 1985 priorities.

Rationale

By maintaining CDC categorical health services at current or increased levels, the 1985 budget would strengthen disease prevention and health promotion activities in such areas as immunizations, laboratory investigations, and Acquired Immune Deficiency Syndrome research. Increased funding for the State health block grants would continue to complement the more narrow focus of the federally staffed preventive health services programs. Federal staffing reductions associated with the remaining categorical programs reflect no funding for health planning, redirection of the health professions programs, and further block grant consolidations.

Consistent with Administration policy to maximize management efficiencies, the 1985 budget would consolidate administration of the block grants in the Office of the Assistant Secretary for Health (ASH). With the reduction in Federal regulations and other requirements over the last few years, staffing for programs now included in the four health block grants has decreased from over 1,300 to a level of 40 which would be needed in 1985 to carry out this budget proposal. Placing all block grants in ASH would allow greater consistency in administration and provide States with a single focal point for quickly resolving any problems that arise in block grant management.

Federal Subsidy for Saint Elizabeths Hospital

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
(Budget Authority)	(68)	(49)	(42)	(36)	(30)	(24)	(181)
(Outlays)	(81)	(60)	(48)	(40)	(32)	(24)	(204)
Budget Authority	68	54	54	55	56	57	275
Outlays	81	65	59	58	58	58	298
1985 Budget Level: [1]							
(Budget Authority)	(68)	(49)	(42)	(36)	(30)	(24)	(181)
(Outlays)	(81)	(60)	(48)	(40)	(32)	(24)	(204)
Budget Authority	68	50	52	53	54	55	265
Outlays	81	61	58	56	56	55	287
Change: [1]							
(Budget Authority)	(....)	(....)	(....)	(....)	(....)	(....)	(....)
(Outlays)	(....)	(....)	(....)	(....)	(....)	(....)	(....)
Budget Authority	....	−4	−1	−1	−2	−2	−9
Outlays	....	−3	−1	−1	−2	−3	−11

[1] Numbers in parentheses reflect program costs exclusive of an imputed amount for pay costs through 1989.

Program Description

Saint Elizabeths Hospital (SEH) offers a full range of mental health services to approximately 1,400 inpatients (about 90% are District residents) and 1,800 outpatients. Programs are financed largely by Federal appropriations and by modest reimbursements for services rendered to patient groups—primarily residents of the District of Columbia.

Current Status

In 1983, the Government began a ten-year phasedown of the direct Federal subsidy for SEH. This will allow the District of Columbia to assume an increasing share of the cost for SEH patients, the majority of whom are District residents.

The District is also operating under a court order to move specified patients to less restrictive environments. In 1984, the District will also place into the community 200 nursing home patients and 89 drug and alcohol patients from the hospital.

1985 Budget Proposal

In 1985, the Federal subsidy to SEH would be $49 million, reflecting the third year of the planned 10 year phasedown. The budget assumes increased payments of $18 million from the District of Columbia, although the District may have more appropriate and less expensive means of treatment for its residents than at SEH.

In addition, the Administration has submitted legislation to transform SEH into a corporation in 1985.

Rationale

Although approximately 90% of the inpatients at SEH are District residents, contributions made by the District amounted to only 18% of the hospital's operating costs in 1982 and 1983. Under the budget request, the District payment would cover 43% of the hospital's total operating budget by 1985.

The phasedown of the direct Federal subsidy for SEH would make Federal policy with regard to the District of Columbia consistent with the Federal relationship to other States and jurisdictions.

Other Services

Energy Conservation Grants

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	280	293	307	321	333	346	1,600
Outlays	317	333	348	363	377	391	1,812
1985 Budget Level:							
Budget Authority	280	251	253	253	254	254	1,265
Outlays	317	206	344	262	254	254	1,320
Change:							
Budget Authority	....	−42	−55	−67	−80	−92	−335
Outlays	....	−126	−4	−101	−124	−137	−492

Program Description

The Energy Conservation grants programs of the Department of Energy (DOE) consist of:

- The Weatherization Assistance Program which provides grants to States for energy conservation measures in the homes of low-income persons.
- The Schools and Hospitals grant program which provides funds for conservation measures at public and nonprofit schools and hospitals.
- The State Energy Conservation Programs (SECP) which provide grants to the States for energy conservation planning and administration.
- The Energy Extension Service (EES) which provides grants to the States for programs that disseminate information about energy conservation measures.

Current Status

The President's 1983 and 1984 budgets proposed terminating these programs because:

- Decontrol of oil markets and growing awareness of the economic benefits of energy conservation made a continued Federal role unnecessary.
- Both public utilities and private energy companies have become more involved in educating and assisting the public in providing conservation information, energy conservation audits, and low-cost financing.
- Federal cash assistance for low-income families who experience high energy costs would continue through the Low-Income Home Energy Assistance Program (LIHEAP) in the Department of Health and Human Services (HHS). Also, States may use these HHS funds for weatherization activities.

However, in both years, Congress continued to fund the DOE programs. For 1983 and 1984, a total of $664 million was appropriated as shown in the following table:

Prior Year Funding Levels for Energy Conservation Grants

(Budget authority in millions)

	1983	1984
Weatherization	245	190
Schools & Hospitals	98	48
SECP Grants	24	24
Energy Extension Service	10	10
Program Direction	7	8
Total	384	280

In addition to the annual appropriations, monies have been made available for these programs from funds collected by DOE from petroleum pricing and allocation violation settlements. An estimated $1.2 billion of overcharge monies have been recovered through settlement agreements. Of this total, approximately $575 million has been disbursed to the States through Court awards and DOE settlements, and $101 million has gone to the Treasury. In 1983, an additional $200 million was distributed to the States under the Warner Amendment (P.L. 97-377). Currently, $420 million is being held in U.S. Treasury escrow accounts pending determination of proper distribution.

As of January 1, 1984, an estimated 1.15 million homes have been weatherized through the DOE program, at a cost of $951 million. Approximately 175,000 additional homes will be weatherized in 1984 at an average cost of $1000 per home.

Since the inception of the Schools and Hospitals grant program, 13,576 technical assistance grants and energy audits have been awarded, and energy conservation grants have improved 36,931 buildings at a total cost of $505 million.

1985 Budget Proposal

The total 1985 budget request of $251 million includes $238 million that is contingent upon passage of new legislation and $13 million for program direction.

The proposed legislation would create a fund in HHS to hold monies recovered by the U.S. Government from petroleum pricing and allocation violations under the Emergency Petroleum Allocation Act of 1973, in instances where the overcharged customers cannot be identified and repaid. Oil overcharge money in this fund would be used to support the HHS Low-Income Home Energy Assistance Program as well as the DOE Weatherization Assistance Program and grants to Schools and Hospitals.

The 1985 budget proposal would terminate the SECP and EES programs. This accounts for the overall reduction from current services.

Rationale

Given continued congressional support of weatherization, the Administration would continue weatherization assistance to the States and grants to schools and hospitals to ease the impact of higher energy prices on those individuals and institutions least able to absorb them. In contrast to alternative remedies for the handling of the petroleum overcharge monies, the Administration's proposed legislation would provide aid to those who experience the greatest economic burden from higher energy prices. It would also return authority, responsibility and revenues to the States to provide this aid.

The proposal would continue the indirect restitution approach used successfully in several earlier consent orders and under the Warner amendment. It would also provide congressional oversight and involvement without putting heavier burdens on the taxpayer and the Treasury.

The Administration considers the continuing transfer of Federal energy research and development (R&D) results to consumers and the private sector a high priority. Accordingly, DOE will make information from Federal energy R&D efforts available to States and local governments, allowing them to fund and operate their own energy conservation and information dissemination programs. This would eliminate the need for Federal programs such as SECP and EES.

Continued public awareness of the economic benefits of conservation measures can build upon the solid groundwork already laid by Federal involvement in energy conservation. The States now have the incentive and responsibility to continue these programs.

Community Services Program

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	353	371	390	409	427	445	2,042
Outlays	380	371	389	408	426	444	2,038
1985 Budget Level:							
Budget Authority	353	3	....	....	....	....	3
Outlays	380	123	....	....	....	....	123
Change:							
Budget Authority	....	−368	−390	−409	−427	−445	−2,039
Outlays	....	−247	−389	−408	−426	−444	−1,915

Program Description

The Community Services Block Grant (CSBG) is administered by the Office of Community Services which replaced programs formerly administered by the Community Services Administration. The purpose of the block grant is to give States flexibility to design programs that prevent or reduce poverty, and encourage self-sufficiency. Since its creation, Congress has required that States "pass-through" 90% of their allocation to grantees previously funded by the Community Services Administration.

Current Status

The CSBG was enacted in the 1981 Omnibus Reconciliation Act. As enacted it is not a pure block grant in that it requires States to spend their allotments in a manner set by Congress, rather than by those who deliver the bulk of social services (the States), or by those who receive them.

1985 Budget Proposal

No further funding is requested for the Community Services Block Grant, which duplicates services offered by the Social Services Block Grant (SSBG). The 1985 request for the SSBG is at the authorization level of $2.7 billion, an increase of $25 million over 1984. States may continue to fund those community services which are most effective in meeting the unique needs of their residents using other funding sources, including the SSBG.

Rationale

Consolidation and subsequent simplification of many social services programs has given the States ample opportunity to improve the social services offered their populations. In many cases, States have flexibility to choose for themselves the most effective programs; programs that best meet their needs as they define them. However, one block grant, the Community Services Block Grant, remains unduly restrictive and duplicative. The Administration's proposal offers States a simple, unrestricted funding source for social services and eliminates the duplication that results from funding both the SSBG and the CSBG.

ACTION

[In millions of dollars]

Agency: ACTION

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	129	135	140	146	151	156	729
Outlays	130	133	139	144	150	155	721
1985 Budget Level:							
Budget Authority	129	121	120	125	130	135	631
Outlays	130	124	121	124	129	134	632
Change:							
Budget Authority	....	−14	−20	−21	−21	−22	−98
Outlays	....	−9	−17	−20	−21	−21	−89

Program Description

ACTION's programs fall into 2 major categories: Volunteers in Service to America (VISTA) and Older American Volunteer programs. VISTA was first authorized by the Economic Opportunity Act in the 1960's. It pays full living costs for full time volunteers who work, usually for 1 year, with local community groups on a great variety of projects intended to help the poor. It also provides the volunteers with a "readjustment" allowance at the end of their tour of duty. The Older Americans Volunteer programs consist of the Foster Grandparents Program (FGP), which pays stipends to low income elderly people who work part time with children having special needs, either in institutional or home settings; the Senior Companion Program (SCP), which pays stipends to low income elderly people who work part time to help other elderly people continue to live independently; and the Retired Senior Volunteer Program (RSVP), which reimburses elderly volunteers for their out-of-pocket expenses incurred while volunteering for a great variety of local service programs. In addition, ACTION provides small amounts of seed money to encourage schools to use volunteerism as an educational experience and to stimulate new volunteer activities.

Current Status

Since activities that VISTA volunteers may undertake are not specified in law, it is essentially an authority looking for a purpose. As a result, the type of work undertaken by the volunteers, and the priorities imposed on them, have varied from Administration to Administration and program head to program head, from projects aimed at directly helping the poor to political activity. In the last Administration, political activity became dominant. For example, the material ACTION submitted to the Congress to justify its 1981 budget request blatantly stated: "VISTA can have the most impact on the conditions of poverty by assisting poor people to come together to influence decisions that affect their lives." In its amendments to the 1981 and 1982 budgets, this Administration proposed phasing down VISTA. The Congress accepted that concept in the Omnibus Reconciliation Act of 1981, which reduced the minimum amount to be spent on VISTA in 1982 to $16 million, compared to the $43 million included in the Carter budget. The Act further reduced the minimum for 1983 to $8 million, which would have been enough to complete the phase-out of the program.

Unfortunately, the intent of Reconciliation Act has been reversed by the appropriation process. The Congress appropriated $11.8 million for VISTA in 1983 and again in 1984, enough to support 1,644 volunteer years in 1984, compared to almost 4,000 in 1980. Rather than continue the phase out, the House has passed a new authorizing bill that would increase the minimum for VISTA to $28 million for 1985 and the Senate a bill that authorizes $17 million.

This Administration has redirected the efforts of VISTA volunteers back to directly helping the poor. Literacy, drug abuse prevention, runaways, food banks, job training, and the homeless are emphasis areas to be included in the approximately 500 VISTA projects supported with 1984 funds.

Older American Volunteer programs have been kept close to their 1980 levels. In 1980, there were 16,900 FGP and 3,800 SCP volunteer years; the comparable numbers for 1984 are 16,400 and 3,900. In 1980, some 269,000 people participated in RSVP; the comparable number for 1984 is 355,000.

1985 Budget Proposal

The 1985 budget proposes to complete the VISTA phaseout started by the 1981 Reconciliation Act by requesting $5.8 million for completing the tours of the 931 volunteers expected to be on board at the end of 1984. The Older American Volunteer programs would be kept essentially at their 1984 levels.

Rationale

This Administration is assuring that volunteers are directly helping the poor. However, as long as the program finances a resource looking for a task to perform, the federally funded volunteers could again be turned to political or other undesirable activities.

It costs $7,000 a year to keep a VISTA volunteer in the field, the most costly of ACTION's programs.

As indicated in the Senate Report on the 1981 Reconciliation Act, "there are privately sponsored and supported programs, including those administered by national volunteer systems, which have similar activities and aims, which can take up some of the responsibility."

Legal Services Corporation

[In millions of dollars] Agency: Legal Services Corporation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Service:							
Budget Authority.............	275	290	304	318	332	345	1,589
Outlays............................	284	290	304	318	332	345	1,589
1985 Budget Level:							
Budget Authority.............	275	....	....	....	....	....	....
Outlays............................	284	20	....	....	....	....	20
Change:							
Budget Authority.............	....	−290	−304	−318	−332	−345	−1,589
Outlays............................	....	−270	−304	−318	−332	−345	−1,569

Program Description

The Legal Services Corporation (LSC) funds local offices that give free civil legal assistance to the poor. LSC is a private non-profit corporation acting independently of related Federal social and community services programs. Local offices are involved both in advice and lawsuits for individual clients and in broader "law reform" and "class action" activities.

Current Status

The Administration has consistently proposed eliminating separate Federal funding for the Legal Services Corporation. From 1975 through 1981, LSC funding grew by 350%. The LSC authorization expired more than three years ago, but funding has continued at a lower level while Congress reviewed LSC operations and debated the appropriate Federal role in civil legal aid for the poor. LSC continues to represent an unnecessary and duplicative expenditure of $275 million in 1984.

1985 Budget Proposal

The 1985 Budget proposes that LSC not be reauthorized and that no further separate Federal funding be provided. LSC funds already appropriated by Congress would be used for completing responsibilities in existing cases, separation costs for LSC and local grantee staff, and related closeout functions.

Rationale

The budget proposal is based on three major considerations:

- Private attorneys represent a large and virtually untapped resource for civil legal assistance. Private attorneys have an ethical responsibility to provide *pro bono publico* services to the poor.
- Adequate authority to fund legal aid programs already exists through the $2.7 billion Social Services Block Grant. States have flexibility to determine what legal aid is necessary and appropriate, and how it should be structured to be responsive directly to citizen needs.
- A wide variety of inappropriate activities by local legal aid programs—class action lawsuits unrelated to direct needs of specific clients, grassroots lobbying of Congress and State and local legislatures, etc.—has been documented over the years. While Congress has repeatedly attempted to eliminate these problems through new Federal legislation, abuses continue. The budget avoids further futile reform efforts.

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 be 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.

There are currently over 600,000 attorneys nationwide, nearly double the number since LSC was established. During the next 5 years, a further 25% increase is projected. These private bar members can be a significant resource for civil legal assistance for the poor. Due to reductions in LSC funding, and the Administration's call for greater involvement in *pro bono* activities, private efforts have increased modestly. However, only about 8% of attorneys now take part in *pro bono* activities.

Much more can and should be done: 40 hours/year per attorney in donated services would provide more than twice as much legal aid nationwide as the entire quarter-billion Federal Legal Services Corporation.

Other new sources of private legal aid funding are becoming available, which can take the place of Federal LSC appropriations—at no cost to the American taxpayer. Interest on Lawyer Trust Account (IOLTA) programs have begun in several States. These programs pool small escrow accounts which would otherwise earn no interest and place them in interest-bearing accounts. The revenues are used to finance legal aid for the poor. Revenue from increased court filing fees is also being earmarked for legal aid in several States. In some States, these programs could fund the full level of services now provided by LSC.

Expanded use of law students and new law school graduates is also a promising way to meet legal aid needs. There are 35,000 new law school graduates each year—7 times the number of LSC-funded attorneys. Law students often receive limited exposure to "real" cases while in school, and can be admitted to practice solely on the basis of classroom work. By contrast, medical students must complete lengthy internships or residencies, as a standard part of their training, involving substantial direct involvement with specific patients and their problems. Broader use of law students and new graduates would both increase the availability of legal aid and improve the quality and experience of graduates when they later move into private practice.

To supplement or coordinate private bar efforts, States can use Social Services Block Grant funds. There is no restriction against using social services funds, but few States currently do so, in part because separate Federal LSC funding has been available. The budget proposes $2.7 billion in 1985 for the Social Services Block Grant—10 times the current level for LSC. Use of social services funds would enhance States' ability to tailor legal services to specific client needs, decrease overhead costs, and improve coordination with other related services at the local level.

Without these changes, available private sector resources would remain underutilized and unnecessary Federal subsidies of private attorney responsibilities would continue.

Criminal Justice Assistance

[In millions of dollars]

Agency: Department of Justice

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	211	217	227	236	246	255	1,181
Outlays	193	222	245	233	242	251	1,192
1985 Budget Level:							
Budget Authority	211	146	148	152	155	158	760
Outlays	193	204	166	147	148	149	813
Change:							
Budget Authority	....	−71	−79	−84	−91	−97	−421
Outlays	....	−18	−79	−86	−94	−102	−379

Program Description

This activity provides various forms of criminal justice assistance including Federal research and statistical programs, a State and local grant program, correctional training, a public safety officers' benefits program, and a juvenile justice grant program.

Current Status

The new Criminal Justice Assistance program, expected to be enacted in 1984, will provide $67 million for training and for technical and financial assistance to State and local governments in that year.

1985 Budget Proposal

The 1985 budget continues to fund the Criminal Justice Assistance program at the 1984 level, assisting State and local governments in implementing specific programs that offer a high probability of improving the criminal justice system. These programs target violent crime, serious repeat offenders, victim assistance, and crime prevention.

The 1985 budget again proposes elimination of the juvenile justice program. For the last three years the Administration has stressed that this program is no longer necessary because the major objectives of the program have been substantially accomplished. These objectives include separating juvenile offenders from adult offenders in correctional institutions, and the deinstitutionalization of status offenders. (A status offense is an act which is unlawful if committed by a juvenile, but not unlawful if committed by an adult, such as running away from home.)

Modest increases for the Federal research and statistical programs and an increase in positions for the National Institute of Corrections are proposed. Funding for the Public Safety Officers Benefits program would be slightly reduced, commensurate with a reduced number of casualties in recent years.

Rationale

The proportion of juveniles who are still detained by law enforcement authorities for status offenses has dropped to only 15% nationwide. In addition, about three-fourths of all States have either totally removed, or have made progress in removing juvenile offenders from adult institutions. Based on these results, the Administration believes that the Federal role of encouraging States to adopt the deinstitutionalization and separation objectives discussed above has largely been accomplished, and that no further gains would be realized if Federal funding were continued.

CHAPTER 5

Agriculture and Rural Programs

Agriculture and Rural Programs Overview

These programs consist of four main types designed to assist the agricultural economy and rural communities:

- the price support and subsidy payment operations of the Commodity Credit Corporation (CCC);
- subsidized rural housing, development and farm credit programs operated by the Farmers Home Administration (FmHA);
- subsidized credit for rural electric and telephone utilities under programs operated by the Rural Electrification Administration (REA); and
- various agricultural sector subsidy and service programs such as soil conservation activities and the extension service.

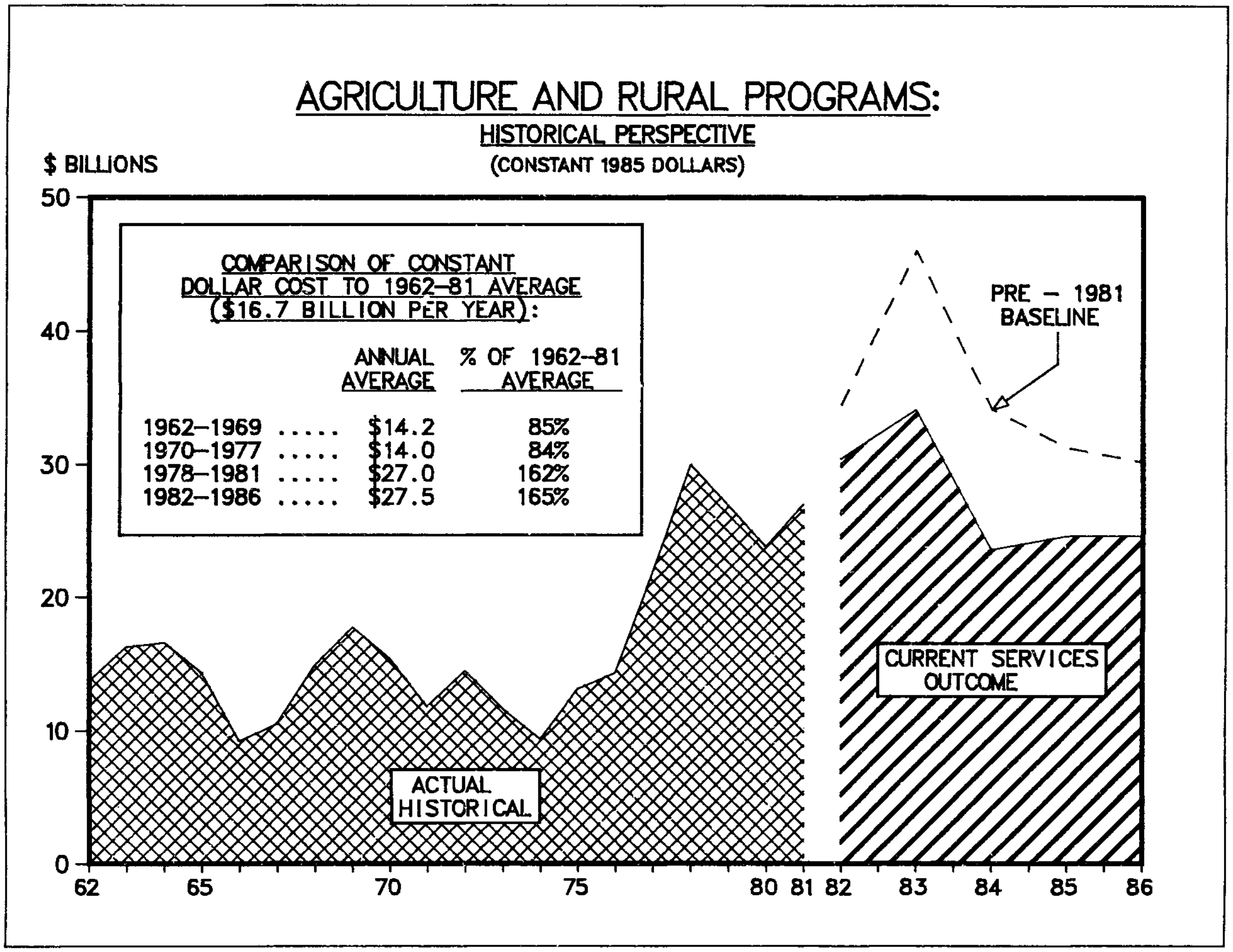
No progress has been made in reducing the budget cost of these programs since 1981. The Administration is therefore proposing substantial savings and reforms in the 1985 budget, and will propose further reforms in future years.

This chapter contains eleven factsheets, arranged in five categories. The remainder of this essay provides an overview of the chapter's programs' budget history, savings achieved to date and proposals for further savings.

History of Dramatic Spending Growth

The "Historical Perspective" chart on the following page illustrates the extraordinary growth in real (1985 constant dollars) direct spending for agriculture and rural programs experienced over the last two decades. The major jump in spending occurred in 1977. Since then, spending for these programs has continued at unprecedented high levels, with a record reached in 1983.

This part of the non-defense budget is the singular case in which a substantial *increase* in constant dollar budget costs has occurred over the past 3 years. To a large degree, this outcome was driven by the depressed state of the farm economy and the costly farm bill enacted in 1981. While CCC costs have been historically volatile in response to cyclical swings in farm prices, production and incomes, the table below makes clear that actual and current services constant dollar costs over 1982-86 will exceed all 5-year periods since the early 1960's by large magnitudes. These amounts do not include other Federal expenditures that also support agriculture, such as $1.5 billion of agricultural exports subsidized each year by the P.L. 480 food aid program, and $1.2 billion or more a year in special tax benefits for farmers.



Dramatic Spending Growth Since 1962 in Agriculture and Rural Programs

(1985 on and off budget constant dollars in billions)

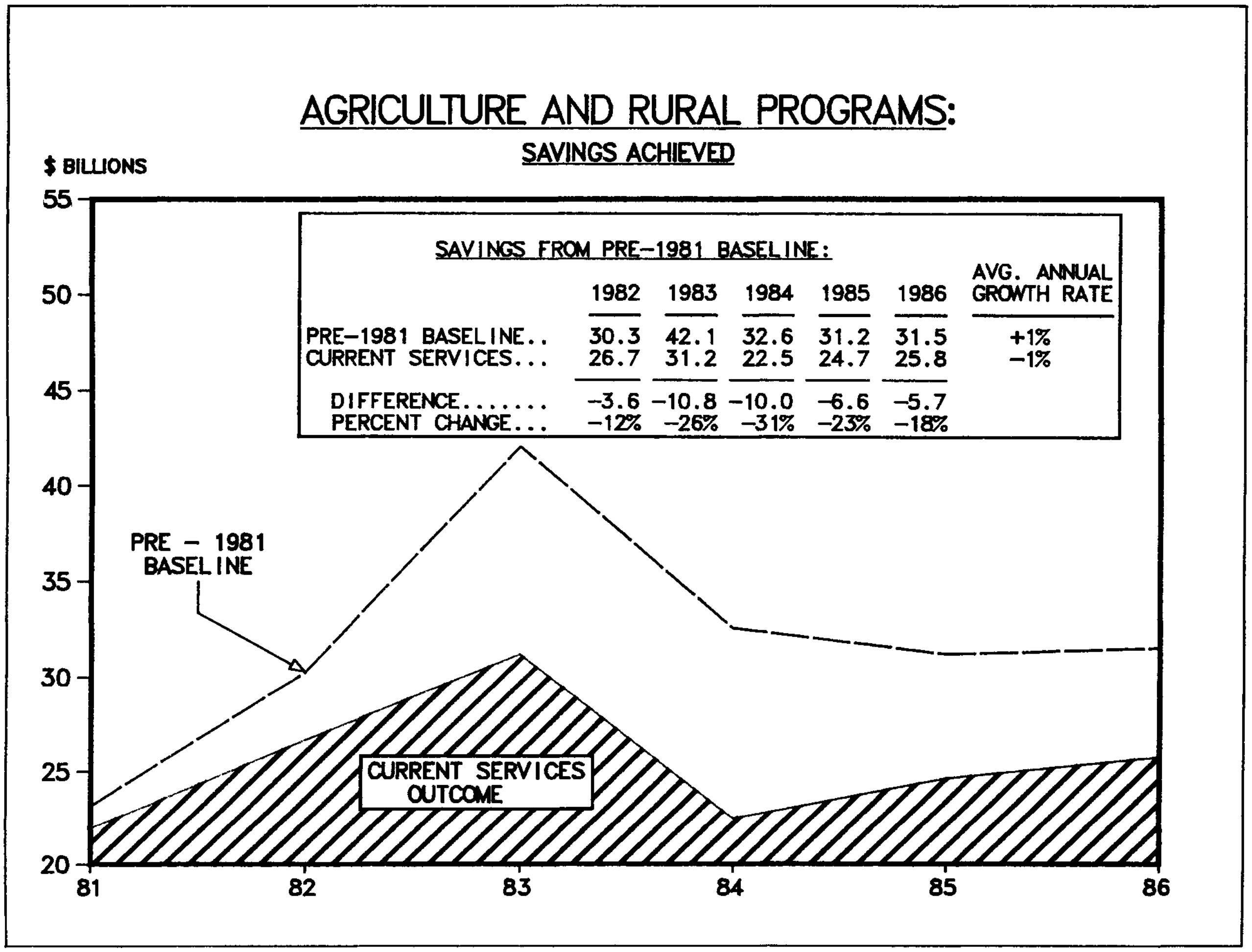
5-year period	Average Annual Outlays				
	CCC and related subsidies	FmHA subsidies	REA subsidies	All other	Total
1962–66	10.6	0.6	0.6	2.3	14.1
1967–71	10.7	0.2	0.8	2.4	14.1
1972–76	5.2	3.7	1.3	2.3	12.5
1977–81	6.1	13.2	4.0	2.6	25.9
1982–86 [1]	12.3	8.0	4.4	2.8	27.5

[1] Current services level for 1984–86.

Savings Achieved to Date

The "Savings Achieved" chart below indicates that this Administration's efforts over the last three years have produced some reduction in costs from what the budget levels would have otherwise been. Without recent actions to slow the growth in heavily-subsidized Government entitlement and credit programs for farmers and rural communities, last year's budget peak for this group of programs would have reached over $42.1 billion, rather than the $31.2 billion actually experienced.

These reductions are only a first step toward bringing the costs of these programs back to more reasonable levels.



	1982	1983	1984	1985	1986	AVG. ANNUAL GROWTH RATE
PRE–1981 BASELINE..	30.3	42.1	32.6	31.2	31.5	+1%
CURRENT SERVICES...	26.7	31.2	22.5	24.7	25.8	−1%
DIFFERENCE.......	−3.6	−10.8	−10.0	−6.6	−5.7	
PERCENT CHANGE...	−12%	−26%	−31%	−23%	−18%	

Proposals for Further Savings

The President's 1985 budget seeks a steady unwinding of these historically high budget levels during the remainder of the 1980's.

The following table compares the President's 5-year budget plan to the outlays that would otherwise occur under current law.

Further Savings Proposed

(Outlays in billions)

Major program area	1985–89		
	Current services	1985 request	Proposed savings
Price supports and conservation subsidies	55.2	48.6	6.6
Agricultural credit	8.2	7.0	1.2
Rural housing and development	29.5	22.3	7.2
Rural electric and telephone	22.1	15.4	6.7
USDA services	9.4	8.0	1.4
Total, Agriculture and Rural Programs	124.5	101.4	23.1

These savings would be produced by the implementation of the following:

- *CCC Price Supports and Conservation Subsidies.*—Proposed target price freeze, removal of the mandate to support honey prices, plus other cost-saving proposals for conservation assistance and crop insurance, partly offset by an increase in export credit assistance outlays.
- *FmHA Agricultural Credit.*—Proposed continuation of subsidized loans to farmers, except for economic emergency loans.
- *FmHA Rural Housing and Development.*—Proposed focus on poorer households and communities.
- *Rural Electric and Telephone.*—Proposed reductions in loan levels and interest rate subsidies.
- *Other Services.*—Proposed continuation of current policy to focus resources on basic long-term research and relying upon the private sector to finance and carry out applied research, development and services through user fees and other means.

The proposed reforms in the 1985 budget, especially for CCC, still maintain agriculture and rural program outlays at excessively high levels, even in constant dollars. It is, therefore, imperative that when the current farm program expires in 1985, additional substantial retrenchment of price-support, target price and subsidy levels be enacted in order to bring the farm programs within acceptable budget levels.

As noted above, the 1985 budget also proposes to steadily reduce budget costs for conservation, rural housing and development, and Agriculture Department services relative to the peak constant dollar costs generated during earlier years. In combination with a lower-cost, market-oriented 1985 farm bill, these steps should make it possible to reduce total agriculture and rural program constant dollar costs to $12 billion per year or less by the late 1980's. In real terms, this is a level consistent with pre-1977 costs and only about half the bloated levels already experienced during 1977-1983.

Price Supports and Conservation Subsidies

Conservation of Agricultural Lands

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	614	645	678	713	747	782	3,565
Outlays	634	654	688	704	736	770	3,552
1985 Budget Level:							
Budget Authority	614	451	474	490	508	528	2,452
Outlays	634	572	518	510	522	539	2,661
Change:							
Budget Authority	....	−194	−204	−223	−239	−253	−1,112
Outlays	....	−82	−170	−194	−214	−231	−891

Program Description

These programs provide soil surveys, collect national information on soil and water related conservation problems, and provide both soil and water conservation technical assistance and financial assistance to farmers, ranchers, and landowners to share the cost of installing soil and water conservation measures on private lands.

Current Status

Current dollar appropriations for these conservation cost sharing and technical assistance programs have increased by $35 million from $579 million in 1981 to $614 million in 1984. Funding for technical assistance has grown by about $43 million, while Federal cost sharing has declined by about $8 million during this period.

1985 Budget Proposal

The proposed budget would provide a single consolidated soil and water financial assistance program ($80 million) which combines the objectives of several different specific conservation cost sharing programs (Agriculture Conservation Program, emergency conservation, forestry incentives, and water bank programs). This represents a $140 million reduction from the current services level for 1985 for these programs. The change would give State and county committees greater flexibility in directing available funds to the most critical practices. Funding for the resource conservation and development (RC&D) program would be discontinued. The targeting of technical assistance funds to critical problem areas would be expanded to 109 additional counties in 1985 for a total of $40.6 million in 917 counties in 49 States.

Rationale

Total funding for soil and water conservation activities in 1985 is consistent with Agriculture Department priorities established in the Secretary's program for soil and water conservation under the Soil and Water Resources Conservation Act of 1977 (RCA):

- Targeting increasing amounts of technical assistance to geographical areas where there is a concentration of critical problems affecting soil productivity.
- Assigning highest priority to reducing soil erosion, upstream flooding and water conservation, the most critical conservation problems identified in the RCA study.

- Placing a greater reliance on State and local governments and private landowners for solutions to problems arising on private lands. Accordingly, substantial Federal cost sharing savings result from this policy emphasis.

Analyses to date of the resource conservation and development program have failed to demonstrate that this program has made any statistically significant difference in economic development between RC&D counties and non-RC&D counties. The program's conservation accomplishments can be readily achieved under other Department of Agriculture programs. Accordingly, the RC&D program is not funded in the 1985 budget.

The 1985 budget proposes a reformed, smaller conservation cost sharing program because:

- The Administration is seeking the most effective use of Federal funds in preserving the long term productive capacity of privately-owned lands.
- As the affected lands are private, and the problems are usually local and occasionally regional in nature, a larger share of costs should be borne by landowners and State and local groups.
- Set-asides of croplands have become a recurrent feature of the price support programs and many of these highly erodible lands can be expected to be taken out of production and protected.

Commodity Price Supports and Related Subsidies

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	210	9,825	9,585	9,550	9,200	8,700	46,860
Outlays	6,765	10,730	10,450	10,100	9,400	8,950	49,630
1985 Budget Level:							
Budget Authority	210	8,854	8,340	8,000	8,100	7,500	40,794
Outlays	6,765	10,842	8,680	8,575	8,100	7,700	43,897
Change:							
Budget Authority	....	−970	−1,245	−1,550	−1,100	−1,200	−6,065
Outlays	....	+112	−1,770	−1,525	−1,300	−1,250	−5,733

Program Description

The Commodity Credit Corporation (CCC) finances a variety of subsidy programs to help maintain farm income and to limit economic harm to farmers from price fluctuations. Subsidies are provided through price support loans, purchases of surplus stocks, direct payments to farmers, and credit and other compensation to farmers, exporters and foreign buyers.

Current Status

Since these programs react automatically to cushion the adverse effects of low prices and excess supplies, CCC budget outlays have reached record levels these past few years, in both nominal and constant dollars. Outlays of $18.9 billion in 1983 were far above any previous year. Much of the increase is due to costly farm legislation enacted in 1981 which actually promotes excess supplies, depresses farm prices and results in high Federal budget outlays.

1985 Budget Proposal

The President's 1985 budget would reduce these excessively high budget levels for the remainder of the 1980's by $5.7 billion. Specific proposals, which require legislative action, would:

- Eliminate the automatic increase in target prices for the 1985 crops of wheat, feed grains, cotton and rice, for a saving of $6 billion over 1985-89. Target prices guarantee a price per bushel or per pound to farmers who participate in these programs. In recent years, legislated target prices have been significantly higher than market prices. The Government is required to make "deficiency" payments to farmers for the difference between the target price and the market price for these crops.
- Eliminate the mandated honey price support program and provide honey producers income and price security under discretionary authority, for a saving of $300 million over the 1985-89 period.

These savings are offset in part by an increase in export assistance, costing an estimated $600 million over 1985-89. Thus, net savings proposed under the 1985 budget amount to $5.7 billion.

Rationale

This proposed program should be less costly to the U.S. taxpayer and less of a restriction on farmers than any other course available to us.

Target prices can be frozen at current levels and still more than cover current and projected increases in farm production costs.

- The 1981 Farm Bill built in 22-33% cumulative increases in target prices over the 1981-85 crop year period.
- Actual costs of production are expected to increase only a total of 13-15% over the same period. Thus, current target prices already cover current and expected increased costs.

Eliminating the mandated honey subsidy program would help increase U.S. exports of honey.

- Current law forces domestic honey prices well above world prices, resulting in massive imports of foreign honey, and in surplus U.S. stocks, bought by the Federal Government.
- Without any changes to current law, U.S. honey prices, which are already 1.5 times world prices, would increase another 20% over the next 5 years. Since world prices are expected to remain stable over the same period, the U.S. honey price would then be almost double the world price, forcing us out of the world market.
- With elimination of these mandatory increases, honey prices would be allowed to move to world levels. The U.S. would then become competitive in world trade, and we could then rely more on our own industry and less on foreign imports.

Further reductions and cost efficiencies will still be necessary. The foregoing measures would reduce annual CCC outlays to the $8 billion level, under assumed crop and price conditions, still well above the $2-6 billion nominal dollar levels of the 60's and 70's. Therefore, when the current farm program expires in 1985, additional program adjustments will be proposed. Such proposals would likely include continuation of the Administration's efforts to correct supply/demand imbalances with greater movement toward a free market orientation for the agriculture sector.

Federal Crop Insurance

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	310	370	415	465	514	544	2,308
Outlays	635	329	370	415	460	487	2,061
1985 Budget Level:							
Budget Authority	410	369	414	465	513	544	2,304
Outlays	635	328	369	415	459	486	2,058
Change:							
Budget Authority	+100	−1	−1	−1	−1	−1	−3
Outlays	....	−1	−1	−1	−1	−1	−3

Program Description

The Federal crop insurance program makes available all risk crop insurance to farmers so that they can minimize their losses due to natural hazards and adverse weather conditions.

Current Status

The Administration has pursued a consistent policy of expanding the crop insurance program as rapidly as possible so as to meet the needs of farmers for minimizing weather-induced crop losses while achieving sharp reductions in outlays under other Federal disaster assistance programs. From 1981 through 1984 there has been a seven-fold increase in program funding.

1985 Budget Proposal

The 1985 budget proposal includes an additional $100 million in funding designed to assist the agency in making indemnity payments to producers adversely impacted by the drought of 1983 and the citrus freeze of 1984. Additionally, the 1985 budget proposal would permit continued expansion in the crop insurance program as measured by total insured acreage and participation by commercial insurers.

Rationale

The outlay reduction from 1984 to 1985 is solely due to an estimating assumption that the high 1983-84 costs of the severe drought in 1983 will not recur in 1985.

The 1985 budget proposal acknowledges the fact that Federal all-risk crop insurance is increasingly regarded by farmers as a prudent and practical financial management tool. Specifically, the current proposal would:

- Enable insured acreage to increase from 36,700,000 acres in 1984 to 98,700,000 acres by 1989.
- Establish crop insurance in 3,000 counties nationwide.
- Stimulate private insurers to handle approximately 55% of total premiums, 70% by 1989.

The current budget proposal promotes further progress in participation acreage and private insurer involvement in the delivery mix to enable the agency to meet future indemnity obligations to producers.

Agriculture Credit Activities

Agricultural Credit

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	8,702	5,524	2,684	1,829	1,988	1,766	13,791
Outlays	3,001	1,619	1,473	1,541	1,686	1,865	8,184
Direct loans	4,552	3,495	3,615	3,732	3,848	3,958	18,648
Guaranteed loans	706	163	170	177	184	190	884
1985 Budget Level: [1]							
Budget Authority	8,702	5,485	2,534	1,584	1,657	1,348	12,608
Outlays	3,001	1,604	1,323	1,296	1,346	1,447	7,016
Direct loans	4,552	3,414	3,414	3,414	3,414	3,414	17,070
Guaranteed loans	706	206	206	206	206	206	1,030
Change:							
Budget Authority	....	−40	−150	−245	−331	−418	−1,183
Outlays	....	−15	−150	−245	−340	−418	−1,168
Direct loans	....	−81	−201	−318	−434	−544	−1,578
Guaranteed loans	....	+43	+36	+29	+22	+16	+146

[1] The budget authority and outlay data contained in this table does not accurately reflect program levels because of large revolving fund financing transactions that mask the impact of changes in loan levels over time (i.e., borrowing requirements to retire outstanding debt to the FFB decline after 1985). The data on direct and guaranteed loans display major program levels over the 1984–89 period.

Program Description

The USDA agricultural credit programs administered by the Farmers Home Administration consist of direct and guaranteed loans to individuals for farm ownership, soil and water conservation, farm operations, and emergencies. Associations are eligible for Indian land acquisition loans.

Current Status

The agricultural credit policies of the Administration have been designed to buffer the impact of the recent decline in the agricultural economy. Additionally, the agricultural credit budget has reflected the enhanced liquidity position of private lenders. Exclusive of disaster loans, new lending under these programs has increased from $1.8 billion in 1981 to $2.7 billion in 1984.

Total current services estimates decline from 1984 to 1985 because of the estimated decline in demand for disaster and emergency loans. Base lending programs current services are estimated according to standard practice.

1985 Budget Proposal

The 1985 budget proposal reflects the Administration's concern with the economic recovery of the agricultural sector by proposing a $650 million level for farm ownership loans and $2,070 million for farm operating loans. Additionally, a limited portion of the farm operating and farm ownership loan programs would be reserved to provide subsidized loans to limited-resource farmers who require special assistance.

The 1985 budget assumes a decline in the emergency disaster loan program, ($870 million in 1985 versus $2 billion in 1984) reflecting, in part, the expansion of the crop insurance program and, in part, an assumed nonrecurrence of widespread drought and freezes that have driven up the 1983-84 demand for emergency loans.

Rationale

The 1985 budget proposal:

- Recognizes that private lenders presently hold about 90% of total outstanding agricultural credit, and encourages continued reliance on private lending to provide capital for farming operations.
- Offers subsidized farm operating loans to those producers in temporary economic hardship who don't have the necessary repayment ability to obtain loans from private lenders, but who can achieve economic viability with temporary low- interest Government credit.
- Anticipates a non-recurrance of the 1984 disaster outlays generated both by the unusually severe and widespread drought and the citrus freeze.
- Would encourage continued expansion in the Federal crop insurance program which is anticipated to insure 25% of total insurable acreage nationwide by 1985—a 7% increase over 1984—thus reducing need for Federal disaster loans when bad growing conditions occur.

Rural Housing and Development

Rural Housing

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services: [1]							
Budget Authority	8,191	6,362	4,634	4,845	4,964	5,003	25,808
Outlays	4,312	4,209	4,635	4,836	5,003	5,019	23,702
Loans	3,285	3,450	3,610	3,765	3,915	4,066	18,806
Grants	134	213	226	218	215	220	1,092
1985 Budget Level: [1]							
Budget Authority	8,191	5,923	3,334	3,335	3,317	3,131	19,041
Outlays	4,312	3,874	3,378	3,147	3,266	3,041	16,707
Loans	3,285	2,320	2,320	2,320	2,320	2,320	11,600
Grants	134	116	116	116	116	116	580
Change: [1]							
Budget Authority	....	−439	−1,300	−1,510	−1,647	−1,871	−6,767
Outlays	....	−335	−1,257	−1,689	−1,737	−1,979	−6,995
Loans	....	−1,130	−1,290	−1,445	−1,595	−1,746	−7,206
Grants	....	−97	−110	−102	−99	−104	−512

[1] The budget authority and outlay data contained in this table does not accurately reflect program levels because of large revolving fund financing transactions that mask the impact of changes in loan levels over time (i.e., borrowing requirements to retire outstanding debt to the FFB decline after 1985). The data on loans and grants display major program levels over the 1984–89 period.

Program Description

The rural housing programs administered by the Farmers Home Administration (FmHA) of the Department of Agriculture are composed of loans for single family homes, rental and cooperative housing, farm labor housing and rural housing sites. These programs are directed towards assisting low-income individuals and families without other alternatives to find safe and adequate housing.

Current Status

The Administration has pursued a consistent policy of improved targeting of rural housing resources toward low-income households. Specifically, the 1981 budget contained $802 million for housing loans to middle- and upper-middle-income households compared to $230 million in 1984.

While "needs" targeting was enhanced, the historical mix between rental and single family housing has been retained.

1985 Budget Proposal

Total rural housing lending is budgeted at $2.3 billion for 1985 compared to $4.0 billion in 1981. This is the only remaining Federal program which provides deeply subsidized homeownership loans (one% interest rate to the borrower).

The 1985 budget would fund the low-income single family homeownership loan program at $1.6 billion. The moderate-income homeownership component would be eliminated; $116 million is budgeted to renew expiring contracts for rental assistance payments.

The small housing grant programs are proposed for termination with reliance placed instead upon low-interest loans and rental assistance grants to assist the primary target group.

Rationale

The Administration's objective is to focus Federal resources on assistance to low-income families living in substandard housing while reducing the amount of commercial type lending by the Federal Government.

FHA mortgage insurance will be offered through Farmers Home Administration offices to encourage private lenders to meet the needs of moderate-income home buyers.

The reduction in market interest rates achieved over the past 3 years will make mortgages much more affordable.

Since the inception of the FmHA housing program, substandard rural housing has been reduced from 61% to 6% of all rural housing, making it now appropriate to concentrate Federal resources on assisting the very needy rather than on a general program to upgrade the quality of the Nation's stock of rural housing.

Rural Development

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	2,198	1,727	978	927	1,241	1,181	6,053
Outlays	1,455	1,325	1,090	1,002	1,262	1,161	5,839
Loans [2]	400	420	440	460	480	500	2,300
Grants	93	99	105	110	116	121	551
1985 Budget Level: [1]							
Budget Authority	2,198	1,777	949	864	1,143	1,046	5,778
Outlays	1,455	1,383	1,069	949	1,174	1,036	5,610
Loans [3]	400	350	350	350	350	350	1,750
Grants	93	90	90	90	90	90	450
Change: [1]							
Budget Authority	....	+50	−29	−63	−99	−135	−275
Outlays	....	+58	−21	−53	−88	−125	−229
Loans	....	−70	−90	−110	−130	−150	−550
Grants	....	−9	−15	−20	−26	−31	−101

[1] The budget authority and outlay data contained in this table does not accurately reflect program levels because of large revolving fund financing transactions that mask the impact of changes in loan levels over time (i.e., borrowing requirements to retire portions of outstanding debt to the FFB decline after 1985). The data on loans and grants display major program levels over the 1984–89 period.

[2] Excludes $300 million annual funding level for business and industry (B&I) guaranteed loan program.

[3] 1985 budget provides no funding for business and industry (B&I) guaranteed loan program.

Program Description

The Department of Agriculture rural development programs administered by the Farmers Home Administration are composed of direct loans and grants for water and waste disposal facilities, and direct loans for community facilities.

Current Status

The Administration has pursued a consistent policy of limiting the Government's intrusion into capital markets while insuring that available rural development assistance is directed to those communities most in need. In 1981, rural development lending was $1.7 billion. The 1983 Jobs Bill added $600 million in nonrecurring loan and grant funds that spend out over a several year period. The 1984 budget provides $700 million in total rural development lending (including $300 million in guaranteed business and industry loans).

1985 Budget Proposal

The 1985 budget proposal would fund the water and waste loan program at $250 million ($20 million below the 1984 enacted level). The community facility loan program is proposed to be funded at $100 million ($30 million below the 1984 enacted level), while the funding level for the water and waste grant program continues at the 1984 enacted level of $90 million.

The 1985 budget proposes no loan guarantees for non-farm rural business and industry.

Rationale

The 1985 budget proposals for rural development are consistent with the Administration's dual objective of improving the targeting of resources towards low-income rural communities, and fostering private sector investment initiatives in lieu of direct Federal lending.

The water and waste grant program, proposed at the 1984 enacted level, continues the commitment to help communities most in need and without access to private capital.

The Administration considers existing tax and market incentives for private sector investment in rural areas plus the reduction in inflation and in market interest rates achieved over the last 3 years sufficient to stimulate development of rural business and industry. Thus the need for Government guarantees for loans to viable rural businesses is sharply reduced.

Rural Electric and Telephone Subsidies

Rural Electric and Telephone

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	4,317	4,307	5,511	4,720	4,405	4,287	23,230
Outlays	4,122	4,104	5,298	4,497	4,172	4,044	22,116
1985 Budget Level:							
Budget Authority	4,317	3,999	4,631	3,292	2,526	2,084	16,533
Outlays	4,122	3,796	4,418	3,070	2,293	1,842	15,419
Change:							
Budget Authority	....	−308	−880	−1,427	−1,879	−2,203	−6,697
Outlays	....	−308	−880	−1,427	−1,879	−2,203	−6,697

Program Description

The Rural Electrification Administration (REA) provides subsidized loans to electric and telephone utilities for maintenance and expansion of operations and construction of new electric generation facilities. Loans are usually provided directly from either the Rural Electrification and Telephone Revolving Fund, the Rural Telephone Bank or the Federal Financing Bank (FFB).

Current Status

This set of programs and lending facilities was first established to provide rural areas access to non-subsidized market-rate credit when commercial credit was not available. As commercial interest rates climbed, basic REA direct loan rates remained stable, first at 2%, then at 5%. The massive subsidy produced by this situation resulted in greater dependence of rural utilities on Federal assistance and overextension of these utilities in the construction of electric power plants. As electric demand growth declined drastically from the high increases experienced in the 70's to the low growth of the 80's, demand for these programs also declined. However, unused electric power capacity still exists and could pose serious problems in the future unless corrective action is taken now.

1985 Budget Proposal

To reduce costly excess power capacity and promote an economically healthier and financially stable rural electric and telephone industry which would be competitive in the commercial credit market, the budget proposes the following:

- Restoration of the original REA interest rate determination method, by basing rates on Treasury's cost of borrowing.
- Reduction of REA direct electric and telephone loans from $1 billion to $575 million.
- Reduction of electric generation loans, which are financed by the FFB, from $3.2 billion to $1.2 billion.
- Rescissions of 1984 appropriations to the Revolving Fund ($198 million) and Telephone Bank ($30 million).
- Establishment of loan application and approval fees to cover the administrative costs associated with this program.

Rationale

Interest Rates.—Restoring the intent of the original statute and increasing the interest rate from 5% to Treasury's cost of borrowing would reduce but not eliminate the subsidy provided to rural utilities, and would provide relief to the U.S. taxpayer.

- Private investor-owned utilities must finance from the commercial market at prevailing rates.
- Treasury's cost of borrowing is much less than prevailing commercial interest rates.
- While rural utilities would still enjoy low-cost Government credit, the American taxpayer would save up to $100 million each year in interest subsidy losses currently incurred.

Direct Loans.—The proposed reduction would result in more equitable treatment of electric and telephone utilities, regardless of location and political access.

- These utilities have been shifting their financing from the Federal Government over the last several years. Use of commercial credit by REA borrowers has increased from $97 million in 1973 to $1.1 billion in 1983.
- This reduction would support the current move to a greater reliance on the commercial market—a change necessary to build financial capacity.

Electric Generation Loans.—The proposed funding level would avoid the construction of costly and unnecessary electric power plants, which in time would have to be paid for by the American taxpayer.

- The proposal would provide enough financing for existing projects experiencing cost overruns and for new projects in areas where additional power generation capacity is truly needed.
- On average, REA electric power supply borrowers have financed more generation capacity than needed over the next decade. Electric demand has been substantially less than anticipated, creating further excess generation capacity. This places an unnecessary and unwarranted cost burden on rural families served by rural electric systems. This proposal would place a halt on unnecessary growth and provide for new capacity only where it is needed.
- Existing projects have been experiencing costly delays and other problems, creating a need for additional Federal assistance, which this proposed level would provide.

Rescissions.—These rescissions would save $228 million without hurting rural electric or telephone systems or reducing total resources available to borrowers.

- A rescission of $198 million appropriated to the Revolving Fund for interest subsidies and losses is proposed because the appropriation was made to the wrong account. The rural electric and telephone direct loan program has cost the Federal Government $1.3 billion since 1973. However, these costs have been sustained by the Treasury, not the Revolving Fund. In fact, the Fund has never incurred a loss since its inception in 1973, because it is already exempted by statute from paying $307 million in annual interest costs to the Treasury on advances totaling $7.9 billion.
- A rescission of $30 million of capital appropriated to the Rural Telephone Bank is proposed because the Federal Government has already provided $360 million in capital to the Bank—$60 million over the amount called for in the original statute establishing the Bank. This rescission would also save the Treasury about $12 million in interest over five years. The Bank can borrow from private credit markets, or from Treasury at 50-year repayment terms. This appropriation provides capital to the Bank with a 2% rate of return, the difference between 2% and Treasury's rates being borne by the U.S. taxpayer.

User Fees.—This proposal would bring REA in line with other Government and commercial credit facilities, which have charged loan fees for many years, and save taxpayers $30 million a year.

- Commercial lenders, plus many Government lenders, such as the FFB, the Commodity Credit Corporation, and the Export-Import Bank, charge loan application and approval fees to cover administrative costs associated with lending.
- This user fee would fund the total $30 million annual REA salaries and expenses account.

Department of Agriculture Services

Agricultural Research

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	763	805	845	885	915	955	4,405
Outlays	748	791	837	881	924	955	4,387
1985 Budget Level:							
Budget Authority	763	767	787	801	807	824	3,986
Outlays	748	759	773	800	815	828	3,976
Change:							
Budget Authority	....	−38	−58	−84	−108	−130	−419
Outlays	....	−32	−63	−81	−109	−127	−411

Program Description

Programs in this category support U.S. agriculture by funding the conduct, storage and dissemination of agriculture-related research.

Current Status

Since 1981, total funding for these programs has increased by 20% to $767 million. This is due to the Administration's realization that significant long-term gains in the agriculture sector are dependent upon the continued development of basic knowledge in the plant and animal sciences.

1985 Budget Proposal

The 1985 budget includes both increases and decreases in relation to the 1984 funding level.

It provides the following major increases:

- Competitive grants to States for biotechnology and animal research ($33 million).
- Hatch Act formula grant funding for biotechnology research ($3 million).
- Pay cost and small program increases ($17 million).

The major program reductions include:

- No funding for construction of laboratory facilities ($28 million).
- Reductions in special research grants and animal health and disease research grants to States ($17 million).
- Elimination of higher education grants ($8 million).

Rationale

Increased levels of support provided in the budget for agricultural research are focused on expanding basic knowledge. For example, in the area of plant sciences, biotechnology research has the potential for doubling the amount of products produced from our soil while drastically decreasing or eliminating the need for fertilizers and pesticides. In the area of animal sciences, genetic research has already expanded our capacity to produce animals which consume less food, grow faster and produce superior quality food. As such, these animals expand our supply of quality food while utilizing less resources for themselves.

Application of the latest agricultural technology enables us to avoid depleting vital natural resources, thereby enabling us to maintain our leadership position in agriculture in the world.

Increased levels of funding for the National Agricultural Library would allow the library to maintain its position as the free world's largest agricultural library.

Separate funding for higher education fellowship grants is unnecessary since approximately 25% of the proposed $50 million competitive grants program is likely to be used to hire graduate and post-graduate students to assist in agricultural research.

New funding for construction of additional research facilities is both unnecessary and unwarranted in view of the fact that a number of existing laboratories are under-utilized, and some are excess to the requirements of these agricultural research programs.

Decreased funding is proposed for special research grants because the basic Federal objective of highlighting and providing several years of research funding for specific problem areas has been accomplished. States are in the best position to determine whether research should be continued for specific problem areas. States have the option of utilizing Federal formula grant funds for this purpose.

Formula grants for animal health and disease research are proposed for elimination because other funding mechanisms being proposed in the 1985 budget (e.g., competitive grants) are more effectively targeted to areas of animal health and disease which are of major national concern.

Extension Service

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	334	352	370	387	404	421	1,934
Outlays	333	349	367	384	401	418	1,919
1985 Budget Level:							
Budget Authority	334	299	300	300	300	301	1,501
Outlays	333	306	300	300	300	301	1,507
Change:							
Budget Authority	....	−53	−70	−87	−104	−120	−433
Outlays	....	−44	−67	−84	−101	−117	−413

Program Description

The Federal Government finances 40% of the Federal/State Extension Service programs. These programs, through technical assistance, help people identify and solve their farm, home and community problems through the use of research findings developed by the Department of Agriculture and the State land-grant colleges.

Current Status

Total Federal funding for Extension Service programs has decreased by about $5 million since 1981 to a 1985 level of $299 million.

The Federal Extension Service supports programs through general formula funding and earmarked funding. The main purpose of earmarked funding is to focus attention for a limited period of time on specific problems that have national implications.

1985 Budget Proposal

The 1985 Extension Service budget reflects two policy decisions. First, Federal funding for programs that have fulfilled their purpose would be terminated. Second, Federal program requirements would be eased for the expanded food and nutrition education program to allow individual States to better match service delivery to local needs. These proposals will save taxpayers about $41 million in 1985.

Rationale

Several Extension Service programs were initiated in recent years to respond to perceived national problems: pest management, farm safety, pesticide impact assessment, urban gardening, integrated reproduction management, soil and water management and conservation, national program innovation, and programs authorized by the Renewable Resources Extension Act. The Extension Service considered these programs so important that they earmarked funds for them. The 1985 budget proposes termination of Federal funding for these programs because they have achieved their objectives. States would have the option of continuing these programs with State funds or eliminating them and using their funds to add support to other programs.

This policy will allow States to evaluate the need and usefulness of various programs in relation to their local situation.

The 1985 budget level also reflects a proposal to ease Federal eligibility requirement for the expanded food and nutrition program. This would allow States offering services that were previously highly regulated by the Federal Government to better reflect and respond to local situations. As a result, not only will more people be entitled to receive services, but services can be directed to those who need them most. Current practices of detailed program regulation in many cases actually prevent State and local governments from properly serving needy people.

Animal and Plant Inspection Service

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	273	286	303	318	334	349	1,590
Outlays	275	286	302	318	333	349	1,588
1985 Budget Level:							
Budget Authority	273	229	234	233	240	250	1,186
Outlays	275	229	234	233	240	249	1,185
Change:							
Budget Authority	....	−57	−69	−85	−93	−99	−404
Outlays	....	−57	−69	−85	−93	−99	−404

Program Description

The major objective of the Animal and Plant Inspection Service (APHIS) is to protect animal and plant resources of the Nation from economically dangerous diseases and pests. To accomplish this, the agency carries out various survey and diagnostic activities, conducts control and eradication programs, and administers an inspection program at ports of entry.

Current Status

Total funding for these programs in current dollars has remained relatively constant from 1981 through 1984.

1985 Budget Proposal

The 1985 budget reflects a continuing effort to involve the States more extensively in program financing and to transfer operating responsibility when possible. In addition, where possible, user fees for user-specific services are proposed. Specifically, the Administration proposes to:

- Implement Brucellosis program checkoff payments by the livestock and dairy industries to achieve greater cost sharing by the program beneficiaries, reducing Federal costs by $26 million in 1985.
- Reduce and terminate Federal funding in selected control programs where the control technology has been developed and demonstrated, and where the benefits are limited geographically, with 1985 budget reductions of $16 million.
- Reduce screwworm funding consistent with phasedown plan based on successful establishment of a quarantine barrier in southern Mexico by the end of 1984.
- Implement user fees for import/export inspections.

Total savings of $52 million are expected as a result of these proposed actions.

Rationale

Changes in the brucellosis program come after almost 45 years of Federal support which has reduced the level of infection from 11.5% to less than one-half of one percent of cattle nationally. Eradication efforts to date have cost taxpayers over $1.1 billion. Sharing funding responsibilities with States and the livestock and dairy industries is desirable because the direct beneficiaries of the program, beef and dairy cattle owners, will assume a fairer share of its cost. The costs of protection against brucellosis should be borne by dairymen and cattlemen on the same basis that livestock owners generally pay the cost of protection against other diseases.

Federal funding reductions and terminations in selected Federal control programs are proposed because:

- The control technologies have been developed and adequately demonstrated.
- The beneficiaries have the capacity to assume responsibility for the programs.
- The affected areas in each case are limited to only a few States.

Significant programs affected include the golden nematode, grasshopper, gypsy moth, fireant, noxious weeds, witchweed and pink bollworm.

A screwworm quarantine barrier will be established in southern Mexico by the end of 1984. As a result of the successful achievement of this goal, future funding requirements should be greatly reduced.

Finally, savings are proposed in the area of plant and animal diseases. Effective control over the possible introduction of diseases will continue to be maintained by the use of quarantine inspection and import-export inspection of cargo. Savings of $18 million over 5 years can be achieved by establishing inspection activity user fees paid by the importer or exporter. This program change is consistent with government-wide attempts to apply user fees when possible to recover direct costs associated with user specific services.

Agriculture Statistics, Marketing, Inspection and Foreign Accounts

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	246	259	279	300	321	343	1,501
Outlays	242	259	279	299	320	342	1,498
1985 Budget Level:							
Budget Authority	246	244	261	275	290	306	1,375
Outlays	242	244	262	275	289	305	1,374
Change:							
Budget Authority	....	−15	−17	−25	−31	−37	−125
Outlays	....	−15	−17	−24	−31	−37	−124

Program Description

These programs collect statistical information on the worldwide production of agricultural commodities, and support the development of overseas markets. They also provide for grading, inspection, and marketing of commodities for both export and domestic markets, so that purchasers and consumers are assured of healthy, edible foodstuffs.

Current Status

Current dollar funding of $244 million for 1985 is about the same as the 1981 level. Increased funding for export promotion has been offset by efficiencies in other areas.

1985 Budget Proposal

The budget proposes a $4 million increase to improve accuracy and reliability of crop and livestock estimation. Increased funds are requested for macroeconomic agricultural surveys ($3 million) and for enhanced development of foreign agricultural markets for U.S. farm products ($6 million).

These increases are more than offset by proposed savings through: charging fees for newsletters and certain grading and marketing services which are not currently paid for by the user ($7 million); curtailing payments to States for marketing programs ($1 million); reducing wholesale market development assistance to urban areas ($2 million); reducing egg inspections ($1 million); and discontinuing purchase of Landsat data by the Foreign Agricultural Service (FAS) ($7 million).

Rationale

These proposals promote fairness by having all users of the newsletters and grading services pay. Currently, all do pay except for recipients of cotton and tobacco market newsletters and cotton grading. The proposals to reduce domestic market assistance programs are based on the belief that Federal Government involvement is no longer necessary. Egg inspection frequency is reduced at no risk to consumers due to technological changes in processing. Discontinuing the purchase of Landsat data is possible because FAS is acquiring this information from non-Landsat sources at lower cost.

CHAPTER 6

Public Infrastructure

Public Infrastructure Overview

This category includes the Federal programs that support public infrastructure—highways, airports and airways, mass transit, water resources and navigation, and sewage treatment. These systems, funded by all levels of government, provide part of the physical framework that enables the Nation's economy to grow.

The President's five-year 1985 budget plan would continue the sorting of roles and responsibilities among levels of government that the past three budget rounds have sought and largely achieved. With this clear realignment of the complex funding patterns that evolved during previous decades, the Administration has placed the future of the Nation's infrastructure on firm ground. The President's infrastructure policy is based on three main principles—sustaining national systems, encouraging local autonomy for local programs, and establishing user fees.

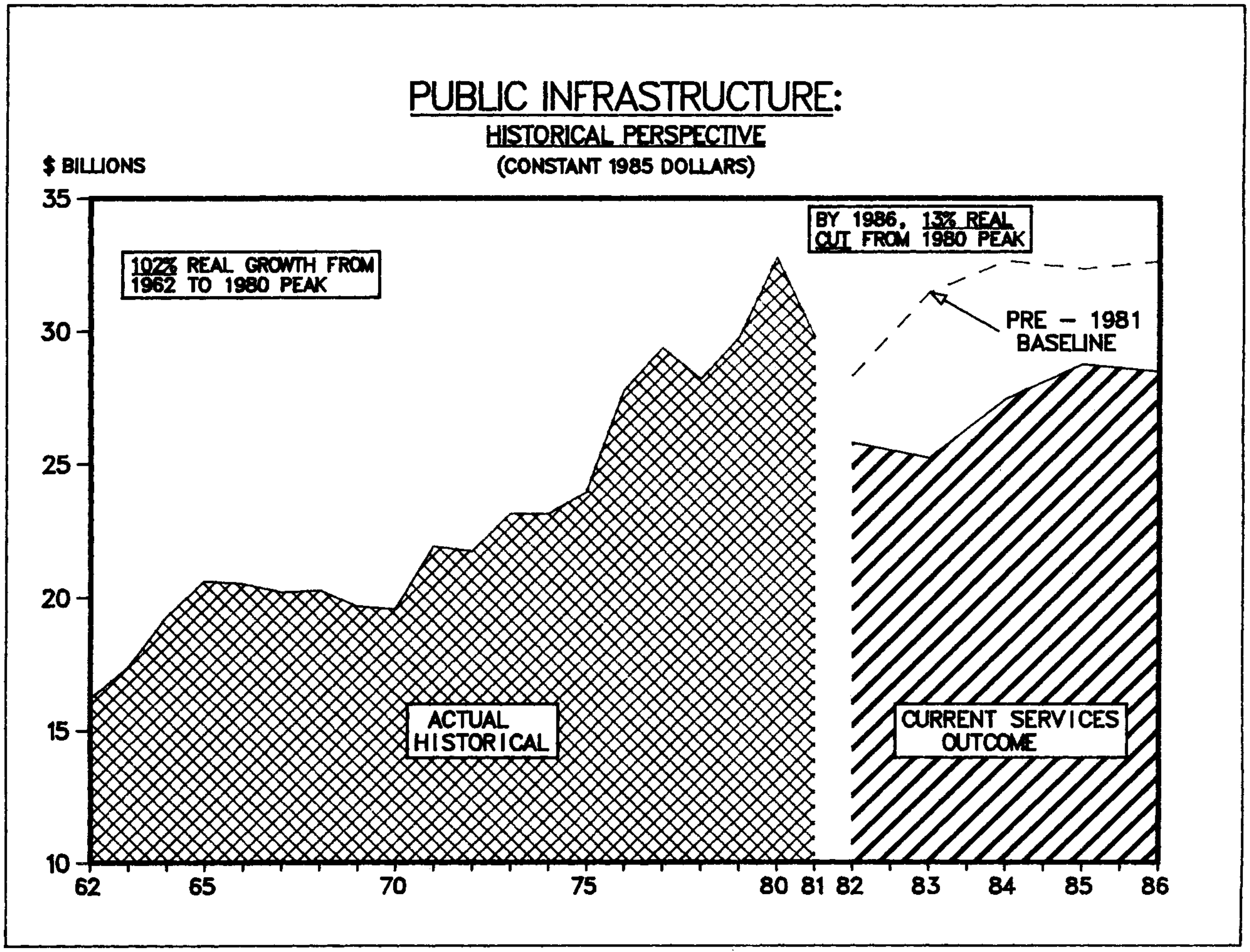
- The decisive sorting out of accumulated Federal infrastructure roles has strengthened the Federal commitment to that portion of the Nation's infrastructure that is truly national in scope and integrated in function—major highways, airports, and airways. The 1985 budget will provide increases for construction and rehabilitation of these systems, and for portions of operating expenditures. Constant dollar funding levels for highways, airports and airway systems will be higher than ever before.
- At the same time, the Administration has successfully reduced Federal involvement in infrastructure systems with primarily local benefits. The past three budget rounds have reduced constant dollar Federal funding levels for mass transit (especially operating subsidies), water and navigation, and sewer programs and increased reliance on State and local governments to finance these local and regional infrastructure needs where appropriate. By 1989, the constant dollar funding for these locally oriented programs will return to the levels of the early- to mid-1970's.
- To ensure that those who benefit from infrastructure investment bear the cost, the Administration and Congress have increased the proportion of infrastructure spending that is supported by user fees. The 1982 Surface Transportation Assistance Act and the 1982 Airport and Airway Improvement Act increased user fees to establish a sound financing mechanism to fund national needs. The 1985 budget proposals extend these policies to programs that address local needs; user fees will make up an increasing share of both Federal and local contributions for these programs.

This chapter contains 10 factsheets, which have been arranged into two groups of national programs and three groups of local programs.[1] The remainder of this essay describes the savings achieved to date, the Administration's proposals for their continuation, and the reforms in infrastructure spending priorities and financing that are the cornerstone of Federal infrastructure policy.

Excesses in Infrastructure Spending Curtailed

As depicted on the following chart, Federal expenditures for public infrastructure grew dramatically during much of the period after 1962 and rapidly gained momentum as they climbed to their 1980 peak.

[1] Separate factsheets have not been written for several water resources programs and receipts, miscellaneous highway construction, National Airport, and other miscellaneous Federal Avaition Administration (FAA) programs.



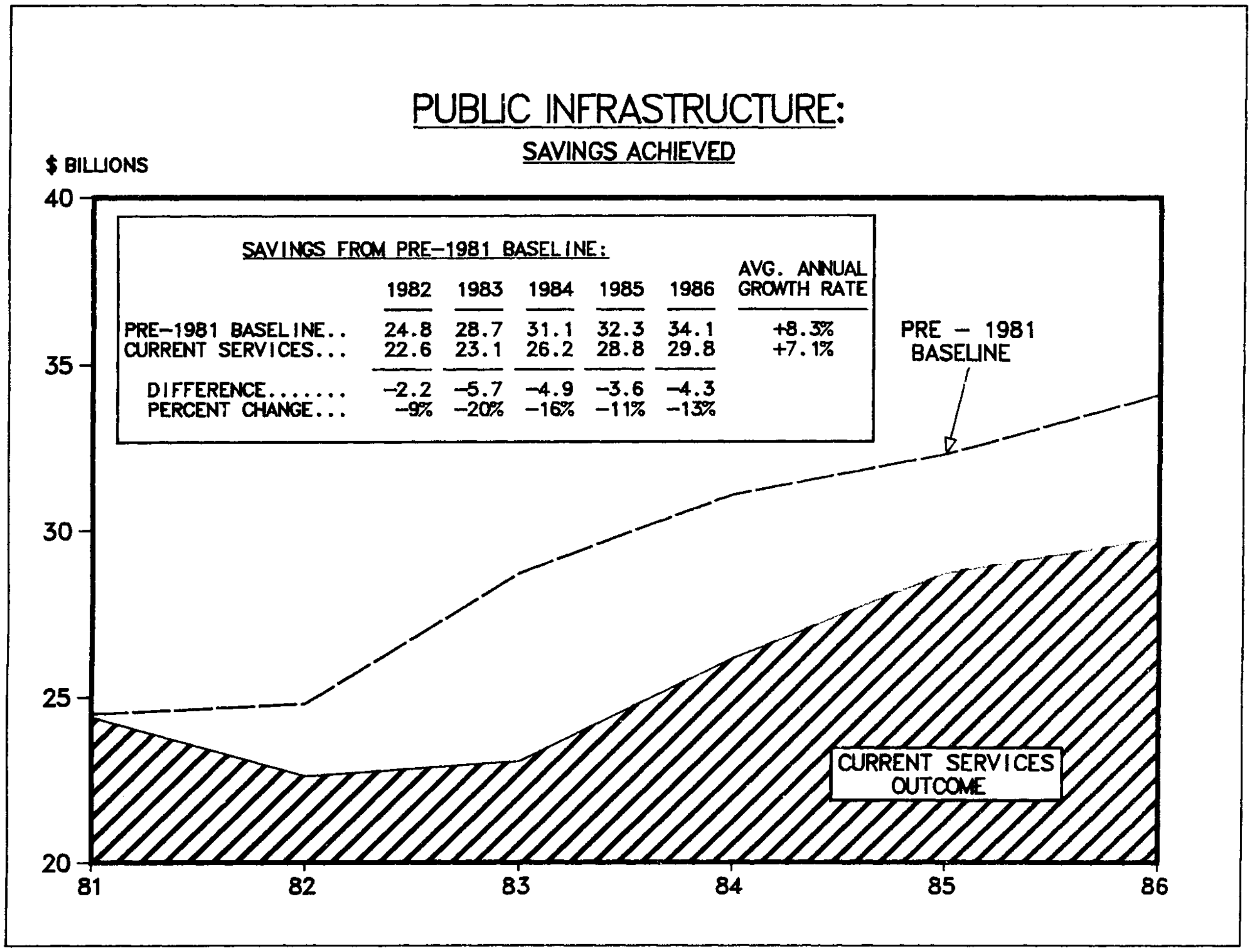
- In real terms, Federal spending grew by 102% during this period. The bulk of this growth was in the late 1970's, as expenditures mounted to a 1980 high 68% above the 1970 level.
- Spending grew in all infrastructure areas, but escalated most rapidly in locally oriented programs. Mass transit spending exploded during the 1970's—rising in real terms from a mere $0.3 billion in 1970 to $4.8 billion by 1981. Sewage treatment showed a similar pattern, rising from negligible outlays as the 1970's began to a peak of $4.7 billion in 1981.
- At the same time that the Federal Government was increasing infrastructure expenditures, local governments were reducing their contributions to infrastructure. In 1960, capital spending by all levels of government for these same infrastructure activities accounted for 2.2% of GNP, while by 1980, despite increased Federal outlays, total spending declined to 1.3% of GNP.

The past three budget rounds have reduced real Federal infrastructure outlays from their 1980 peak.

- Significant savings have been achieved in programs which address local needs.
- These savings have offset the desired increases in national priority infrastructure spending.
- By 1986, the share of GNP allocated for Federal public infrastructure spending will be reduced from its 1980 level of almost one percent of GNP by about one-fourth.

Enacted Savings

The accompanying chart reveals the outlay savings that have been achieved from the pre-1981 baseline.



- The pre-1981 policies would have escalated current dollar spending in each infrastructure category, for a combined growth over the period of 37%.
- Under current law, nearly $21 billion has been saved over the 1982-86 period.
- The savings can be attributed to substantial reductions in the locally oriented programs, accounting for nearly $20 billion, which more than offset the increases in highway programs.
- These savings have allowed for a growth rate in national priority program levels over this period that is 55% greater than was planned in the pre-1981 baseline.

Haphazard Spending Patterns Reversed

Over the 1960's and 1970's, the Federal Government gradually accumulated additional responsibilities for public infrastructure which "crowded out" the national programs. As shown in the table below, by 1981 local infrastructure programs had captured a sizeable share of Federal infrastructure resources.

Return of Public Infrastructure Budget Priorities to Mainly National Public Infrastructure Needs

(1985 constant dollars in billions)

Proposed	1962 actual	1970 actual	1976 actual	1981 actual	1984 estimated	1989 budget
Infrastructure Outlays	16.2	19.5	27.7	29.8	27.5	26.6
Distribution of funding:						
National highways/airways	73%	76%	57%	51%	59%	66%
Primarily regional/local programs	27%	24%	43%	49%	41%	34%

The Administration has sought a reversal of this pattern, narrowing the Federal role to strengthen national programs and encouraging greater local flexibility in infrastructure investment.

- Funding for largely local and regional investments will decline from 49% of Federal infrastructure funding in 1980 to 34% by 1989.
- This will free fully two-thirds of the funding for highways, airports and airways.

These same trends are evident in this year's budget proposals. The President's 1985 budget provides for gradual annual increases in the 1985-89 period in Federal expenditures for public infrastructure. As shown in the following table, expenditures for national programs will increase over current services levels, while savings will be achieved in local programs. Because these outlays will be increasingly financed by user fees, the President's plan will support the nation's necessary infrastructure—but without adding to the deficit.

Continued Strengthening of National Programs Proposed

(Outlays in billions)

Major program areas	1985–89		
	Current services	Administration budget[4]	Proposed change
National Infrastructure Programs:			
Highways[1]	71.8	70.9	−0.9
Airports/airways[2]	25.0	27.0	+2.0
Subtotal	96.8	97.9	+1.1
Local Infrastructure Programs:			
Local mass transit	22.7	20.2	−2.5
Water projects and navigation[3]	21.6	21.0	−0.6
Sewage treatment	11.9	11.3	−0.6
Subtotal	56.2	52.5	−3.7
Total, Public Infrastructure	153.0	150.5	−2.5

[1] Includes small programs such as highway safety demonstrations funded from general revenues.
[2] Includes facilities and equipment fund and research and engineering.
[3] Army Corps of Engineers, Bureau of Reclamation, USDA small watershed projects.
[4] Based on 1985 request

As further illustrated in the table below, the Administration is committed to fulfilling the Federal role in infrastructure financing. Average constant dollar funding for national programs will exceed all previous levels.

National Funding Exceeds Previous Levels

(1985 constant dollars in billions)

	Average over period		
	Highways	Airports/airways	Total
1962–1966	11.3	2.4	13.8
1967–1971	12.3	3.0	14.9
1972–1976	10.8	3.9	14.7
1977–1981	11.1	4.1	15.1
1985–1989 proposed	13.0	4.9	18.0

- Increases are requested for completing and preserving the interstate highway system and rehabilitating primary highways and bridges, continuing policies set forth in the 1982 Surface Transportation Assistance Act. Higher program levels and new initiatives are sought, as well, for highway safety.
- Real spending growth is budgeted for airports and airways, reflecting the growing importance of this segment of the Nation's transportation system. With funding at more than twice the 1960's levels in real terms, the safe and efficient movement of air traffic nationwide will be fostered by capital modernization, airport improvements, and operations and maintenance.
- At the same time, sound user fee financing was enacted in 1982 for both programs. Consequently, real funding levels will exceed that for all 5-year intervals since 1960—but without adding to the deficit.

By contrast, constant dollar funding levels for primarily local infrastructure activities have been substantially trimmed after three budget rounds. Real outlays for local programs reached a $15.9 billion peak in 1980, and the pre-1981 baseline would have continued the upward trend. By 1984, these outlays were reduced by 30%. The President's 1985 budget further reduces the 1984 level by 19% by 1989. As shown in the table below, all categories of local and regional public infrastructure investment will have been reduced substantially in the enacted 1984 budget from their historic peak levels.

Local and Regional Public Infrastructure Investments Are Reduced From Peak Funding Levels

(1985 constant dollars in billions)

	Amount	Percent change from peak
Total local programs:		
1980 peak	15.9	....
1984 estimated	11.2	−30%
1985 budget	10.3	−35%
1989 budget	9.1	−43%
Local water projects and regional navigation:		
1980 peak	5.7	....
1984 estimated	4.4	−22%
1985 budget	3.8	−32%
1989 budget	4.0	−28%
Local mass transit:		
1981 peak	4.8	....
1984 estimated	4.1	−14%
1985 budget	4.0	−17%
1989 budget	3.2	−32%
Local sewage treatment grants:		
1977 peak	6.0	....
1984 estimated	2.6	−56%
1985 budget	2.5	−58%
1989 budget	1.8	−70%

- Under the pre-1981 baseline planned outlays for local mass transit outlays would have continued to rise from their 1980 peak. By contrast, 1984 enacted mass transit funding will total $4.1 billion in real terms—a 21% reduction from the previously projected levels. Due to the phase out of transit operating subsidies, the 1985 budget would further reduce aid in real terms to 78% of the 1984 levels in 1989.
- Funding levels under the pre-1981 baseline for local sewage treatment plants would have remained above $4.6 billion per year by 1984. Due to the lower authorization levels that are part of the reforms instituted in 1981, 1984 outlays will be $2.6 billion—or 44% lower in real terms. The 1985 budget continues this effort, reducing this program's real funding to 68% of its 1984 level by 1989.
- Federal funding of water and navigation programs has been reduced in constant dollars from its 1980 peak by 22% in 1984. The decline is due to two factors—reduced construction requirements as projects are completed, and improved planning efficiencies. The pre-1981 baseline would have provided 39% more than the enacted 1984 level. The 1985 budget accelerates the decline in inefficient project investments, proposes new user fees for navigation and greater non-Federal cost sharing for new water projects.

The User Fee Principle

To make infrastructure financing more efficient and less of a burden on the deficit, the past three budget rounds have instituted an increased reliance on user fees to support Federal infrastructure programs. These fees not only charge users for government investments made in their behalf, but will serve to put a meaningful price tag on infrastructure resources. Reflecting mainly legislation enacted in 1982, the share of infrastructure program spending that is funded by user fees has increased, and it would increase further under the 1985 budget proposals.

- For national infrastructure programs, the share funded by user fees will rise from 81% in 1980 to over 90% throughout the 1985-89 period.
- In total, the share of Federal infrastructure expenditures for both national and mainly local programs financed by those who benefit from them will have increased from 42% in 1980 to 63% in 1989.

The reliance on user fees allows for savings in general revenues devoted to infrastructure. During the past three budget rounds, general revenue funding for infrastructure has declined from $14.2 billion in 1980 to $13.2 billion in 1984. The 1985 budget proposals will continue this decline to $11.7 billion in 1989. These changes create a sound fiscal basis for future infrastructure funding to meet national needs while relieving pressure on the deficit.

Highways

Highway Trust Fund

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	13,931	14,675	15,459	15,468	15,477	15,487	76,568
Outlays	11,242	13,194	13,807	14,374	14,655	14,847	70,877
Obligations	13,398	14,271	15,171	15,172	15,173	15,174	74,961
1985 Budget Level:							
Budget Authority	13,931	14,646	15,431	15,439	15,447	15,455	76,418
Outlays	11,242	13,128	13,704	14,236	14,404	14,587	70,058
Obligations	13,398	13,983	14,909	14,910	14,910	14,911	73,623
Change:							
Budget Authority	....	−29	−28	−29	−31	−32	−149
Outlays	....	−67	−103	−139	−251	−260	−819
Obligations	....	−288	−262	−262	−263	−263	−1,338

Program Description

The highway trust fund, financed by highway user fees, is the major source of Federal support for the Nation's highways and bridges. Trust fund revenues from the Federal 9 cent motor fuels tax and vehicle excise taxes provide grants under the Federal-aid highways program and other programs to States for the interstate, primary, secondary, and urban highways, and bridges.

Current Status

The Surface Transportation Assistance Act (STAA) of 1982 set the authorized funding levels for the Federal highway program for 1983 through 1986. The Act increased the motor fuels tax from 4 to 9 cents—the first increase since 1959—and restructured other road taxes to greatly expand efforts to repair and reconstruct the Nation's highway infrastructure. The tax also improved the balance between the tax assigned to different classes of highway users and the costs those users impose on the highway system.

1985 Budget Proposal

The President's budget, combined with enacted 1983 economic recovery legislation for highway construction, follows the obligation levels established in the STAA. The 1985 budget adheres to the Act by proposing obligations, financed from the highway trust fund, of $14.0 billion for highways and bridges, an increase of $0.6 billion over 1984 and $5.5 billion over 1982, the year prior to the Act. The increased spending would allow:

- completion of all segments of the interstate highway system by the early 1990's;
- an obligation level increase for interstate rehabilitation of 263% over 1982 levels; and
- primary highway and bridge rehabilitation obligation level increases of 28% and 79%, respectively, over 1982.

Rationale

The Administration strongly supported passage of the STAA in 1982. The substantial increases stipulated in the Act are funding badly needed repair and reconstruction of our highways and bridges.

The President's 1985 budget is based on the Federal-aid highways obligation limitation in the STAA, reduced by $275 million to partially offset highway construction appropriations advanced subsequent to the STAA in 1983 economic recovery (Jobs Bill) legislation. The President's 1985 budget offsets the Jobs Bill advances over three years, 1985-87, to keep total highway obligations in line with revenues. The Administration is greatly concerned that additional highway spending would deplete the balance of the highway trust fund more precipitously than is already occurring, thus endangering the highway program in future years. Recent testimony by the Congressional Budget Office warns of an impending revenue shortfall even at the STAA obligation levels.

Highway Safety Grants and Demonstrations

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	171	172	123	129	134	140	698
Outlays	156	156	160	168	163	157	803
1985 Budget Level:							
Budget Authority	171	168	119	120	120	121	648
Outlays	156	164	170	146	133	128	742
Change:							
Budget Authority	....	−4	−4	−9	−14	−19	−49
Outlays	....	+9	+10	−21	−29	−29	−61

Program Description

The National Highway Traffic Safety Administration (NHTSA) provides grants to States under programs that provide matching highway safety funds and alcohol safety incentive grants. The Federal Highway Administration (FHWA) also provides funds to States for safety reconstruction of unsafe highway segments.

Current Status

In 1984, the NHTSA grant programs were fully funded at the levels authorized by Congress. The full funding is consistent with this Administration's strong commitment to highway safety. 1984 FHWA appropriations also reflect this greater emphasis on safety.

1985 Budget Proposal

The 1985 budget continues NHTSA safety formula grants at their authorized levels.

$44 million is proposed to be obligated for alcohol safety incentive grants as a "best estimate" of State response to the program. This money will be obligated from an available pool of $125 million, of which $50 million is added in 1985. In accordance with the authorizations for this one-time program, no additional money is added to the available pool in the out-years. However, the budget does plan for obligations to continue through 1988, when the entire $125 million would then be spent.

Small decreases in various FHWA programs account for most of the decline in budget authority from 1984. This is due, primarily, to the elimination of the separate, categorical rail-highway grade crossing program.

Rationale

The budget continues successful safety programs while eliminating a duplicative program. Since 1981, these successful programs have contributed to an 11% decrease in highway fatalities.

The grants are used as an efficient vehicle to leverage Federal funds to promote State highway safety activities.

The 1985 budget for Federal alcohol safety incentive grants is based on the estimate that 32 States will qualify for the grants through 1984. This represents a $6 million increase in funding in 1985 and will allow the Federal Government to support directly State efforts to combat drunk driving.

The FHWA rail-highway crossing program is being dropped because it duplicates activities that are eligible for funding in the expanded Federal-aid highways program.

Airports/Airways

Airport Improvement Program

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	994	987	1,017	1,017	1,062	1,104	5,188
Outlays	800	782	823	877	908	945	4,334
Obligation Limitation	800	843	885	927	968	1,006	4,629
1985 Budget Level:							
Budget Authority	994	987	1,017	1,017	1,017	1,017	5,056
Outlays	800	810	906	982	997	1,006	4,701
Obligation Limitation	800	987	1,017	1,017	1,017	1,017	5,056
Change:							
Budget Authority	....	....	....	....	−45	−87	−132
Outlays	....	+28	+83	+106	+89	+62	+367
Obligation Limitation	....	+144	+132	+90	+49	+11	+427

Program Description

The airport improvement program (AIP) provides grants for airport planning and development, including noise compatibility planning and programs. Formulation of master plans for future airport development, construction and reconstruction of runways, land acquisition to provide noise buffers around airports, and purchase of safety-related equipment such as firefighting apparatus are all examples of AIP-eligible projects.

Current Status

The Airport and Airway Improvement Act of 1982 authorized the AIP through 1987.

Obligation limitations enacted through the appropriations process control how much of the annual authorization is actually available for obligation. In 1984, the obligation limitation is $800 million, roughly equal to the amount available for obligation in 1983, but $193.5 million less than the amount newly authorized for 1984.

1985 Budget Proposal

The 1985 budget request would allow obligations totaling $987 million, the amount newly authorized for that year in the Airport and Airway Improvement Act of 1982. The proposal, therefore, would provide a 23% funding increase over 1984 and a 17% increase over what would be available if obligations were held to a current services level.

Rationale

Current services funding would meet critical safety, rehabilitation and expansion needs.

The 1985 budget increase ($144 million over current services) would make available more funding to relieve airport congestion. Funds would be largely targeted to increase the airport capacity available in metropolitan areas where many factors, including airline deregulation, have increased congestion in recent years. Capacity projects both at major commercial airports and reliever airports would be given priority.

The 1985 budget proposal closely mirrors the amount of grant requests that FAA typically receives over the course of a year.

The AIP is funded entirely through aviation user fees, principally the ticket tax on commercial flights and fuel taxes on general aviation. Fully funding the amount newly authorized for the AIP in 1985 maximizes the user fee financing available for FAA operations. The Administration remains committed to recouping the fully allocated costs of the aviation system, including operations and maintenance, from the system users.

Federal Aviation Administration Operations

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,599	2,812	2,954	3,107	3,261	3,418	15,552
Outlays	2,609	2,918	2,961	3,101	3,253	3,410	15,643
Trust Fund Share [1] (percent)	....	....	1	20	23	25	14
1985 Budget Level:							
Budget Authority	2,599	2,745	2,939	3,041	3,141	3,246	15,112
Outlays	2,609	2,688	3,073	3,063	3,136	3,242	15,202
Trust Fund Share [1] (percent)	....	64	53	64	48	42	54
Change:							
Budget Authority	....	−67	−15	−66	−120	−172	−440
Outlays	....	−230	+112	−37	−117	−168	−441

[1] Measured in terms of budget authority.

Program Description

The Federal Aviation Administration (FAA) operations appropriation finances all the expenses, including overhead, associated with FAA's operation and maintenance of the national airspace system and regulation of the safety of the aircraft, air carriers and airmen using the system.

Current Status

The appropriations process annually provides funds for FAA to carry out its operating responsibilities. During 1982-84, emphasis has been placed on rebuilding the air traffic controller workforce in the wake of the August 1981 strike.

The Airport and Airway Improvement Act of 1982 authorized the use of aviation user fees to finance a portion of FAA operations. The amount available is tied to the portion of the airport improvement program (AIP) and facilities and equipment (F&E) authorizations made available through the appropriations process. For instance, due to one statutory penalty provision, each one dollar reduction in F&E results in a two dollar reduction in the amount of FAA operations that can be financed from user fees.

In 1984, none of FAA operations is financed by user fees because of AIP and F&E funding reductions in the 1984 Transportation Appropriations Act and the resulting application of penalty provisions.

1985 Budget Proposal

The 1985 budget proposes total operations funding of $2.7 billion, the amount necessary for the first full "normal" year since the air traffic controllers strike.

Additionally, it proposes that $1.8 billion of operations funding be financed by user fees. The $1.8 billion includes $500 million of user fee financing foregone in 1984 due to reductions in the F&E program.

Rationale

The 1985 budget closely approximates the 1985 current services level, minus savings associated with such management reforms as increased use of contracting out for services previously performed by Federal employees.

Reductions from current services levels are possible in the out-years because, as the system is modernized, efficiencies are realized and staffing increases are mitigated. The savings are most sizable in the later years (1988-89).

Regarding the level of user financing for FAA operations, the 1985 budget proposes that the newly authorized amounts for both the AIP and F&E be made available. Thus, no statutory penalty provisions would apply and $1.3 billion of user fees would be authorized to finance FAA operations expenses.

The remaining $500 million of proposed operations user fee financing is tied to the 1985 budget request for F&E, which proposes that $250 million of unappropriated 1984 F&E authorizations be made available in 1985. The additional $500 million of user fee financing of operations is the amount foregone in 1984 when the $250 million F&E reduction was taken. Many members of the aviation community have concurred that this $500 million recoupment is appropriate.

Federal Aviation Administration Capital Modernization Program

[In millions of dollars] **Agency: Department of Transportation**

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,013	1,057	1,042	1,058	1,104	1,147	5,408
Outlays	601	758	897	985	1,022	1,070	4,732
1985 Budget Level:							
Budget Authority	1,013	1,927	1,730	1,653	1,505	1,410	8,225
Outlays	601	907	1,240	1,489	1,575	1,566	6,778
Change:							
Budget Authority	....	+870	+689	+595	+401	+263	+2,817
Outlays	....	+150	+343	+504	+553	+496	+2,045

Program Description

The FAA capital modernization program is a multi-year development and acquisition program to upgrade the air traffic control, air navigation and various support systems that comprise the national airspace system. The program was first presented in January 1982 when the FAA published the National Airspace System (NAS) Plan.

Current Status

The Airport and Airway Improvement Act of 1982 provided the research, engineering and development (R,E&D) and facilities and equipment (F&E) authorizations necessary to fund the programs in the NAS Plan through 1987.

Through 1984, the R,E&D appropriations have closely tracked the annual authorization levels. Funding for R,E&D has been critical since it finances the development work that must be completed before new systems can be acquired with F&E funds.

On the other hand, the F&E appropriations have been significantly below the authorized levels, largely reflecting more current schedules for award of major contracts. To date, actual implementation of the NAS Plan has been minimally affected by the reduced appropriations.

1985 Budget Proposal

The 1985 budget requests the full authorization for R,E&D. For F&E, the budget proposal not only would fund the newly authorized 1985 level, but also $250 million of unappropriated 1984 authorizations.

In total, the 1985 budget request reflects a 90% increase over the 1984 enacted levels and an 82% increase over the current services level. Over the 1985-89 period, the budget proposes funding that is 52% higher than the current services level.

Rationale

Full funding for the FAA capital modernization program is among the highest transportation priorities. The program not only would vastly increase the capacity and cost-effectiveness of the national airspace system, but would improve the system's safety as well.

1985 is a key year for the capital modernization program. The large funding increase is critical to ensure that the second and third year commitments for on-going, multi-year contracts are met and that additional major system acquisitions are awarded on schedule.

Included in 1985 is funding to procure new computers and develop new software to replace the 1960's technology currently used at FAA's enroute air traffic control centers. Additional funding increments are requested for new airport landing systems, terminal radars, discrete address beacons, and a systems engineering and integration contractor responsible for keeping the modernization program on track.

The capital modernization program is entirely financed by aviation user fees. Full funding at authorized levels also maximizes the amount of user fee financing available for FAA operations. The Administration remains committed to recouping the fully allocated costs of the aviation system, including operations and maintenance, from the system users.

Mass Transit

Public Transit

[In millions of dollars]

Agency: DOT/WMATA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	4,320	4,327	4,491	4,638	4,547	4,490	22,494
Outlays	3,936	4,196	4,597	4,732	4,559	4,610	22,693
1985 Budget Level:							
Budget Authority	4,320	4,112	4,119	3,990	3,790	3,622	19,633
Outlays	3,936	3,990	4,263	4,240	3,913	3,807	20,212
Change:							
Budget Authority	....	−215	−373	−648	−757	−868	−2,861
Outlays	....	−206	−334	−492	−646	−804	−2,481

Program Description

Public transit operations receive Federal assistance to repair, replace or build transit facilities and equipment, and to pay some of the costs of transit operations. Federal grants are distributed by formula for both capital and operating expenses. Discretionary grants are also available for specific major capital projects.

Current Status

1984 is the first year of a new capital and operating expenses formula grant program authorized by the Surface Transportation Assistance Act of 1982 (STAA). 1984 also initiates discretionary capital grant funding from the revenues derived from 1 cent per gallon of the motor fuels tax.

Operating expenses funded by the formula grant program are limited by law to a fixed percentage of the 1982 levels. The amounts that can be so used vary by city size, with the largest areas being able to use 80% of the 1982 levels and the smallest areas 95%. This limitation was designed to reflect the relative reliance on Federal operating subsidies by cities of differing size, and the relative difficulty of adjusting to the elimination of Federal support.

1985 Budget Proposals

The budget proposes to hold the line on total Federal support for transit while focusing a greater proportion of the available funding on bus and rail capital needs.

- *Operating Subsidies.*—The budget proposes to continue the phasedown in Federal operating subsidies initiated in the STAA, leading to eventual elimination by 1989. Building on the logic incorporated in the STAA, the phasedown would focus the initial additional reductions on the largest cities while giving the smallest cities added time to adjust their transit financing and operations. Specifically, in 1985, areas above 1 million population would be allowed to spend 50% of the operating subsidy levels provided in current law. Areas between 200,000 and 1 million population would be allowed 75%, and those below 200,000 population would be allowed 100%. The reduced operating subsidies associated with these changes would continue to be available to the individual localities for capital expenses.
- *Capital Grant.*—The formula capital program will increase by 23% between 1984 and 1985, offsetting the reduction in operating subsidies. These additional funds would be used to repair or replace bus and rail transit facilities and equipment in large- and medium-size cities. These cities generally have the largest and oldest transit systems. Discretionary capital grants will be at the level authorized in the Surface Transportation Assistance Act of 1982. These grants will

be used, together with formula capital grants, to maintain priority for funding bus and rail modernization, while providing sufficient funds for new systems. Grants for the Washington Metro subway system are maintained at the 1984 level while interstate transfer grants for transit projects provide for final completion of the interstate transfer program by the time construction of the interstate highway system is completed (about 1990).

Rationale

Rehabilitation of existing public transit systems should be the highest Federal transit program priority. Reflective of this, the budget focuses Federal assistance on capital grants for existing bus and rail systems.

Recognizing, however, that some localities require new or major extensions of their transit systems, the budget proposes to maintain the 1984 level for new bus and rail projects that are cost effective.

Transit operations should be the responsibility of State and local governments rather than the Federal Government. The primary factors affecting operating costs (i.e., routes, labor contracts, maintenance and repair, etc.) and the level of cost recovery from transit fares, are set by State or local governments and not the Federal Government. In addition, two recent studies have highlighted the fact that less than 30% of Federal operating subsidies go to benefit existing transit users, while the remainder is eaten up by increased costs and expanded service. For these reasons, the budget proposes continued phasedown of Federal operating subsidies. The policy has been structured to mitigate hardship that might be encountered by local governments as they adjust to the Federal phasedown. The phasedown of subsidies will be gradual and less demanding for those smaller and medium size cities which may be more dependent on Federal assistance.

Water Projects and Navigation

Soil Conservation Service Water Projects

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	200	221	233	245	257	269	1,226
Outlays	293	317	266	242	254	266	1,345
1985 Budget Level:							
Budget Authority	200	109	115	121	142	147	634
Outlays	293	277	144	121	135	144	821
Change:							
Budget Authority	....	−112	−118	−124	−115	−122	−592
Outlays	....	−40	−123	−121	−119	−122	−524

Program Description

This program category provides two types of Federal assistance:

- It finances a portion of the cost of surveys and investigations of river basins for the purpose of developing comprehensive plans for water resource development in these river basins. It also finances surveys and plans for small watershed projects in cooperation with local sponsors.
- It finances a major share of the cost of construction of dams and other structural measures in small watershed projects sponsored by local organizations.

Current Status

Over the 1981-84 period new funding averaged $25 million to $26 million annually for planning, and about $192 million annually for construction (exclusive of the $100 million addition provided by the 1983 Jobs Bill for accelerated construction of small watershed and flood prevention projects). During this period new starts for planning have averaged 35 annually; new starts for construction have averaged 18.

1985 Budget Proposal

The budget proposal would provide new appropriations of $22 million for planning and $86 million for construction. It would reduce the number of new river basin surveys, and would preclude any new planning or construction starts of small watershed and flood prevention projects.

Rationale

The proposed budget continues to fund ongoing construction in recognition that many local sponsors have made resource commitments based on expected performance by the Federal Government. About 490 flood prevention and small watershed projects continue under construction during 1985. Almost 1,650 staff years of Soil Conservation Service technical assistance will be provided on these projects as well as on some projects in the pre-construction stage.

The budget does not fund any new construction starts. Watershed construction was accelerated substantially by the $100 million increase over the normal funding level provided recently by the Jobs Bill, Congress has directed 25 new construction starts in each of the last two years. Thus, the backlog of projects waiting to be built has been virtually eliminated. Priority should now be given to financing those projects already begun.

Though the appropriation request is sharply reduced below 1984, total outlays, representing work completed during the year, would decline only $16 million. This is because the sharp increase in appropriations in 1983, followed by additional funding for 1984, resulted in the carryover of large unexpended obligations. These obligations will be expended in 1985.

Corps of Engineers, Civil

[In millions of dollars] Agency: Department of Defense—Civil

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services—Net:							
Budget Authority	2,632	2,820	2,857	2,990	3,188	3,341	15,196
Outlays	3,033	2,885	2,855	2,988	3,186	3,339	15,252
1985 Budget Level:							
Budget Authority	2,632	2,708	2,894	3,117	3,369	3,545	15,633
Outlays	3,033	2,837	2,891	3,115	3,367	3,542	15,752
Proposed Receipts:							
Budget Authority	....	−200	−200	−201	−201	−201	−1,003
Outlays	....	−200	−200	−201	−201	−201	−1,003
Change:							
Budget Authority	....	−312	−163	−73	−20	+2	−566
Outlays	....	−248	−163	−73	−20	+2	−503

Program Description

The Corps of Engineers plans, constructs, operates and maintains water resource projects. These projects provide inland and coastal navigation channels, flood control, hydropower, water supply and other services.

Current Status

The Corps construction program has been decreasing over the last several years. This is because the annual cost of new starts has been less than the prior-year cost of completing more expensive projects started in the past. The Corps operation and maintenance (O&M) program has basically stayed at the current service level for existing projects, increasing only to maintain new projects becoming operational.

1985 Budget Proposal

The budget proposal would provide $1.1 billion for navigation O&M and construction, of which $200 million would be recovered through new user fees on channels and waterways.

The budget for 1985 and beyond would keep all construction projects on schedule, and includes a modest allowance for new construction starts. Two new projects already authorized are proposed to start in 1985. Despite this, total construction funding would decrease from the 1984 level.

O&M would be at the current services level, adjusted for new projects.

A $20 million or 15% reduction in project planning would restrict funding to studies that are likely to result in actual construction.

Rationale

The Administration continues to believe that shipping companies and their customers who capture the benefits of Federal navigation projects should pay their fair share of construction and O&M costs. In 1984 it will cost the general taxpayer about $650 million to maintain shipping channels and inland waterways while $39 million will be recovered through a user tax on barge lines. This is in sharp contrast to Federal contributions to airways and highways that are recovered to a much greater degree through user fees and taxes.

The reduction in the estimate for proposed navigation receipts compared to previous budget requests signals the Administration's continued interest in a final resolution of this issue, yet recognizes that none of the bills active in Congress would recover 100% of the Federal costs through user fees.

Both of the new projects proposed in this budget are economically and environmentally justified and have a substantial portion of their total costs borne by non-Federal sponsors.

The overall reduction in the construction program is not the result of an Administration initiative. It comes about because the Corps is completing much of its ongoing work, without replacement by new starts of equivalent annual cost.

The O&M request would ensure that the taxpayers' previous investments in new and existing projects are protected.

The planning reduction follows from the principle that a Federal investment of time and money should only be made in those cases where there is a reasonable likelihood of success.

Bureau of Reclamation

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	891	943	952	990	1,043	1,110	5,038
Outlays	879	940	952	990	1,042	1,109	5,032
1985 Budget Level:							
Budget Authority	891	1,004	1,165	1,194	1,295	1,290	5,948
Outlays	879	932	1,004	1,094	1,179	1,289	5,498
Change:							
Budget Authority	....	+62	+212	+204	+252	+180	+910
Outlays	....	−7	+52	+104	+137	+180	+466

Program Description

The Bureau of Reclamation develops and manages water resources in the 17 contiguous western States, primarily for hydropower, municipal water supply, and irrigation. In 1985, 80 projects will be under construction, including two new starts, and 32 projects will be operated and maintained.

Estimates shown are net of project-generated receipts except those hydropower receipts in excess of operation and maintenance costs, which offset power marketing agencies' budgets and are shown in Chapter 1.

Current Status

Gross funding for this program has increased annually. These increases have been necessary to continue significant progress on key water projects already under construction.

1985 Budget Proposal

The 1985 budget for the Bureau of Reclamation would keep construction of existing projects on schedule, start two high-priority hydropower projects, and ensure adequate maintenance of existing projects. The new construction starts will upgrade the hydropower capability of Hoover Dam on the Nevada/Arizona border, and the Palisades Project in Idaho. Both of these projects represent the new partnership in enhanced financing arrangements with local sponsors that is one of the key features of the Administration's water policy.

Rationale

The new projects underwent a rigorous review process guaranteeing that national benefits exceed costs and that Federal and non-Federal contributions to the projects are balanced and fair. To ensure that the benefits available from completed water resource projects are realized as quickly as is prudent and at the same time achieve efficiency during construction, we propose funding at a level which would result in no construction delays. Adequate maintenance is necessary to protect the taxpayers' past investment.

Sewage Treatment

Sewage Treatment Construction Grants

Agency: Environmental Protection Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,430	2,560	2,690	2,810	2,930	3,050	14,040
Outlays	2,500	2,510	2,380	2,320	2,330	2,350	11,890
1985 Budget Level:							
Budget Authority	2,430	2,400	2,400	2,400	2,400	2,400	12,000
Outlays	2,500	2,500	2,340	2,210	2,140	2,100	11,290
Change:							
Budget Authority	....	−160	−290	−410	−530	−650	−2,040
Outlays	....	−10	−40	−110	−190	−250	−600

Program Description

This program provides financial assistance to State and local governments for the construction of publicly owned sewage treatment systems. Since 1973, over $40 billion in grant funds have been provided and over 11,000 projects have been completed.

Current Status

Significant long term savings proposals were adopted in 1981 with the enactment of reform legislation that limits the types of eligible projects and targets funds to projects with the greatest water quality benefits. The law authorized funding not to exceed $2.4 billion per year, and this maximum authorized level has been requested annually since 1981. A separate funding mechanism, not to exceed $200 million per year, can also be used to control the effects of heavy rain storms on certain sewer systems. Appropriations for these projects, commonly referred to as combined sewer overflow (CSO) correction projects, were $30 million for 1983 and 1984. The Administration requested no funding.

1985 Budget Proposal

Though it is somewhat below the conventional calculation of current services, the full level of $2.4 billion authorized by law is again requested. This level will fund 650 new projects and allow for the completion of 1,060 existing projects.

Rationale

The proposal continues the Administration commitment to request an annual appropriation of $2.4 billion, based on the reform legislation. The reforms limit funding to projects that serve existing populations and which directly improve water quality. Project elements which serve estimated future growth in population or which do not improve the quality of rivers and streams may be financed by State and local governments without Federal contribution.

The proposed budget continues to provide the funding stability sought by States and municipalities.

Funding is not requested for CSO projects for several reasons. These projects are extremely expensive, have limited and temporary effect on water quality and provide primarily highly localized, recreation benefits.

CHAPTER 7

Veterans Programs

Veterans Programs Overview

The President's 1985 budget for veterans programs, ranging from disability compensation and pensions to the health care system, housing guarantee program, life insurance plans, and GI education benefits, is largely a current services budget. This reflects the Administration's continuing commitment to fulfill the obligations and promises made to America's veterans over many decades. This chapter contains 7 factsheets which describe these programs and the President's budget requirements.[1]

Modest increases to the current services level are proposed in two programs. A 15% increase is proposed in education readjustment benefit levels because no increase has been granted since 1980, despite a 20% increase in the cost-of-living, and even greater rises in tuition costs at most qualifying institutions. This program provides a monthly subsistence allowance to eligible veterans and certain survivors while attending college or receiving vocational or on-the-job training. The other increase is for hospital construction which reflects the out-year construction costs of 4 major design projects proposed for 1985—the largest number of new starts in recent times—and numerous nursing home, clinical and ambulatory care additions and renovations. Despite the scarcity of budget resources in the current fiscal environment, the growing number of veterans eligible for health care services and the serious obsolescence and disrepair of many facilities makes these planned increases unavoidable, given existing policy commitments to the veterans population.

In 1985, veterans programs will cost $26 billion and will account for nearly 18% of domestic current services outlays outside of low-income benefits and social insurance. The proposed current services funding level for 1985-89, as noted above, limits the potential for overall budget savings from veterans programs. Nevertheless, it has been possible to achieve some savings since 1981. As the following chart shows, current services for 1982-1986 are about $5 billion or 4% below the pre-1981 baseline.

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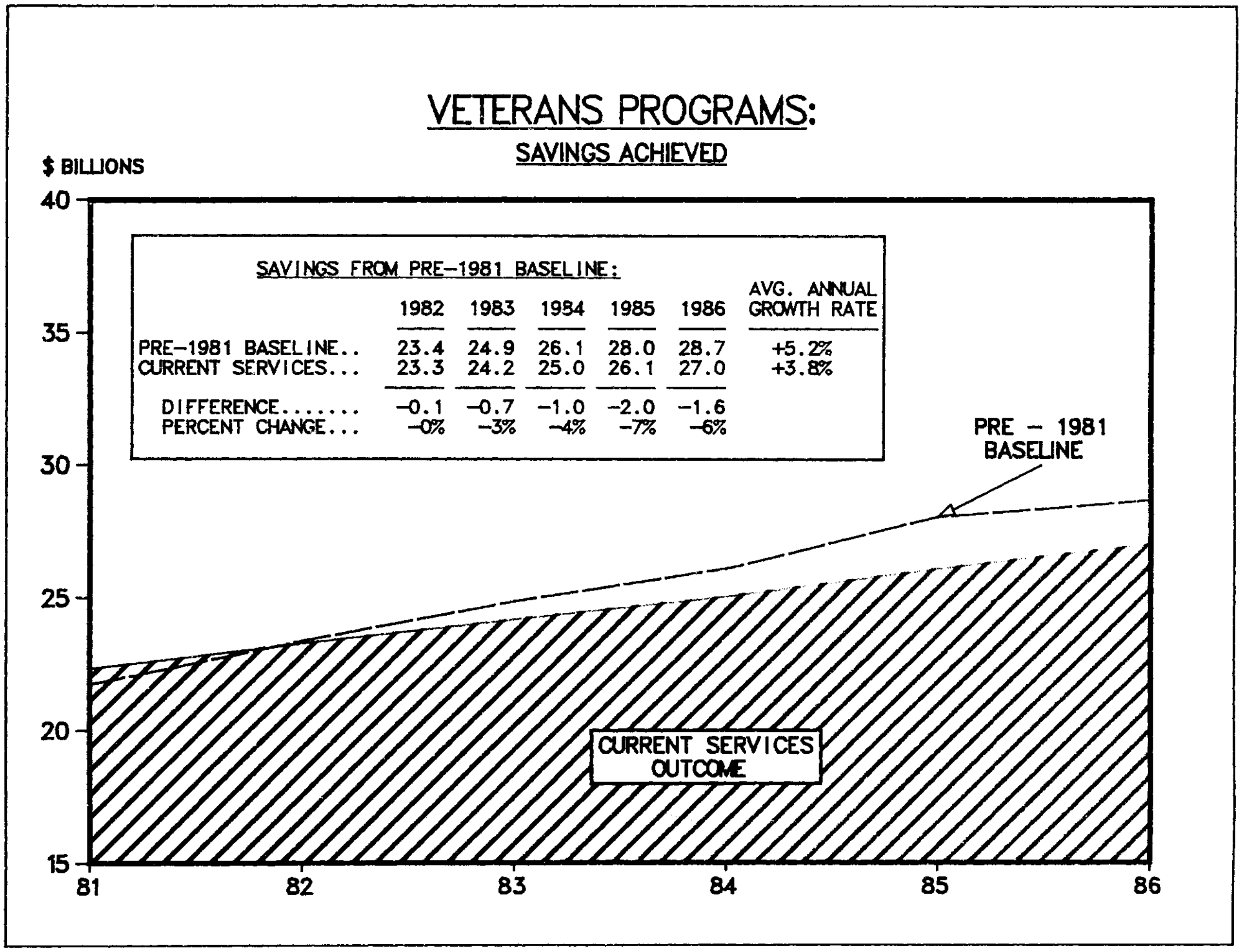
[1] A separate factsheet has not been written for miscellaneous veterans programs which include the general operating expense account. These programs are included in Chapter 8 under Departmental Administration and Other Overhead.



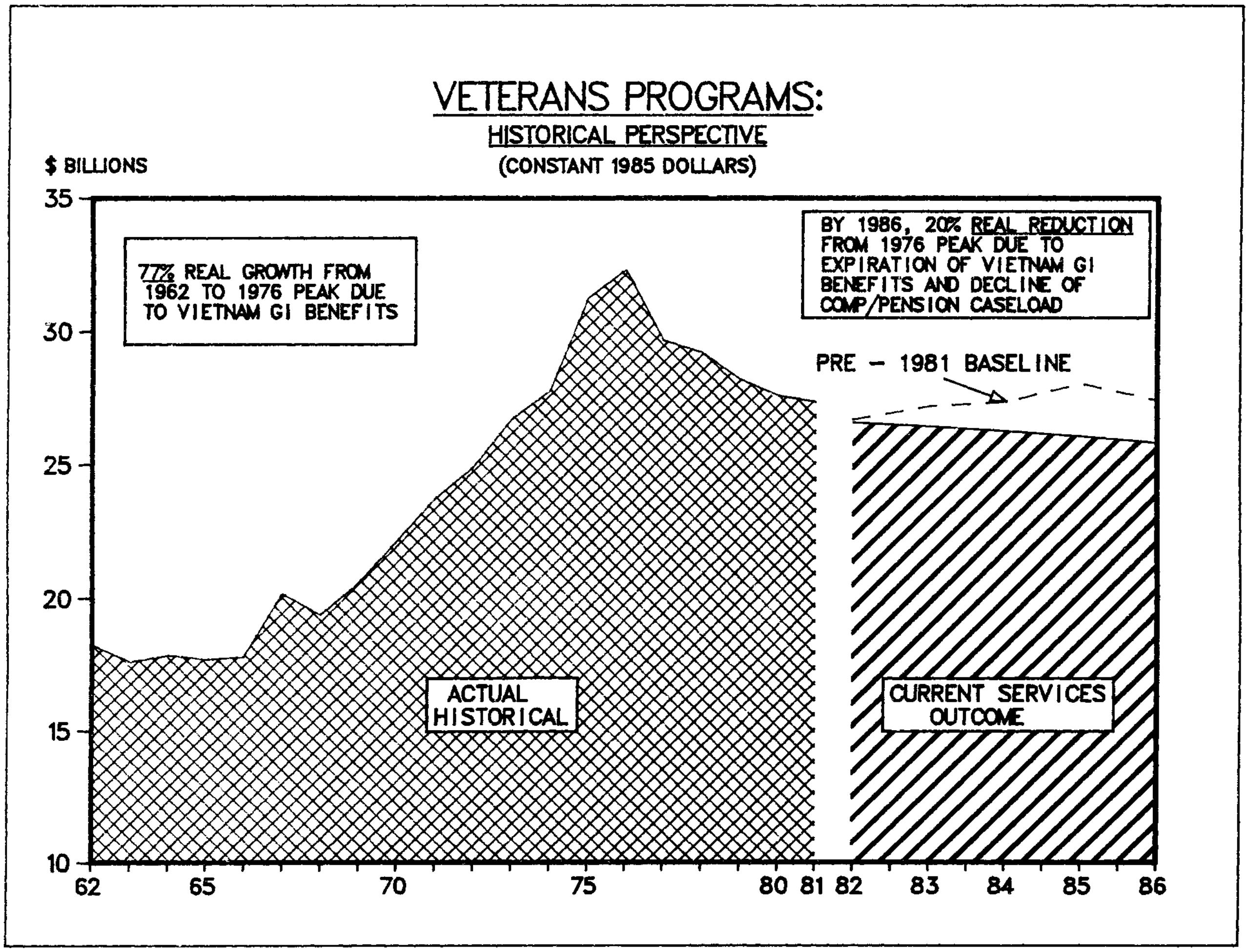
	1982	1983	1984	1985	1986	AVG. ANNUAL GROWTH RATE
PRE-1981 BASELINE..	23.4	24.9	26.1	28.0	28.7	+5.2%
CURRENT SERVICES...	23.3	24.2	25.0	26.1	27.0	+3.8%
DIFFERENCE.......	-0.1	-0.7	-1.0	-2.0	-1.6	
PERCENT CHANGE...	-0%	-3%	-4%	-7%	-6%	

Despite these relatively modest savings, it is also important to note that the real cost of meeting the nation's veterans commitments has declined significantly since the mid-1970's, and will continue to remain stable in constant dollar terms through the 1980's—even with the small increases in GI education benefits and the hospital construction rise proposed in the 1985 budget.

The reason for this declining real cost trend is that the major veterans benefit programs—primarily education readjustment benefits, pensions, and disability compensation—reached a peak constant 1985 dollar cost of $25.1 billion in 1976 and have subsequently declined to $16.8 billion in the enacted 1984 budget. This drop is mainly accounted for by the steady decline in the number of Vietnam-era veterans eligible for education benefits. From a peak constant dollar cost of $10 billion in 1976 for 2,951,000 trainees, education costs for veterans have declined to $1.7 billion in 1984 for an estimated 724,000 trainees. Smaller declines are attributable to pension program reforms and declining caseloads since the 1970's. Disability compensation costs reached a constant dollar cost of $10 billion per year in 1981, and are projected to remain stable at this level through the remainder of the decade.

By contrast, the constant dollar cost of health care operations and hospital construction has increased from $7.0 billion in 1976 to $9.1 billion in 1984—an increase of nearly 30%. Under the Administration's 1985 budget, constant dollar costs for these activities will rise 22% further to a level of $11.1 billion by 1989.

Nevertheless, the actual and projected decline in veterans entitlement costs is more than sufficient to offset the rising cost of the medical care system. As a consequence, 1986 total veterans program costs will be down 20% in real terms from the 1976 peak, and will remain essentially frozen at that level through 1989. The following chart depicts the historical funding pattern of veterans programs in constant dollars.



It is clear that, if overall veterans budget costs are to be reduced in future years, a thorough reappraisal of veterans health care system policy, hospital capacity, and operational methods will be necessary. These issues will be subject to intensive scrutiny by the Administration in preparation for the 1986 budget.

Veterans Income and Adjustment Programs

Veterans Compensation, Pensions, Burial and Other Benefits

[In millions of dollars]   Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	14,146	14,521	15,025	15,592	16,171	16,688	77,997
Outlays	14,131	14,490	14,981	15,545	16,122	16,643	77,781
1985 Budget Level:							
Budget Authority	14,146	14,521	15,025	15,592	16,171	16,688	77,997
Outlays	14,131	14,490	14,981	15,545	16,122	16,643	77,781
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

Compensation benefits are paid to veterans and their survivors as indemnification for loss of income due to service-connected disability or death, with the rate based on severity of disability. Pension benefits provide income to needy wartime service veterans who have become disabled subsequent to their military service or have reached age 65. Financially needy survivors may also qualify for benefits. Certain veterans and survivors may also receive benefits to defray the cost of burial and funeral expenses.

Current Status

Generally, real growth in these large entitlement programs has slowed in recent years and is expected to slightly decline in the 1980's since there are more veterans leaving the rolls (due to mortality and ineligibility) than there are veterans from more recent war periods gaining access to the programs. The decline is mainly taking place in the pension program, where cost in constant 1985 dollars peaked at $6 billion in 1972 and has been declining to the 1984 enacted level of $4.1 billion. Most of this cost reduction is the result of a pension reform law which made the program more purely means-tested by limiting new benefit awards to qualified veterans and survivors below the poverty level. This caseload decline more than offsets the expected doubling of the over-65 veterans population during the 1980's.

The compensation program grew significantly in real costs during the 1970's, a decade of legislative liberalization which increased benefit levels and broadened eligibility, reaching $10 billion in 1981. The 1980's are expected to be marked by declining caseloads and relatively stable benefit levels. Considerable savings have also been achieved by enactment of proposals in the President's 1984 budget to delay cost-of-living adjustments (COLAs) for each of these programs six months, consistent with Administration and congressional COLA policy for other non-low-income entitlement programs.

1985 Budget Proposals

An estimated 2.6 million veterans and survivors are expected to receive compensation benefits in each of the years 1984 through 1989. The number of pension recipients is expected to decline from 1.6 million in 1984 to 1.5 million in 1985, decreasing further approximately 5% each year through the 1980's.

The 1985 budget would maintain these benefit programs at current services levels, proposing a 4.3% COLA increase for the compensation program, effective in April, 1985 and assumes a 4.3% COLA for the pension program (which is indexed to the Social Security COLA) effective in January, 1985. The increased cost for these programs is nominal since the COLA increase is partially offset by declining caseloads.

Rationale

The 1985 budget assumes that cost-of-living increases for compensation and pension will be provided each year through 1989. This will allow benefit level increases for disabled or needy veterans and survivors of deceased veterans to offset the increase in the Consumer Price Index each year.

Veterans Life Insurance

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority	824	865	891	909	917	922	4,504
Outlays	480	566	644	643	684	707	3,244
1985 Budget Level:							
Budget Authority	824	865	891	909	917	922	4,504
Outlays	480	566	644	643	684	707	3,244
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

Life insurance protection for the Nation's veterans is provided under six separate programs administered by the Veterans Administration (VA). By far the largest VA insurance program is the National Service Life Insurance (NSLI) fund, which provides coverage for World War II veterans. Only one program, Service-Disabled Veterans Insurance (SDVI), is issuing new policies. This program provides insurance coverage for service-disabled veterans at standard rates. Three additional programs are supervised by VA through contractual relationships with private companies and do not require Federal appropriations.

Current Status

The VA life insurance programs will provide an estimated $28.4 billion of coverage on nearly 4 million policies in 1985. The programs are financed primarily by premiums collected from policyholders and interest earnings on investments in U.S. Treasury securities. Several programs pay dividends to policyholders. Three VA-administered insurance programs, including NSLI and SDVI, are assisted financially by payments from the Veterans Insurance and Indemnities appropriation account.

Veterans are permitted to borrow against the cash value of their policies at favorable interest rates. Over $130 million in insurance policy loans were made by the VA in 1984.

Receipts and outlays for these programs are driven primarily by the level of interest rates and mortality experience of policyholders. Constant dollar outlays for VA life insurance are expected to increase slightly from $566 million in 1985 to $601 million by 1989.

1985 Budget Proposal

No changes are proposed in 1985 for VA life insurance programs.

Readjustment Benefits

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,573	1,283	996	860	740	621	4,499
Outlays	1,410	1,335	955	813	697	578	4,379
1985 Budget Level:							
Budget Authority	1,573	1,270	1,163	1,000	856	717	5,006
Outlays	1,410	1,325	1,120	953	813	675	4,885
Change:							
Budget Authority	....	−12	+167	+140	+116	+97	+507
Outlays	....	−10	+164	+140	+116	+97	+507

Program Description

The "GI Bill" provides education and training benefits to post-Korean conflict and Vietnam era veterans and servicepersons (and to their dependents and widows). The Vocational Rehabilitation Program subsidizes the full cost of education and training in addition to a statutory subsistence allowance for up to 48 months. Service-disabled veterans who are in need of assistance to overcome a vocational handicap resulting from a service-connected disability are eligible for assistance. The Post-Vietnam Era Veterans Education program provides educational assistance payments to veterans who entered the service after December 31, 1976; voluntary contributions by servicepersons are matched by funds provided by the Department of Defense and paid to participants pursuing training. In 1984, $130 million was appropriated for an emergency program of job training for unemployed veterans of the Vietnam or Korean eras.

Current Status

Eligibility for the GI Bill was terminated in 1976, the peak year for government spending (Veterans will be able to use the benefit until 1989). With fewer veterans eligible each year as the program nears its termination, the caseload and program costs continue to dwindle. Changes in the education benefits in recent years have focused on special bonus programs in the contributory program for post-Vietnam enlistees.

1985 Budget Proposal

The 1985 budget proposes a 15% rise in education and vocational rehabilitation rates effective in January, 1985 and no additional funds for emergency job training.

Rationale

The requested 15% GI Bill rate increase is appropriate since no increase has been granted since 1980—despite a 20% increase in the cost-of-living and even greater rises in tuition costs.

Even with the rate increase, the real cost of providing the education benefits will—through this decade—continue the significant decline begun in the mid-1970's.

In 1985, nearly 544,000 GI Bill trainees are expected to participate in the program, compared to 642,000 in 1984. This total includes 8,400 new veterans expected to take advantage of the benefit because of the rate increase.

While the Emergency Veterans' Job Training Act of 1983 was authorized as a 2-year program, funding will not be needed in 1985 since the economic conditions the Act proposed to relieve will have been alleviated. The unemployment rate is expected to decline about 2% between 1983 and 1985, and has, in fact, been declining steadily since the last quarter of 1982. The most recent Department of Labor unemployment data (i.e., January, 1984) shows that the unemployment rate for Vietnam era veterans is *not* higher than the unemployment rate for non-veterans.

Veterans Medical Services and Housing

Medical Care and Hospital Service Operations

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	8,189	8,939	9,572	10,249	11,020	11,692	51,472
Outlays	8,127	8,806	9,437	10,113	10,885	11,556	50,797
1985 Budget Level:							
Budget Authority	8,204	8,828	9,585	10,264	11,037	11,723	51,436
Outlays	8,142	8,698	9,447	10,129	10,902	11,587	50,761
Change:							
Budget Authority [1]	+15	−111	+13	+15	+17	+31	−36
Outlays [1]	+15	−108	+9	+15	+17	+31	−36

[1] Reduction in 1985 is primarily the result of the Administration's government-wide policy regarding future pay comparability adjustments which would provide a pay adjustment in January, 1985 at a slightly lower level than a current services adjustment. In addition, a portion of this pay raise would be absorbed administratively.

Program Description

The VA provides hospital and medical care to veterans in its nationwide medical system and in non-VA facilities on a reimbursement basis. The VA operates this program in 172 hospitals, 227 outpatient clinics, 103 nursing homes and 16 domiciliary facilities with an average daily patient census of 104,000.

Current Status

The veteran demand for quality health care continues to grow as veterans reaching age 65 become eligible for a wide variety of medical benefits without regard to financial status. Meeting this demand requires improvements and adjustments in health care services to provide the most appropriate type of care necessary in the most cost effective manner. In constant dollars, this program has grown 14% since 1981.

1985 Budget Proposal

The 1985 budget request would provide for the medical needs of veterans by allowing treatment of 1.4 million inpatients and over 18 million outpatient visits in VA and community medical facilities. This proposal would provide increases of $624 million and 2,747 staff over the 1984 level. These resources would be used for activation of 10 new nursing home care units, 2 new outpatient clinics in Florida and additional clinical services at 4 medical centers. This proposal would also provide for new or expanded initiatives in ADP, establishment of an additional geriatric research, education and clinical center (a program established within a hospital to provide a focus on the medical treatment of older veterans, including research and training of medical personnel) and 6 new Hospital Based Home Care programs (a mobile medical service program designed to meet the medical, nursing, social and rehabilitation needs within the patient's home.)

Rationale

Increases in demand for health care can best be met by the increases and program adjustments proposed in the 1985 budget. The new nursing home care beds, outpatient clinics, clinical improvements, and home care programs will ensure that needy veterans receive quality care in the most appropriate medical setting available. The 1985 budget proposal would provide for the treatment of an additional 5,000 inpatients and 79,000 outpatient visits and the activation of numerous completed construction projects.

Hospital Construction

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	549	767	764	801	837	872	4,040
Outlays	581	634	655	692	709	734	3,425
1985 Budget Level:							
Budget Authority	549	857	1,176	1,242	1,309	1,381	5,965
Outlays	581	677	940	1,114	1,313	1,405	5,449
Change:							
Budget Authority	....	+90	+412	+442	+472	+509	+1,925
Outlays	....	+42	+286	+422	+604	+671	+2,024

Program Description

The Veterans Administration (VA) operates the largest Federal medical care delivery system. Two appropriation accounts, one for major projects ($2 million or more) and one for minor projects, provide for constructing, altering, extending, and improving these and other facilities under the jurisdiction or for the use of the VA. Construction activities include planning, architectural and engineering services, and site acquisition. An additional program provides grants for the construction of state extended care facilities.

Current Status

Changes in medical technology, growth in the outpatient program, and the normal aging process have resulted in deficiencies in VA facilities that impede the delivery of modern health care. Hospital construction activities include major replacement and modernization projects; clinical improvements and additions; electrical, fire, and safety improvements; nursing home construction; and general projects. Ongoing programs include removing harmful asbestos when it is encountered during renovation, correcting seismic deficiencies, and improving the energy efficiency of VA facilities.

1985 Budget Proposal

Budget authority of $857 million is requested for VA hospital construction in 1985, $308 million more than the enacted amount for 1984. These large increases recognize the critical need for renovation and modification of many of the aging facilities in which medical services are provided. In constant dollars, the 1985 Administration request for hospital construction is 90% above the 1976 level. The 1989 projection is 236% above the 1976 level.

Design funds are being requested in the 1985 budget for the modernization of VA hospitals in Mountain Home, Tennessee and New York, New York. In addition, design funds are requested for replacement hospitals in Augusta, Georgia and Houston, Texas. These 4 projects represent the largest number of new major starts in any of the last ten years. Site preparation and, if necessary, site acquisition funds are being sought for the future replacement of the Detroit, Michigan hospital. The outyear construction costs for these five projects are estimated at $706 million. Funding is also included for seven new nursing homes and numerous projects to remedy physical plant and safety deficiencies.

Budget authority of $34 million for 1985, $16 million more than enacted for 1984, is requested for grants to States for the construction or repair of State homes for the care of veterans.

Rationale

The 1985 budget request recognizes:

- The critical need for renovation and modification of many of the aging facilities in which VA medical services are provided.
- The need for more nursing homes to serve the increasing number of aged veterans who, under prevailing policy, are eligible for free health care services regardless of financial status.

Veterans Medical Research, Administration and Related Activities

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	285	260	269	285	297	314	1,425
Outlays	250	274	288	294	297	313	1,467
1985 Budget Level:							
Budget Authority	285	268	272	290	305	323	1,458
Outlays	250	283	291	300	304	323	1,500
Change:							
Budget Authority	....	+8	+3	+5	+7	+10	+33
Outlays	....	+9	+2	+5	+7	+10	+33

Program Description

The main activities included in this category are VA's medical and prosthetic research program and the administrative overhead of the medical administration and miscellaneous operating expenses (MAMOE) account. The research program is conducted in conjunction with the medical care program and focuses on biomedical, rehabilitation and health services problems facing veterans. MAMOE provides for the administration and supervision of all VA medical programs, the conduct of postgraduate and inservice training activities, and scholarship grants to eligible health care professionals, presently limited to nurses. The other programs included here are a grant program to the Philippines to ensure care of veterans in that country and a program which provides assistance to health training institutions.

Current Status

These programs provide support services for the VA's medical care program and have resulted in improvements in the quality of medical and rehabilitative care. Since 1981, there has been an increase of nearly 25% in constant dollars in both the research program and the administrative expenses program, which has been offset by successful reductions in expenditures for assistance to medical schools (funding culminated in 1979 with resulting expenditures continuing through 1985). The 1984 budget level includes $54 million for a congressionally-mandated epidemiological study of the health effects resulting from exposure to Agent Orange with subsequent funding for continuation of this study at significantly reduced rates.

1985 Budget Proposal

The Administration's proposal would provide for a 12% increase in funding and a 3% increase in staffing for the research and MAMOE programs, excluding funding for the major Agent Orange study. These increases would provide for continued and expanded research in such high priority areas as alcoholism, cancer, aging, health problems of former prisoners of war and female veterans, spinal cord injury and prosthetic/sensory aids, Agent Orange and delayed stress disorders. The MAMOE request would provide for a staff increase of 16 for the administration and supervision of VA's complex and rapidly changing health care system, a 19% increase in postgraduate and inservice training to a level of $13.3 million, and a health professional scholarship program of $4.6 million to support 187 full-time and 200 part-time scholarship awards to nursing students in baccalaureate and masters degree programs.

Rationale

These 1985 budget proposals would allow a continued and increased focus on clinical answers to medical problems, improvements in the effectiveness and efficiency of delivering high quality medical care, and better administration of the medical program. Increases in these areas are proposed for evaluation of alternatives and implementation of improvements to minimize the high cost of medical care and to assure the availability of qualified health professionals.

Veterans Housing

[In millions of dollars] Agency: Veterans Administration

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	−67	−75	−76	211	213	199	473
Outlays	19	−72	10	183	338	199	658
1985 Budget Level:							
Budget Authority	−67	−75	−76	211	213	199	473
Outlays	19	−72	10	183	338	199	658
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The purpose of the Veterans Administration (VA) home loan guaranty program is to facilitate the extension of mortgage credit on favorable terms by private lenders to eligible veterans. The loans are used for the purchase, construction, repair, or refinancing of homes to be occupied by veterans and their families. In the event of default, the Federal guaranty protects lenders against losses up to a maximum of the lesser of 60% of the mortgage amount or $27,500. A much smaller program provides direct loans to severely disabled veterans who require specially adapted housing assistance. VA mortgage loan guarantee and direct loan programs are expected to assist 240,000 veterans in obtaining mortgages in 1985.

Current Status

When a VA guaranteed loan goes into foreclosure, VA has the option of paying the lender's claim or buying the property. In the past, VA has fulfilled its responsibilities as guarantor, in about 95% of cases, by acquiring and reselling properties in foreclosure. As a result of the dramatic increase in foreclosures in recent years, VA currently has nearly 22,000 properties in its inventory. The Federal Government incurs substantial costs in purchasing, managing, improving, and selling these properties. Direct program costs are borne by VA's loan guaranty revolving fund, while administrative costs are charged to VA's operating expenses and the cost of borrowing funds to buy the properties are borne by Treasury.

Most of these properties are sold with VA financing to veterans and nonveterans alike. Since no downpayment is required, no "points" are charged, and the interest rate is often below the market rate, these "vendee loans" provide substantial subsidies to nonveterans. These loans are then sold, usually at a discount, to private investors with repurchase agreements that require VA to repurchase any loans that go into default.

1985 Budget Proposals

The President's 1985 Budget announced three major changes for this program that would require VA to:

- stop bidding on properties at foreclosure of VA guaranteed loans and instead pay the amount of the lender's claim;
- stop making vendee loans and instead sell all properties in its inventory for cash or with private financing; and
- sell all loan assets without a repurchase agreement.

The original target date for implementation of these changes, which do not require legislation, was March 1, 1984. The Administration has now delayed them until October 1, 1984. Representatives of the VA, Federal Housing Administration (FHA), and Farmer's Home Administration (FmHA) are working to develop uniform regulations and administrative procedures for implementing the new policies.

Rationale

These policy changes will have no effect on a veteran's entitlement to a VA guaranteed loan. Reducing property acquisitions will reduce VA's real estate operations. These operations disguise the true costs of the loan guaranty program and provide substantial subsidies to nonveterans. VA's inventory of properties represents an investment of over $700 million and is expensive to maintain. The Federal guarantee protecting lenders against losses and the Government National Mortgage Association's mortgage-backed securities program, which provides an unusual degree of liquidity for VA and FHA mortgages, should continue to make VA mortgages attractive to private lenders.

CHAPTER 8

General Government

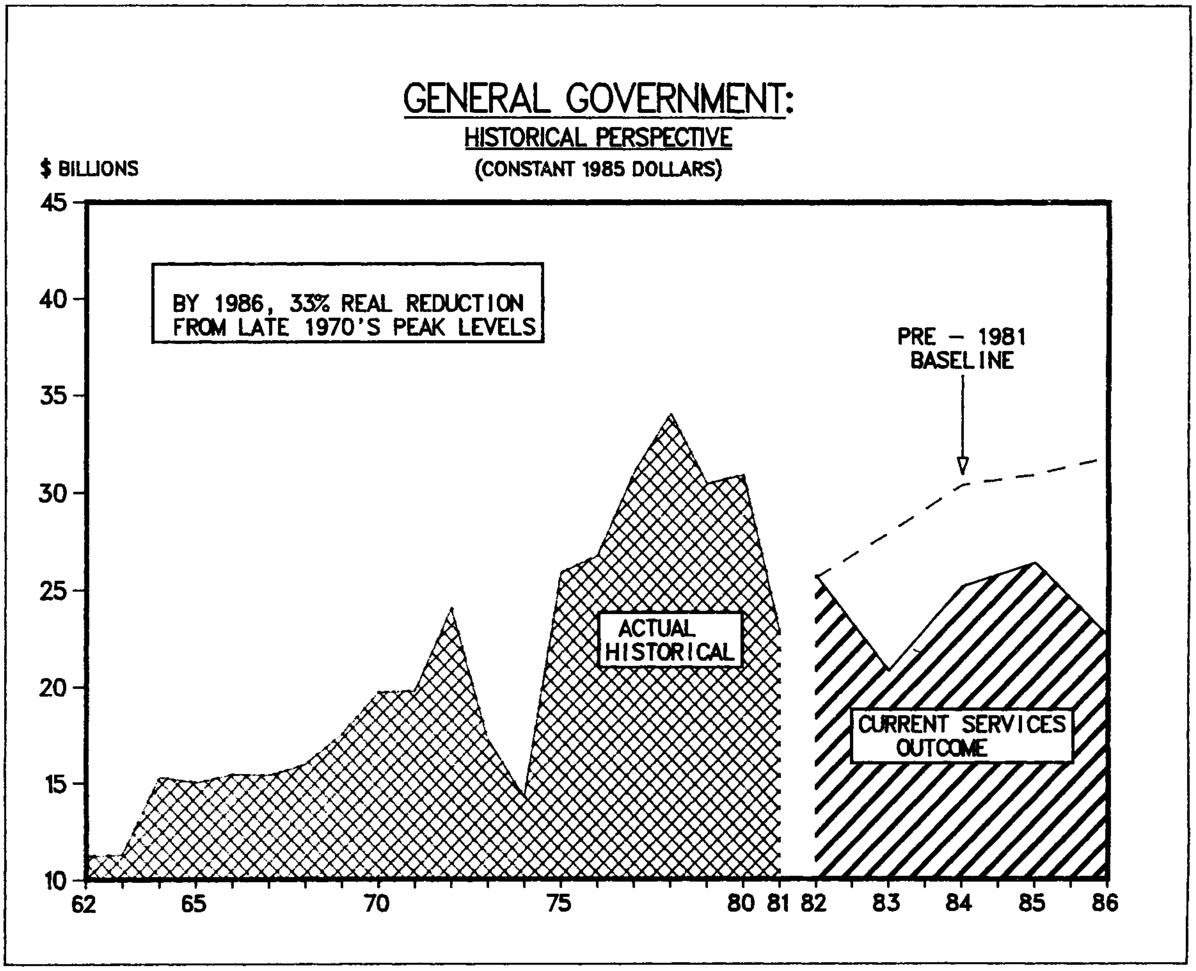
General Government Overview

This category includes all remaining components of the non-Department of Defense budget except for net interest and defense-related, space and international affairs programs classified as "national interest programs." While General Government is necessarily a catchall classification, there are nevertheless a half dozen clusters of programs and activities that accord with well established Federal responsibilities or the inherent overhead costs of operating a large central government. These clusters include: 1) regulation of commerce and health and safety; 2) Federal law enforcement, including border control activities; 3) Federally-supported scientific and medical research and cultural assistance; 4) management of the public domain and offsetting receipts from the sale of minerals and other natural resources; 5) central functions such as tax collection, the weather service, statistical agencies, and the patent office; and 6) the administrative costs of Federal entitlement programs and departmental salary and expenses and other overhead costs not allocated to specific, direct Federal activities.

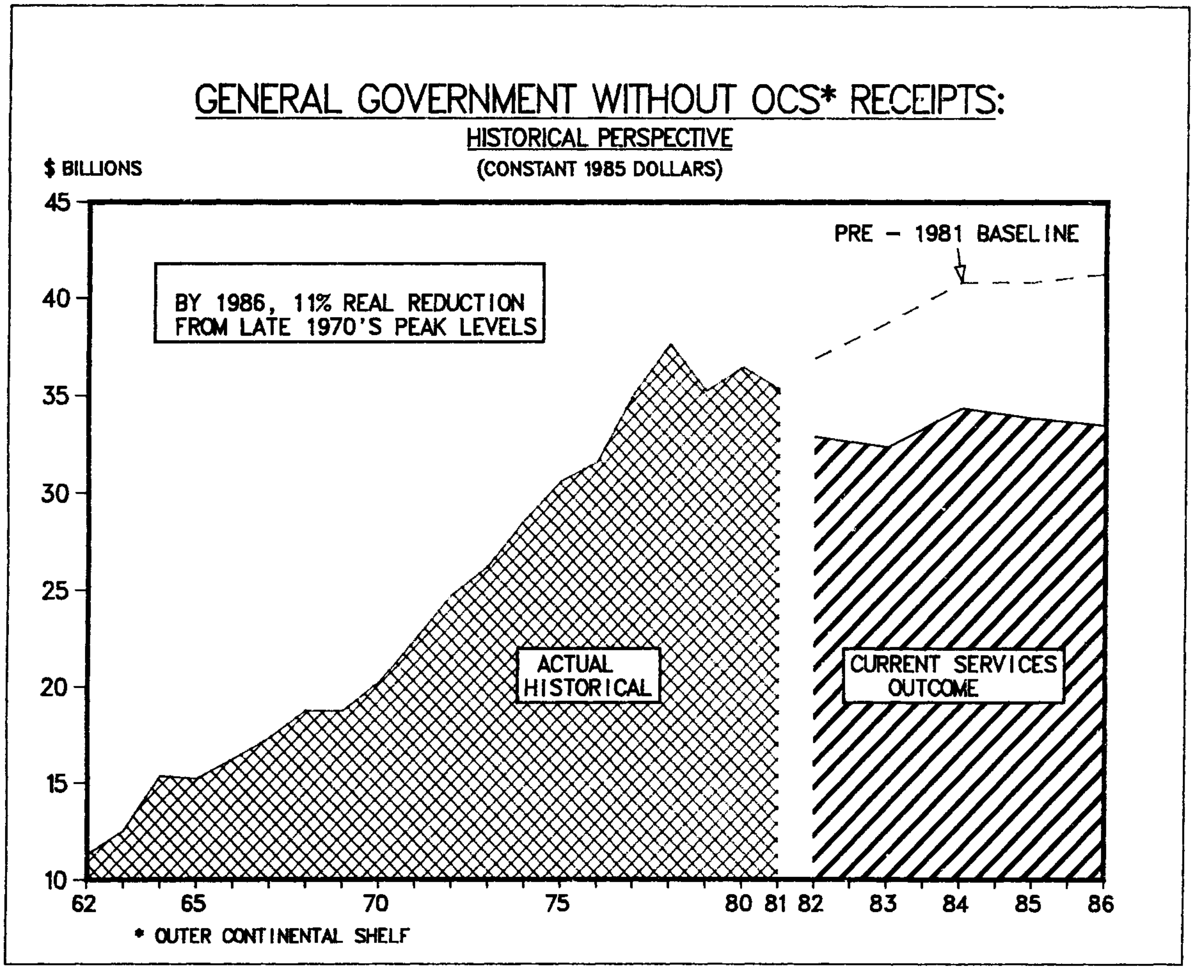
The 1985 budget proposes funding levels consistent with well-established Administration priorities. Funding for law enforcement and scientific research is increased above the current services level. In almost all other cases, continued firm fiscal restraint is proposed, with aggregate savings amounting to over $10 billion during the 5-year budget period.

Historic Spending Increase Curtailed

As the first chart illustrates, the historical expenditure pattern for General Government fluctuates around a rising trend. The historical graph's fluctuations chiefly reflect large, volatile offsetting receipt accounts for Outer Continental Shelf (OCS) sales, on-shore mineral and resource proceeds and certain intragovernmental transactions. For example, OCS receipts range from a low of $39 million in 1962 to a high of $14.3 billion in 1974.



A more meaningful picture of this category is obtained by charting gross outlays, leaving out the volatile offsetting receipts from OCS sales.



With OCS receipts omitted, the remaining functions show a steady, continuous growth rate of 7% per year from 1962 to 1978 in real terms. General Government outlays (without OCS receipts) have been reduced by 25% from their 1978 peak to 1984 in constant 1985 dollars. Under current services, outlays in 1986 would be 33% below their peak.

Trends by Activity

Among the major programmatic or activity clusters, a number of clear trends are apparent which highlight the changes introduced since 1981 and define opportunities for future budget savings. A description of specific policy measures for each subfunction follows.

Regulatory Agencies

First, the explosive 1970's growth of regulatory agency budgets has been sharply curtailed. After having doubled in real terms between 1962 and 1969, and tripled between 1969 and 1980, constant dollar regulatory agency costs in the enacted 1984 budget will recede to their 1979 level ($4.4 billion). The President's 1985 budget would stabilize real costs at about this level through 1989. Thus, the rapid growth of regulatory costs has been brought to a halt—with likely future real costs stabilizing in the $4.5 billion annual range. Since this plateau reflects the diminution or termination of some long-standing economic regulatory activities (e.g., ICC and CAB), most of the remaining costs are attributable to more recently expanded health, safety and environmental protection agencies (i.e., OSHA, NRC, EPA and FDA, which will account for 52% of 1984 regulatory agency budget costs). Prospects for additional future budget savings depend in considerable degree, then, on whether further progress in reducing the scope and burden of health and safety regulation is made in the years ahead.

Law Enforcement

Second, the steady constant dollar expansion of the, Federal law enforcement budget, under way since the early 1960s, has been reinforced by the high priority placed on it by the Reagan Administration. Special care has been taken to increase resources to meet the pervasive problems of drug trafficking, organized crime, terrorism and foreign intelligence threats, and the growing problem of tax protestors. Constant dollar law enforcement spending has risen from $1.4 billion in 1962 to $4.8 billion in 1981 and will reach $5.7 billion in the 1984 enacted budget. The proposed 1985 budget will increase constant dollar funding levels to $6.0 billion by 1989—a 33% increase over 1981 and a level 4 times greater than in 1962.

Science, Medical Research and Culture

Third, constant dollar budget levels for scientific research, the National Institutes of Health (NIH) and cultural support programs will have been reduced by about 5% in real terms between the 1980 peak and the 1984 enacted budget. The proposed 1985 budget essentially stabilizes total funding at this level—with constant dollar outlays projected to average about $7.9 billion over the 1984-89 period.

However, within this stable total a modest reordering of priorities would continue to occur. Outlays in 1984 for scientific research (National Science Foundation and the Department of Energy energy science programs) will be 6% above the 1980 constant dollar level—with proposed future increases resulting in a 19% increase by 1989. Additionally, certain small but significant increases have been proposed for 1985, including a 13% nominal dollar increase for the National Institute of Education. By contrast, cultural support programs have been reduced by 29% in real terms, and proposed further reductions in constant dollar funding—mainly in the National Endowments and Corporation for Public Broadcasting—would result in a 46% reduction by 1989. Real funding levels for NIH would remain slightly below the 1980 level for the remainder of the decade.

These trends make clear that this component of the budget has been stabilized and new priorities have been established. Reductions beyond those assumed in the 1985 budget would inevitably raise serious policy questions about the appropriate level of Federal support for medical and scientific research.

Management of Public Domain

Fourth, because of the initiation of wide scale leasing and production from the outer continental shelf, the net budget flow to the Treasury from the public domain now substantially exceeds the operational costs of all major agencies responsible for its management.

This shift toward a strong positive cash flow and, therefore, reduction in unified budget outlays is attributable to two factors. First, significant cost savings and economies in public domain management agency operations have been achieved by the Administration since 1980. Secondly, OCS and other receipts have been rising persistently because of the Administration's more flexible mineral leasing policies. Between 1980 and 1984, operating costs have been reduced 22% in real terms, while constant dollar receipts have risen by 36%.

The proposed 1985 budget would continue these trends with further cost reductions and a continued rise in planned receipts. Given both the minimum operating cost requirements of the major agencies—Forest Service, Bureau of Land Management, National Park Service and Fish and Wildlife Service—as well as environmental and economic constraints on leasing activities, it will be an increasingly difficult challenge to improve further the net budget position of public domain activities beyond the levels proposed in the President's 1985 budget.

Central Services and Functions

Fifth, the constant dollar cost of major central government functions—Internal Revenue Service (IRS), debt management, Bureau of Labor Statistics (BLS)-Census, National Oceanic and Atmospheric Administration (NOAA), patent office, General Services Administration (GSA) property supply and record management, international trade, and National Bureau of Standards (NBS)—has drifted steadily upward in real terms over many years, rising from $3 billion in 1962 to $6.3 billion in 1981. This trend has continued over the past 3 years, with the 1984 enacted budget for these functions up by 12% over 1981 to $7 billion. Under the proposed 1985 budget, constant dollar expenditures would average about $7 billion per year over 1985-89.

The growth in the cost of central government functions is primarily attributable to the rising real cost of the IRS. The IRS constant dollar budget has risen by 16% since 1981 and will be 24% higher by 1989. All other central function costs have risen by 8%, with a modest further rise proposed by 1989.

The increase in IRS is due to a combination of factors: the need to fund mandates imposed by three major pieces of tax legislation; the high priority placed by this Administration on improvement of tax compliance, and the replacement of the basic data processing equipment of the tax administration system. During this Administration, the level of support for tax enforcement activities will increase 40% between 1981 and 1985, and the incremental direct revenue from enforcement activities will increase 100% in nominal dollars.

Given the continuing commitment to enhance compliance and effective collection of tax delinquencies, the major dynamic component of this function, the IRS, will not be reduced appreciably in future years. However, increased receipt collections resulting from these funding augmentations—around $30 billion annually in direct revenue—will contribute to overall deficit reduction.

Departmental Administration

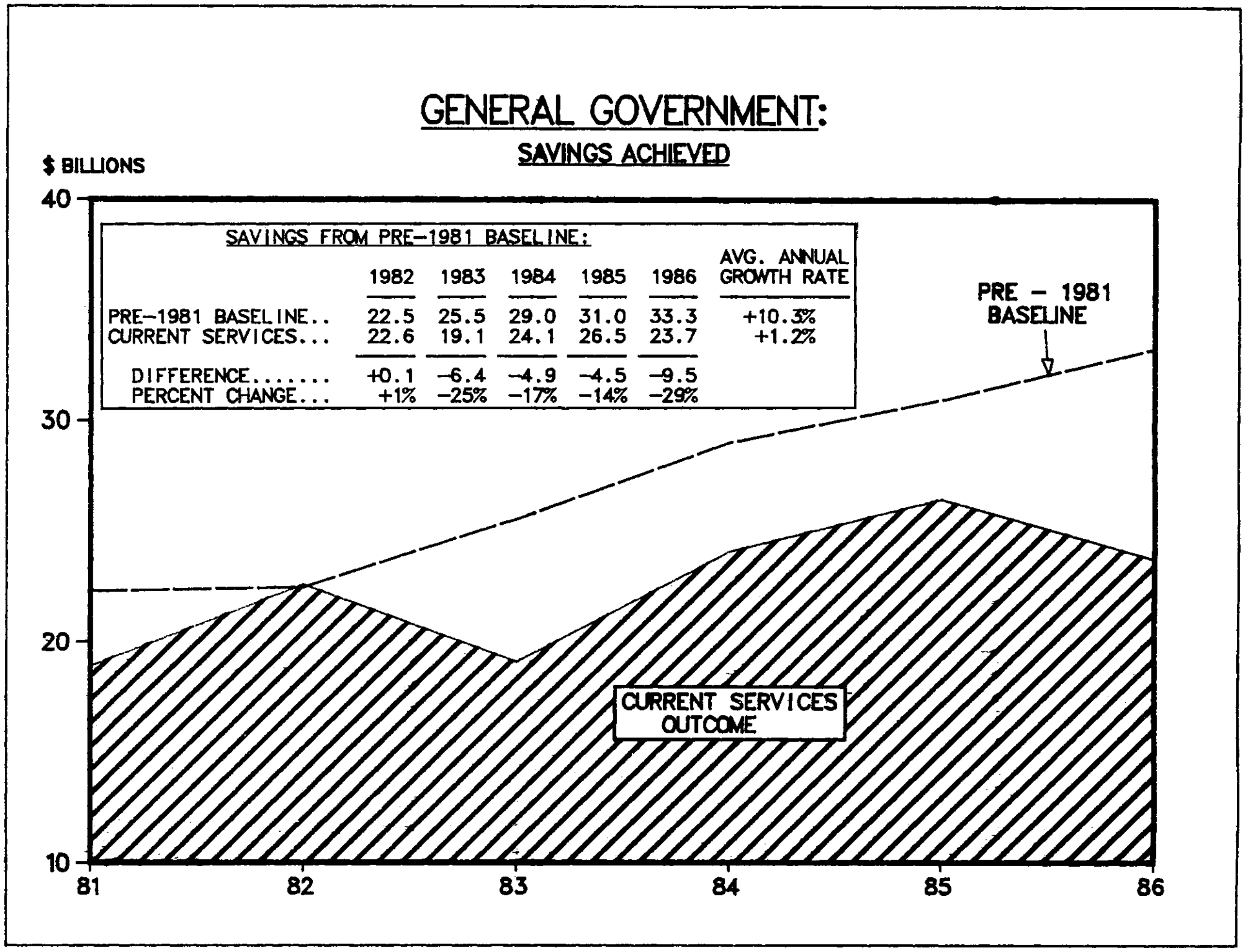
Sixth, as a result of the rapid expansion of Federal programs during the 1970's, the constant dollar cost of domestic departmental overhead not specifically allocable to direct Federal services grew rapidly—from $6.9 billion in 1970 to $13.8 billion by 1981. More than 80% of this growth was attributable to the administrative cost of major entitlement programs ranging from social security, medicare, and unemployment benefits to aid to families with dependent Children, supplemental security income, medicaid and the Federal nutrition programs, though administrative costs are small relative to the entitlement benefits themselves.

Since 1981, central overhead costs have been held constant in real terms; this stabilization is almost entirely the result of departmental and major agency salary and expense account reductions. The cost of entitlement benefit administration itself has continued to rise and is projected to stabilize at about $10.6 billion per year over 1985-89. Under the proposed 1985 budget, all other Federal overhead costs would decline by about 16% in real terms by 1989.

Thus, because nearly two-thirds of unallocated overhead costs are now attributable to entitlement benefit administration, it is clear that significant future savings depend upon the development of more efficient administrative systems to serve the millions of Federal entitlement beneficiaries. Achieving this objective while simultaneously reducing entitlement program errors and abuse poses one of the most formidable management challenges faced by the Administration.

Savings Achieved and Proposed

The accompanying chart shows that very significant savings have been achieved between the pre-1981 baseline and the present current services track. The pre-1981 baseline reveals a planned growth of almost 50% from 1982 to 1986 while the current services level grows only 7% over that same period. In nominal dollar terms, savings from the baseline increase to $10 billion by 1986.



The table below summarizes the further cost saving measures proposed in the 1985 budget. Over the five year period 1985-1989, the projected savings come to almost $10 billion below the current services level. The largest components of this reduction are in the Departmental Administration area and in Management of the Public Domain, the latter partly reflecting proposals to increase offsetting receipts other than OCS receipts.

Further Savings Proposed

(Outlays in billions)

Major program area	1985–89 Current services	1985–89 1985 request	1985–89 Proposed savings
Regulatory Agencies	$24	$24	....
Law Enforcement	31	32	+$1
Management of Public Domain	−43	−46	−3
Science, Medical Research and Culture	45	43	−2
Central Services and Functions	40	38	−2
Departmental Administration and Other Overhead	31	27	−4
Total, General Government	128	118	−10

The factsheets[1] in the General Government chapter provide additional details in each program area. Some items include: the Nuclear Regulatory Commission and Food and Drug Administration under Regulatory Agencies; the Federal Bureau of Investigation and U.S. Customs under Law Enforcement; the National Park Service and OCS receipts under the Public Domain; the National Science Foundation and the Endowments for the Arts under Science, Medical Research and Culture; NOAA and IRS under Central Services and Functions; Federal Employee Health Benefits and Legislative functions in the Departmental Administration and Other Overhead.

[1] Factsheets have not been written for Federal Financing Bank surplus income, Treasury claims and judgments, other overhead, civilian agency pay raises, increased agency payments for employee retirement, and other employee share—employee retirement. Thus, factsheet totals will not add to the category total.

Regulatory Agencies

Nuclear Regulatory Commission

Agency: Nuclear Regulatory Commission

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	468	485	505	526	547	568	2,631
Outlays	450	485	505	526	547	568	2,630
1985 Budget Level:							
Budget Authority	468	470	472	481	491	501	2,415
Outlays	450	466	467	477	486	497	2,393
Change:							
Budget Authority	....	−15	−34	−45	−56	−67	−217
Outlays	....	−19	−38	−49	−60	−71	−237

Program Description

To assure public health and safety, the Nuclear Regulatory Commission (NRC) regulates the activities of the utilities that produce nuclear power and of the many industrial firms and medical facilities that handle nuclear materials. The NRC now employs a staff of 3,416 in activities that range from licensing the construction and operation of new nuclear power plants to the ongoing inspection of those plants. It also funds R&D at the national laboratories of the Department of Energy in support of its regulatory responsibilities.

Current Status

The NRC has maintained a near constant funding level over the past three years. With no new orders for nuclear power plants since 1978, the emphasis at the NRC has shifted from licensing to inspections. Also, NRC has reduced emphasis on the funding of large scale research facilities.

1985 Budget Proposal

For 1985, the programs at NRC would continue trends started in 1983 to strengthen inspection efforts and reduce spending on large R&D facilities.

- Funding for inspections would increase by 35% from $68 million in 1983 to $92 million in 1985. This would allow NRC to hire 120 more inspectors over a two year period for an enhanced role in ensuring the safety of nuclear power plants.
- Research would decline by 18% from $207 million in 1983 to $191 million in 1984 to $168 million in 1985. This would result from the phase out of large expensive test facilities such as the Power Burst Facility (PBF) in Idaho.

Rationale

The Nuclear Regulatory Commission plans to phase out research in areas where work is nearly complete or no longer necessary. In particular, by 1985, NRC will have completed its test program at the Power Burst Facility, designed to study the properties of nuclear fuel during accident conditions. Shutting down this one facility would save $21 million per year. Conversely, as utilities confront more and more safety problems in the construction and operation of plants, NRC needs to devote more attention to on-site inspections to assure the protection of the public's health and safety.

Office of Surface Mining and Reclamation

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	337	353	370	387	403	419	1,933
Outlays	208	250	299	345	380	394	1,667
1985 Budget Level:							
Budget Authority	342	362	379	383	388	392	1,905
Outlays	210	254	303	350	377	396	1,679
Change:							
Budget Authority	+5	+9	+9	−3	−15	−27	−28
Outlays	+2	+4	+4	+5	−3	+2	+12

Program Description

The Office of Surface Mining (OSM) monitors State regulation of coal surface mining and gives grants to States to reclaim lands damaged by past mining practices.

Current Status

OSM administers the Abandoned Mine Reclamation Fund, which was established in 1977 to reclaim lands which were mined for coal and inadequately reclaimed prior to that year. The fund is financed through fees paid on all coal mined in the U.S. and is used to stabilize land slides, extinguish fires in coal waste piles, and clean out streams which are clogged with mining refuse. The coal-mining States became eligible to receive grants from the fund once they assumed full responsibility for regulating coal mining within their borders. Most States didn't take over full responsibility until 1981-82. A portion of the fees which accumulated in the fund from 1977-82 was appropriated for State grants in 1984. The current unappropriated balance is $433 million, most of which should be spent by the end of the decade.

1985 Budget Proposals

The 1985 budget would increase reclamation grants to States by $15 million over current service levels to $263 million. Excluding a one-time, special purpose grant of $42 million to Pennsylvania in 1984, the increase is $57 million. This increase would fund 100 additional reclamation projects.

Rationale

The increase is proposed because the coal-mining States are expected to have finished building staff levels necessary to fully utilize available reclamation funds, including a larger portion of the unappropriated balance of the fund than was utilized in 1984. The proposed funding level is projected to remain essentially constant through 1993.

Funding for the Federal rural abandoned mine reclamation program would decrease because States will perform the same work, financed by the expanded grant program.

Environmental Protection Agency Operations

Agency: Environmental Protection Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,088	1,143	1,198	1,255	1,311	1,366	6,273
Outlays	1,090	1,146	1,172	1,231	1,289	1,344	6,182
1985 Budget Level:							
Budget Authority	1,088	1,169	1,187	1,206	1,226	1,247	6,034
Outlays	1,090	1,165	1,178	1,205	1,226	1,247	6,021
Change:							
Budget Authority	....	+26	−12	−49	−85	−119	−239
Outlays	....	+18	+6	−26	−62	−97	−161

Program Description

Environmental Protection Agency (EPA) operations include funding for developing regulations, enforcement activities, most research and overhead. Funds pay for salaries, administrative expenses, contracts, and grants to States and universities to implement mandated responsibilities under eight environmental statutes. EPA's acid rain and other energy related research funding is included in "Supporting Energy Research."

Current Status

In 1984 the President requested major increases for EPA operations. The President's 1985 proposal continues to build on 1984 priorities to enhance Agency research and regulation of toxic pollutants and to expand the Agency's enforcement capabilities to ensure compliance with established regulations.

1985 Budget Proposal

An 8% ($82 million) increase in budget authority and a 4% (400 workyear) increase in staff above 1984 levels is requested. The largest increase would be devoted to ensuring improved compliance by both the private sector and municipal governments.

Rationale

- *Regulatory programs are being accelerated.*—Increased resources are devoted to safeguarding the public from unacceptable risks of exposure to toxic pollutants and chemicals. Concern over the emission of hazardous pollutants into land, water, and air would be addressed through a rapid acceleration in regulatory, permit issuance, and enforcement activities. In addition, evaluations of commercial uses of genetically engineered products would be initiated.
- *Enforcement personnel increase.*—Increased emphasis at both the Federal and State level will be directed toward compliance with PCB and asbestos-in-school regulations; eliminating the backlog of industrial permits; and a new initiative to bring municipal governments into compliance with Clean Water Acts requirements.
- *A new program to clean up the Chesapeake Bay.*—With the completion of a seven-year, federally funded study of the Chesapeake Bay, a 135% increase in funds to $10 million is requested to provide technical and financial assistance to Bay area States to further the cleanup effort.

- *Research provides the basis for cost-effective regulations.*—Increased research funding would begin epidemiology studies that are necessary to establish appropriate risk levels from long-term exposure to pollutants. In addition, research into new, lower cost technologies will help industries achieve reduced pollutant emissions at reasonable costs.

Superfund

Agency: Environmental Protection Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	410	429	449	469	488	506	2,341
Outlays	325	426	428	455	472	494	2,275
Offsetting Receipts (Recoveries)	−5	−45	−50	−70	−110	−145	−420
1985 Budget Level:							
Budget Authority	460	640	478	480	482	484	2,564
Outlays	340	535	543	500	487	484	2,549
Offsetting Receipts (Recoveries)	−5	−45	−50	−80	−165	−155	−495
Change:							
Budget Authority	+50	+211	+29	+11	−6	−22	+223
Outlays	+15	+109	+115	+45	+15	−10	+274
Offsetting Receipts (Recoveries)	....	....	....	−10	−55	−10	−75

Program Description

This trust fund enables the Federal Government to respond to hazardous chemical spills, clean up abandoned hazardous waste sites, and take enforcement action against those responsible for hazardous waste problems. It is financed primarily by a tax on the oil and chemical industries.

Current Status

Superfund is a relatively new program that has grown rapidly from $75 million in 1981 to the $410 million requested and enacted in 1984. Because the law will expire at the end of 1985, the President pledged in his State of the Union Address to request an extension of Superfund in order to provide the necessary time and funding for an adequate cleanup effort.

1985 Budget Proposal

The 1985 budget would increase budget authority to $640 million in 1985 and also provide an additional $50 million in 1984.

Rationale

The President's 1985 budget proposal would make available for use by the end of 1985 almost all of the $1.6 billion in revenues expected under current law.

Continued increases in Environmental Protection Agency (EPA) personnel would also be provided in 1985 to manage the enlarged program.

The President's 1985 proposal would:

- Initiate planning efforts for site cleanup at 115 additional sites, bringing the number of sites where work has begun to 396 by the end of 1985;
- Initiate cleanup actions at 46 sites, almost a threefold increase over 1984; and

- Increase the enforcement program by 65% over the current level. These funds would enable EPA to:
  - expand its effort to recover from responsible parties money spent to clean up hazardous waste sites; and
  - increase its efforts to force responsible parties to clean up the sites without using the trust fund. To date, EPA has negotiated 72 privately financed cleanups costing $221 million.

The budget authority levels for 1986-89 reflect the amount of money that would be available if the tax were extended at the current rate. Those levels do not reflect the Administration's determination of appropriate funding levels for that period. A policy on the appropriate future tax rate is being developed in conjunction with proposals for extending the law.

Highway Safety Operations

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	99	104	109	116	120	125	574
Outlays	100	106	107	114	120	127	573
1985 Budget Level:							
Budget Authority	99	121	131	136	141	146	675
Outlays	100	112	126	133	139	144	655
Change:							
Budget Authority	....	+17	+21	+20	+21	+21	+101
Outlays	....	+6	+19	+19	+19	+18	+82

Program Description

Both the Bureau of Motor Carrier Safety (BMCS) and the National Highway Traffic Safety Administration (NHTSA) operate research, regulatory, and enforcement programs to increase the safety of highway travel for trucks and autos.

Current Status

This Administration places safety among its highest priorities for transportion programs.

1985 Budget Proposal

Funding for the BMCS and NHTSA, in both operations and grant programs, would be increased to bolster efforts to make highway travel safer.

The 1985 budget proposes a 100% increase in motor carrier safety grants. This should provide States with adequate resources to conduct federally required truck inspection programs.

The 1985 budget proposes a 15% increase in NHTSA safety operations, enforcement, and regulatory programs. This increase would be used to expand efforts to:

- disseminate safety information and technology to States and communities;
- work with other public and private organizations for a more comprehensive approach to auto safety; and
- increase resources devoted to understanding and analyzing how accidents can be prevented.

Rationale

Since 1981, traffic fatalities have decreased by 11%. Even more encouraging, in 1983 the fatality rate per 100 million miles traveled dropped to an all-time low of 2.6. The increases in this budget would support those programs that have effectively contributed to this trend.

At this time, States, with the support of Federal safety grant programs and community organizations, are reexamining their highway safety laws. Both the BMCS and NHTSA programs support this trend by working with States and local organizations to encourage increased and more effective traffic safety efforts.

In particular, Federal highway safety operations target the drunk driver problem. NHTSA drunk driving programs include demonstration projects, technical guidance, and information dissemination to States and localities.

Food Inspection Services

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	338	360	380	403	425	449	2,017
Outlays	338	360	380	402	425	448	2,014
1985 Budget Level:							
Budget Authority	338	360	377	389	403	418	1,947
Outlays	338	359	376	388	402	418	1,944
Change:							
Budget Authority	....	....	−4	−14	−22	−30	−70
Outlays	....	....	−4	−14	−22	−30	−70

Program Description

This Department of Agriculture program inspects meat and poultry products in domestic and foreign commerce. Inspections are conducted at slaughterhouses and in processing plants to assure that only unadulterated, uncontaminated meat that is labeled and packaged according to Federal law enters U.S. commerce.

Current Status

Current dollar appropriations for these activities have increased by $27 million or 9% since 1981 to a total of $338 million for 1984.

1985 Budget Proposal

The 1985 budget proposal includes a further increase of $22 million to provide enhanced inspection services. Specifically, it would provide:

- more inspection of imported meats at ports of entry;
- increased laboratory tests to detect chemical contamination;
- more inspectors at slaughterhouses; and
- more funds to the States for their inspection programs.

Domestic inspection efforts would also be enhanced by targeting inspections on those 5% of plants that have continuing difficulty in complying with standards and regulations.

Rationale

Although the United States' inspection program is generally effective, improvements will help to prevent any mislabeled, contaminated, or unwholesome meat from entering the U.S. food supply.

The targeting approach for domestic inspections should result in increased protection for the consumer while minimizing cost increases.

Food and Drug Administration

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	394	408	430	452	475	499	2,264
Outlays	396	422	439	459	475	498	2,292
1985 Budget Level:							
Budget Authority	394	397	420	438	457	477	2,189
Outlays	396	407	429	445	457	476	2,213
Change:							
Budget Authority	....	−11	−10	−14	−18	−22	−76
Outlays	....	−15	−10	−14	−18	−22	−80

Program Description

The Food and Drug Administration (FDA) conducts regulatory activitites to ensure the safety of foods, pharmaceutical products, and medical devices sold in the U.S. marketplace. The agency also reviews the efficacy of drugs and medical devices before they can be sold to the public.

Current Status

In the decade prior to 1972, constant dollar outlays for the FDA doubled. In the next decade, constant dollar outlays increased another 44%. Since the 1979 peak funding year of $437 million, real funding levels have stabilized, dropping less than 10% to $396 million in 1984.

Since 1981, the FDA has established four priorities: shorter regulatory review time for new drug applications, as an incentive to innovation in the industry; support of orphan drugs, where unsubsidized development by industry is not profitable; greater use of voluntary compliance; and improvement in FDA's science base, to keep it abreast of current therapeutic, diagnostic, and production technologies.

1985 Budget Proposal

The 1985 request would maintain the FDA at the current services level. The budget also proposes to offset a small portion of FDA's operating costs—$5 million—through user charges on certain industry-related activites. Fees would be imposed primarily on new drug applications and would cover only a part of the cost of reviewing those applications.

Rationale

Modest increases in FDA funding over the 1985-89 period will allow FDA to continue its current level of effort.

Occupational Safety and Health

[In millions of dollars]

Agency: DOL/OSHRC

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	219	228	239	251	262	274	1,254
Outlays	223	228	238	250	261	272	1,249
1985 Budget Level:							
Budget Authority	217	225	233	243	254	265	1,219
Outlays	221	224	232	242	253	264	1,215
Change:							
Budget Authority	−2	−4	−7	−7	−8	−9	−35
Outlays	−1	−4	−6	−7	−8	−9	−34

Program Description

The Occupational Safety and Health Administration (OSHA), in the Department of Labor, issues and enforces regulations governing workplace safety and health, underwrites half the costs of approved State-run safety and health programs, and encourages the voluntary cooperation of employers and employees on health and safety matters. The Occupational Safety and Health Review Commission (OSHRC), an independent agency, adjudicates OSHA enforcement actions that are contested by employers.

Current Status

The rapid growth of OSHA and OSHRC budgets, which peaked in real terms in 1980, has been contained. In constant dollar terms, the 1984 enacted budget for these agencies will return them roughly to the 1977 level. Agency resources are better targeted on significant problems and priorities; cooperation among employers, employees, States, and the Federal Government has been encouraged; regulations have been reviewed to ensure that they are no more burdensome than necessary to protect workers; and the number of enforcement actions employers contest before OSHRC has been significantly reduced.

1985 Budget Proposals

The President's 1985 budget would stabilize real costs at roughly the 1984 level through 1989. Some additional savings would be achieved through proposed management and administrative efficiencies, which would enable both agencies to maintain at least the same level of program activities using fewer resources. The budget also contains an increase that would allow OSHA to implement a new computerized management information system to track and improve the deployment of OSHA's resources as well as to monitor States with approved programs.

Rationale

Enactment of the 1985 budget proposals would enable OSHA and OSHRC to provide necessary workplace safety and health protection while minimizing costs borne by the taxpayers and by private industry. The number of inspections would reach the highest level since 1976, with vast improvements in targeting on worksites most likely to have serious safety and health hazards.

Major regulations would be reviewed and issued, to ensure that workers receive protection in a cost-effective manner. The rate that enforcement actions are appealed to OSHRC is expected to remain at its reduced level, decreasing the time inspectors must spend on litigation activities. The number of follow-up inspections, usually unproductive, has been greatly reduced. These efficiencies enable the inspection force to perform additional worker protection activities that otherwise would require 98 more inspectors.

Miscellaneous Regulatory Agencies

[In millions of dollars]

Agency: Various

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,039	1,114	1,162	1,224	1,286	1,351	6,137
Outlays	1,039	1,120	1,168	1,225	1,288	1,348	6,149
1985 Budget Level:							
Budget Authority	1,042	1,056	1,108	1,160	1,215	1,270	5,809
Outlays	1,042	1,074	1,120	1,164	1,219	1,263	5,841
Change:							
Budget Authority	+3	−58	−54	−64	−70	−81	−328
Outlays	+4	−46	−48	−61	−69	−84	−308

Program Description

Agencies included in this category regulate energy activities, exchanges of securities and commodity futures, communications, trade, transportation, labor relations, product and mine safety, as well as control offshore and port oil pollution and coastal zone management.

Current Status

Funding for these activities remained high throughout the latter half of the 1970's, peaking, in constant dollar terms, in 1980 at $1.5 billion.

Current constant dollar funding levels reflect achievement of a significant reduction from the constant dollar peak.

1985 Budget Proposal

The 1985 budget level for this category is not significantly different from previous levels proposed by the Administration. The 1985 budget proposal of $1.1 billion in outlays would continue to constrain the constant dollar growth of regulatory costs for these activities.

The modest 1985 outlay savings are attributable to the Administration's proposal to reduce the scope of transportation and other regulatory activities and terminate grants to States for coastal zone management. Throughout most of these activities, savings would be achieved by personnel reductions and implementation of space management initiatives, both resulting from reduced regulation and/or increased efficiencies.

Slight increases are proposed for the Securities and Exchange Commission (SEC), the Federal Communications Commission (FCC) and the Commodity Futures Trading Commission (CFTC). The SEC would implement a pilot paperless filing system; the FCC would continue its program to deregulate the telecommunications industry; and the CFTC would enhance its enforcement efforts aimed at curbing violations of commodities laws.

Rationale

Implementation of the President's budget proposal would continue the progress made in eliminating unnecessary economic regulatory activity; reducing or redirecting regulation that places greater burden on the public than necessary to accomplish essential objectives; decreasing paperwork; and introducing efficiencies where regulation is necessary.

Law Enforcement

Law Enforcement

[In millions of dollars] Agency: Department of Justice

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,445	1,433	1,503	1,575	1,650	1,726	7,887
Outlays	1,432	1,462	1,467	1,539	1,613	1,688	7,769
1985 Budget Level:							
Budget Authority	1,445	1,504	1,602	1,680	1,761	1,826	8,373
Outlays	1,432	1,544	1,571	1,651	1,723	1,794	8,283
Change:							
Budget Authority	....	+71	+99	+105	+111	+100	+486
Outlays	....	+82	+104	+112	+110	+106	+514

Program Description

The primary law enforcement agencies in the Justice Department are the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA). Besides enforcing Federal criminal statutes, the FBI and DEA also perform other activities such as regulating the manufacture of controlled substances and maintaining a national repository for fingerprint identification.

Current Status

The Administration considers improvements to Federal law enforcement to be one of its top domestic priorities. In the past year, additional staff and equipment were provided for organized crime drug enforcement task forces and for foreign counterintelligence and anti-terrorism. Major investments have also been made in the FBI to improve management, investigative, and fingerprint processing capabilities. The 1985 budget continues resource growth for DEA and FBI: to underscore the Administration's commitment to eliminate organized crime from drug trafficking; to intensify the Nation's foreign counterintelligence efforts; and to modernize Federal law enforcement practices.

1985 Budget Proposal

The FBI and DEA represent 40% of the Department of Justice's budget request. If their budget requests are adapted, the FBI and DEA agent complement will have grown by the end of 1985 to 11,147, up 1,500 from the 1981 level of 9,647.

An additional Organized Crime Drug Enforcement Task Force would be established to cover investigations in parts of Florida, the Virgin Islands, and Puerto Rico.

The FBI's organized crime program would be increased by 315 positions and $12 million for investigations of traditional and non-traditional organized crime enterprises and for drug trafficking investigations separate from the organized crime drug enforcement task forces.

The request would also provide a second successive infusion of staff and funds for the FBI's foreign counterintelligence program.

Rationale

The recent increases in law enforcement resources have begun to produce results. For example, since the FBI was given concurrent jurisdiction with DEA over drug investigations in 1982, the number of cases being pursued jointly has increased from 12 to 737. By 1985, the number of drug-related arrests is predicted to increase by 41%, from 7,420 to 10,450.

The problems with drug trafficking, other organized crime, terrorism, and foreign intelligence activities within the United States are pervasive and continuing. More resources are vital to the Administration's efforts to reduce these criminal activities.

Bureau of Alcohol, Tobacco and Firearms

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	160	167	175	184	193	202	922
Outlays	156	164	172	181	189	198	904
1985 Budget Level:							
Budget Authority	160	163	173	181	190	200	907
Outlays	156	160	169	178	187	196	889
Change:							
Budget Authority	....	−4	−3	−3	−3	−2	−15
Outlays	....	−4	−3	−3	−3	−2	−14

Program Description

The Bureau of Alcohol, Tobacco and Firearms (BATF) protects the public safety by reducing the criminal misuse of firearms and explosives and the unsafe storage of firearms; regulates the sale of alcoholic beverages, firearms and explosives; and ensures collection of excise taxes on alcohol and tobacco products.

1985 Budget Proposal

Reductions of $4.1 million and 108 workyears are proposed in the regulatory programs. BATF projects that because of greater use of selective processing and inspection, revenue collections and application processing would be maintained at the proposed funding level. By targetting inspections and investigations on the largest excise taxpayers and those suspected of serious violation, BATF will maintain revenue collections as well as its law enforcement presence.

The budget proposes law enforcement enhancements of $3 million to purchase voice secure radios and to increase the agency's ability to relocate staff through permanent change of station moves. These enhancements would protect law enforcement personnel in the course of duty.

Rationale

The 1985 budget would maintain the BATF at roughly current law enforcement levels while seeking efficiency in regulatory programs through better targetting of inspection and investigation resources.

Immigration and Naturalization Service

[In millions of dollars] Agency: Department of Justice

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	511	540	565	591	619	646	2,960
Outlays	524	532	556	583	610	638	2,919
1985 Budget Level:							
Budget Authority	511	578	603	630	658	686	3,156
Outlays	524	570	594	621	649	677	3,112
Change:							
Budget Authority	....	+39	+39	+39	+39	+40	+196
Outlays	....	+38	+38	+38	+39	+40	+193

Program Description

The Immigration and Naturalization Service (INS) is responsible for the admission, exclusion, apprehension, deportation and naturalization of aliens.

Current Status

During the past four years the Administration has sought to improve the management and information systems of the INS and to target resources to ensure the most effective enforcement of the immigration laws.

1985 Budget Proposal

The budget proposes to add 1,000 positions to strengthen the border patrol presence against illegal immigration, especially on the Southern border, since more than half of all apprehensions occur over a limited portion of this border. The proposal includes 850 positions for the border patrol and 150 positions for detention and deportation, anti-smuggling and legal proceedings. This proposal would increase enforcement workyears by 16% over 1983 actual levels and 14% over 1984 projected levels.

Offsetting management savings of $4.8 million and 150 workyears are expected from implementing a Grace Commission recommendation. These savings would be achieved by reducing central and regional office staff based on a realignment of the roles and responsibilities of central and regional offices vis-a-vis the district offices. This proposal would affect all program areas but is not expected to reduce service or program operations.

In 1985, 65% of the INS budget would be devoted to enforcement programs—up from 61% in 1984 and 58% in 1983.

Rationale

The budget responds to growing pressure to strengthen border enforcement presence against illegal immigration. Administration supported legislation to deter illegal immigration through a combination of legalization and employer sanctions is also intended to assist in the control of the Nation's borders.

With these additional resources, apprehensions of illegal aliens are expected to increase by 36% over 1983 actual levels and 19% over 1984 projected levels.

Customs Service

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	626	640	703	743	784	825	3,695
Outlays	618	629	688	728	768	809	3,622
1985 Budget Level:							
Budget Authority	626	608	651	690	731	772	3,452
Outlays	618	599	641	682	722	763	3,407
Change:							
Budget Authority	....	−32	−52	−53	−53	−53	−242
Outlays	....	−30	−47	−46	−46	−46	−214

Program Description

The Customs Service administers and enforces the Tariff Act of 1930 and other laws which govern international traffic and trade. Customs seeks to facilitate legitimate cargo and passenger traffic and to detect illegal practices and seize contraband goods. In addition Customs collects nearly $10 billion in taxes and fees related to international trade.

Current Status

During the past four years, the Administration has sought to strengthen Customs' enforcement programs while at the same time seeking labor savings and operating efficiencies by automating commercial processing and streamlining field structure and procedures. In fact, funding for Customs' enforcement programs increased by 62% since 1980.

1985 Budget Proposal

The budget proposes a reduction of 954 direct workyears and 46 reimbursable workyears from 1984 levels. Savings are targetted to Customs' commercial operations in the belief that long-needed modernizations such as automation of the cargo entry process and staff consolidation will achieve labor savings in 1985.

The specific reductions would be accomplished by closing central and regional offices (231 workyears), consolidating appraisement specialists, laboratory staff and marine officers (277 workyears) and increasing selectivity of inspection (415 workyears). In addition, limited duration staff associated with the Olympics would no longer be necessary.

In addition to reductions discussed above, the budget would fund expansion of automated systems that are critical to accomplishing efficiencies.

Rationale

The 1985 budget continues the Administration's efforts to modernize the Customs Service through automation of commercial processing and streamlining field structure and functions.

The budget proposal for greater use of selective processing and inspection techniques based on risk assessment of cargo and passenger traffic would allow Customs to achieve efficiencies.

Department of Justice Legal Divisions

[In millions of dollars] Agency: Department of Justice

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	706	795	835	877	919	961	4,387
Outlays	704	775	814	855	897	933	4,275
1985 Budget Level:							
Budget Authority	717	813	859	900	941	983	4,497
Outlays	715	796	837	878	919	961	4,390
Change:							
Budget Authority	+11	+18	+24	+23	+22	+22	+110
Outlays	+11	+20	+23	+23	+22	+27	+115

Program Description

The legal divisions at the Department of Justice litigate all of the Federal Government's criminal cases and most of its civil cases.

Current Status

The Administration has made a commitment to improving the Federal justice system. In the past year, litigative resources, attorneys and support staff, and funds for improved automated techniques to gather data and manage cases have been added to keep pace with expanded law enforcement activities. These increases are making inroads in case backlogs and provide for affirmative litigation in those areas of greatest priority.

1985 Budget Proposal

The 1985 budget would provide additional resources for the U.S. Attorneys to support the expansion of the Organized Crime Drug Enforcement Task Forces into Florida, Puerto Rico and the Virgin Islands. Increases for the Criminal and Tax Divisions would provide needed support to all the task forces.

A major increase for tax prosecution and litigation would add 150 positions and $8.3 million to permit the Tax Division and the U.S. Attorneys, in conjunction with the Internal Revenue Service, to enforce recent changes in the tax laws. Additional resources for each U.S. Attorney's office would provide a coordinator for Law Enforcement Coordinating Committees and the victim/witness assistance programs.

Expanded environmental enforcement and increased resources for commercial and torts litigation are proposed for the Lands and Civil Divisions. Full-year funding totaling $7 million and 33 positions would be earmarked for a major litigation team, under the control of the Department's Civil Division, to defend the hundreds of cases against the United States expected to result from the recent bond default by the Washington Public Power Supply System.

Rationale

In an increasingly litigious society, the Government's attorneys must be equipped to handle the workload that is thrust upon them as well as to seek out affirmative litigation to meet enforcement objectives effectively. They must have the staff and the technology to be able to challenge the increasingly sophisticated white collar criminal as well as the drug trafficker.

Federal Judicial Activities

[In millions of dollars]

Agency: The Judiciary

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Service:							
Budget Authority	928	1,070	1,151	1,239	1,330	1,425	6,215
Outlays	922	1,059	1,133	1,220	1,310	1,404	6,126
1985 Budget Level:							
Budget Authority	928	1,053	1,144	1,232	1,323	1,417	6,168
Outlays	922	1,042	1,126	1,213	1,303	1,396	6,080
Change:							
Budget Authority	....	−18	−7	−7	−7	−8	−47
Outlays	....	−17	−7	−7	−7	−8	−47

Program Description

This category covers all parts of the Federal judicial system, including the courts, the Administrative Office, and the Federal Judicial Center.

Current Status

Consistent with the emphasis given law enforcement in the United States since the late 1960's, outlays for Federal Judicial Activities grew by an average annual rate of 7.8% in constant dollars from 1970 to 1980 and will increase by 7% from 1981 to 1985.

1985 Budget Proposals

The request for 1985 would increase budget authority by 13% in nominal dollars and 8.1% in real terms.

Outlays for Federal Judicial Activities for 1985 and beyond would be only slightly below the current services level and would grow by 3.3% per year in real terms between 1985 and 1989.

The largest percentage increases in the 1985 budget for judiciary activities are for the United States Tax Court (40% in nominal dollars) and the United States Court of Appeals for the Federal Circuit (32%). The request for the other units in the judicial activities budget is about 12.5% above the enacted 1984 amount and is primarily for the salaries of judges and supporting staff and associated administrative costs.

The increase for the United States Tax Court would provide for 37 new positions to support an estimated 29% workload increase in disposed cases; the establishment (on a trial basis) of an office for special trial judges; a new satellite library for special trial judges; associated word processing equipment; increased travel for judges due to the creation of a "summer session" lasting 35 weeks and additional cases concerning tax protesters and tax shelters; and higher unavoidable costs.

The increase for the United States Court of Appeals for the Federal Circuit is predominantly for standard level user charges.

Rationale

In accordance with law, the Federal Judicial Activities budget is presented in the President's Budget without review and in the amounts submitted by the agencies.

Correctional Activities

[In millions of dollars] Agency: Department of Justice

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Service:							
Budget Authority	480	469	494	522	549	577	2,611
Outlays	491	517	533	524	536	559	2,669
1985 Budget Level:							
Budget Authority	489	571	565	589	584	613	2,923
Outlays	500	578	570	569	603	618	2,938
Change:							
Budget Authority	+9	+102	+71	+68	+36	+36	+313
Outlays	+9	+61	+37	+45	+67	+59	+269

Program Description

The Federal Government is responsible for the care and custody of prisoners charged with or convicted of violating Federal laws.

Current Status

The Administration has made a firm commitment to Federal prison construction. It has provided 180% more funding for prison building than the previous Administration and 53% of the total resources spent for this purpose over the past 12 years. This has enabled the Federal prison system to keep up with the unprecedented growth in the Federal prisoner population.

1985 Budget Proposal

In response to the growth of the Federal prisoner population, site and planning funds would be provided for a new prison in the southeastern U.S., and construction funds would be provided for a prison in the northeast. Additional funds would be made available to renovate and expand existing facilities and to provide for additional correctional officers.

Rationale

One of the fundamental responsibilities of Government is to provide for the safety of the people. As a result of the increased investigative and prosecutorial efforts of this Administration, significant new funding for Federal prison expansion and modernization has been necessary. This will ensure that intensified efforts to investigate and prosecute crimes will not be frustrated at the other end of the criminal justice system by insufficient space to incarcerate those convicted.

Secret Service

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	309	294	301	319	355	339	1,609
Outlays	300	286	292	311	345	330	1,564
1985 Budget Level:							
Budget Authority	309	289	298	317	363	349	1,617
Outlays	300	281	292	311	357	343	1,584
Change:							
Budget Authority	....	−6	−3	−2	+8	+10	+8
Outlays	....	−4	....	+1	+11	+12	+20

Program Description

The Secret Service is responsible for protection of the President and other officials, investigation of currency counterfeiting and check forgeries, and protection of the White House and some other Federal buildings in Washington, D.C.

Current Status

The 1984 congressional action provided for a higher level of employment for the Service. At the same time, Congress requested that the payments to State and local governments for the cost of protection of diplomatic missions to the United Nations be shifted to the Department of State.

1985 Budget Proposal

The 1985 budget includes $12 million for equipment. This emphasis on equipment enhancements would provide the Service with the ability to use sophisticated electronic and computer technologies in carrying out its protective and other functions. The budget proposal carries out the Congressional request to shift to the Department of State the cost of protection of diplomatic missions to the United Nations.

Rationale

The Secret Service, in order to carry out its protective missions, as well as its criminal investigations in the areas of forgery, counterfeiting and electronic funds fraud relating to Treasury securities, needs sophisticated equipment to deal with a world in rapid technological change. The 1985 budget would allow the Service to carry out its protective mission effectively and efficiently, as well as to close 211,000 cases.

Miscellaneous Civil Rights and Equal Opportunity Activities

Agency: EEOC/CRC/ED/HHS/HUD/ATBCB

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	266	275	290	304	319	333	1,521
Outlays	269	274	289	303	318	333	1,517
1985 Budget Level:							
Budget Authority	266	271	286	299	312	325	1,493
Outlays	269	273	284	297	309	323	1,486
Change:							
Budget Authority	....	−4	−4	−5	−7	−8	−27
Outlays	....	−1	−5	−7	−9	−10	−31

Program Description

This category includes the Equal Employment Opportunity Commission (responsible for enforcing Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, and the Equal Pay Act); the U.S. Commission on Civil Rights; and the Offices for Civil Rights in the Departments of Education and Health and Human Services (responsible for assuring nondiscrimination in programs and activities receiving funds from their respective agencies). The Fair Housing Act activities of the Department of Housing and Urban Development and the Architectural and Transportation Barriers Compliance Board (which assures compliance with the Architectural Barriers Act of 1968) are also included in this category.

Current Status

This Administration has maintained and expanded protections for the civil rights of individuals while realizing personnel and other economies available through management and program reforms, increased efficiency, and enhanced involvement of State and local governments in assuring nondiscrimination. As with Federal civil rights programs generally, the accomplishments of these activities in 1983 continued to demonstrate the success of this approach. For example, the Department of Education's Office for Civil Rights reduced its inventory of pending complaints by 27% and the Department of Health and Human Service's Office for Civil Rights increased its number of completed compliance reviews by over 200%. As a result of the Department of Housing and Urban Development's efforts to increase the capability of State and local agencies to resolve fair housing complaints, 2,736 complaints were referred to these agencies for processing in 1983, over 500% more than during the last year of the prior administration. Also during 1983, the Equal Employment Opportunity Commission secured $182.9 million in back pay and other financial settlements for victims of discrimination—136% more than during the last year of the prior administration.

1985 Budget Proposal

Budget authority for these combined programs would continue to rise and savings from the current services level during 1985-1989 would total less than 2%.

Rationale

Protecting the civil rights of all Americans is a basic Federal responsibility and a central commitment of this Administration. Therefore, despite the clear need to achieve significant reductions in Federal expenditures, the Administration believes that it is essential to continue to fund these and other Federal civil rights activities at substantial levels that will maintain and enhance their scope and effectiveness.

Management of the Public Domain

Naval Petroleum Reserves

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	−1,030	−1,059	−992	−959	−911	−829	−4,750
Outlays	−1,047	−1,046	−1,000	−956	−909	−840	−4,751
1985 Budget Level:							
Budget Authority	−1,017	−1,057	−992	−959	−911	−830	−4,749
Outlays	−1,017	−1,047	−1,000	−956	−909	−840	−4,752
Change:							
Budget Authority	+13	+2	....	....	....	....	+1
Outlays	+30	....	....	....	....	....	−1

Program Description

The Federal Government owns three oil fields: at Elk Hills and Buena Vista near Bakersfield, California, and at Teapot Dome near Casper, Wyoming.

- These fields were originally set aside before 1925 to supply oil to the Navy in an emergency.
- In 1976, Congress decided that defense and other emergency energy needs could be met more effectively by building the Strategic Petroleum Reserve and that the oil in the Navel Petroleum Reserves (NPRs) should be produced and sold.

Current Status

Oil and gas is produced and sold at these fields in a manner consistent with standard commercial oil field practice. Production is currently 115,000 barrels of crude oil per day—about 1.3% of U.S. domestic production. In 1984, sales receipts to the U.S. Government—and thus to the taxpayer—are expected to be $1.5 billion. Of this amount, $0.2 billion is paid to the Treasury as taxes under the Windfall Profit Tax Act. The remaining $1.3 billion is credited to this account. Partially offsetting these receipts is $0.3 billion needed to operate, develop, and maintain these producing properties.

1985 Budget Proposal

The budget proposes that production and sale of oil and gas at the NPRs continue under current arrangements through 1989 and beyond. Net receipts from the fields are expected to decline gradually as the fields are depleted, the production rate decreases, and the cost of operating them increases.

Rationale

It makes sense to continue producing and selling oil and gas at the NPRs.

- The Administration supports the productive and efficient use of resources. Production of oil and gas at the NPRs is clearly efficient, since it results in roughly a billion dollars of income to the Federal Government each year over and above operating costs.
- Our emergency needs for petroleum for defense and other national purposes can be met more effectively by building up the Strategic Petroleum Reserve (SPR) than by shutting in the

NPRs. If an emergency occurs, what will be needed is a lot of oil immediately. The emergency pump out rate for the NPRs is 200,000 barrels of oil per day or less. The emergency pump out rate for the SPR is currently 1.7 million barrels per day—over eight times as fast—and that rate is slated to rise to 3.5 million barrels per day—17 times as fast—by 1987.

Forest Service

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	431	320	237	180	158	141	1,036
Outlays	574	314	226	169	147	130	987
1985 Budget Level:							
Budget Authority	465	281	213	150	128	116	888
Outlays	608	293	253	146	125	113	930
Change:							
Budget Authority	+34	−39	−24	−30	−30	−25	−148
Outlays	+34	−21	+26	−23	−22	−17	−57

Program Description

This includes all Forest Service programs except payments to States and land acquisition. Major activities include administration of the national forest system, forestry research, and State and private forestry. It also includes offsetting receipts earned by Forest Service activities, chiefly timber sales.

Current Status

Substantial reductions, totaling about $700 million in 1985 dollars have already been made since 1981 in these Forest Service programs. Reductions have been achieved primarily by improving efficiency and by reducing a number of programs. For example, road costs have been reduced by implementing efficiency measures. A timber sale level of 11.2 billion board feet is planned in 1985 versus 11.9 billion board feet in 1981 due to changed demand estimates and continuing increases in the amount of timber under contract.

Current service outlays in 1984 were high relative to budget authority due to use of carryover balances in 1984.

1985 Budget Proposal

Gross program funding of almost $1.8 billion requested for 1985 would be slightly higher than 1984 and about $85 million lower than the current services level.

The budget would sharply reduce grants to State forestry organizations and would modestly reduce research and national forest system activities. In 1984, States are expected to receive direct financial assistance of $23 million, which defrays only a small part of their costs. The 1985 budget would eliminate all grants with the exception of a special grant to Minnesota required by site specific law.

The change in current services from 1984 to 1985 primarily reflects a large increase in offsetting receipts due to past program activities and projected market conditions.

Rationale

The 1985 proposal would achieve some important reforms, improve efficiency and fund appropriate program levels. Proposed program reforms would limit the Federal role to technical assistance on State forestry problems of national importance and to collection and analysis of national statistics.

While research would continue at about the same level as in 1984, inefficient and completed work units would be closed or consolidated.

Management of the national forest system would be funded at about the same level as 1984. Continued increases in program and management efficiency are anticipated. In view of limited opportunities for profitable sales at present prices and lagging harvests from the 40 billion board feet (BBF) of timber already under contract, new timber sales are planned to decline from 11.7BBF in 1984 to 11.2BBF. However, receipts primarily from prior year sales contracts would increase, accounting for the anticipated rise in offsetting receipts noted above.

Bureau of Land Management and Minerals Management Service

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	620	643	663	698	733	768	3,506
Outlays	648	636	657	691	726	761	3,471
1985 Budget Level:							
Budget Authority	620	613	637	664	695	729	3,338
Outlays	648	611	630	658	688	723	3,310
Change:							
Budget Authority	....	−30	−27	−34	−38	−39	−168
Outlays	....	−25	−26	−33	−37	−38	−161

Program Description

The Bureau of Land Management (BLM) is responsible for the management and development of 310 million acres of public lands. This includes responsibility for leasing and supervision of minerals operations on public lands and on 370 million acres of land owned by others where the Federal Government owns the minerals.

The Minerals Management Service (MMS) leases oil and gas resources on the Outer Continental Shelf (OCS) and collects royalties and other income produced from minerals leases both onshore and offshore.

Current Status

Increased efficiency has been achieved in a number of these programs by streamlining operations, such as BLM land use planning and OCS leasing. There have been funding increases for collection of mineral leasing receipts, an area which had been poorly managed until recently. To improve management the program was moved to a new agency, Minerals Management Service, and additional funding was requested in 1982-1984.

1985 Budget Proposal

The budget would fund these programs close to the current level. Minor reductions below current services are proposed in various programs where workload increases have been moderated through reform. Small increases are proposed for onshore energy leasing and royalty collections, offset by various smaller decreases.

Rationale

Increased competitive oil and gas leasing is expected onshore. Annual growth in the number of leases in production is expected to be 5-10%. The budget would fund workload increases in both leasing and post-lease enforcement and inspection.

New computer equipment is needed to cope with higher than expected workload in the royalty collection program. The budget proposes an 11% increase for the program.

Public Lands Acquisition

[In millions of dollars]

Agencies: USDA/DOI

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	317	297	310	322	334	345	1,608
Outlays	385	298	289	305	312	292	1,495
1985 Budget Level:							
Budget Authority	287	167	168	168	169	169	842
Outlays	385	284	242	231	209	173	1,141
Change:							
Budget Authority	−30	−130	−142	−154	−165	−176	−767
Outlays	....	−14	−47	−74	−103	−118	−355

Program Description

Using Land and Water Conservation Fund receipts (primarily revenues from Outer Continental Shelf oil leases), Interior's National Park Service and Fish and Wildlife Service, and Agriculture's Forest Service acquire land to create or expand nationally significant Federal recreation areas. Areas acquired become designated as national parks, wildlife refuges, and forests or become part of existing lands already designated as such. The National Park Service also administers matching grants to States for outdoor recreation lands and facilities.

Current Status

When the Administration came into office, national park and refuge maintenance was badly neglected, a huge backlog of recreational land condemnation cases had developed, and agency plans for future land purchases were in disarray. As a result, the past three budget proposals limited the request for land acquisition funding to property subject to awards under condemnation proceedings begun in prior Administrations and to emergency purchases.

The Administration's goals have been to reduce the backlog of acquisitions, to focus available resources on fixing up existing national parks, and to hold off on new Federal grants for State and local parks until their backlog was cleared and the Federal fiscal situation permitted such assistance.

The Congress appropriated funds greatly in excess of the Administration's request for land acquisition in each of the three years, while not fully covering the costs of ongoing court awards.

1985 Budget Proposals

The Administration's 1985 budget would:

- substantially increase, to $140 million, the Administration's request for acquisition of national park, refuge, and forest lands—including high priority conservation areas with approved land protection plans, parcels subject to condemnation awards, and emergency purchases;
- propose legislation and $27.5 million in funding for both Federal and State wetlands acquisition;
- terminate $30 million in never-used and unnecessary contract authority for land purchases; and
- provide no funding for State outdoor recreation grants for State and local park acquisition.

Rationale

After three years the goal of correcting for park and refuge neglect is being achieved, the condemnation backlog has been reduced to a manageable level and new land protection plans for charting future acquisitions are in place. These developments enable the Administration to propose a major increase relative to its previous requests for acquisitions of lands in nationally significant historic, preservation, or recreation areas specifically designated by Congress. The amount requested, while less than the level appropriated by Congress in 1984, meets the needs of an orderly acquisition program.

The funds proposed for wetlands acquisition would meet a critical need to conserve habitat vital to migratory birds, endangered species and other wildlife of Federal interest.

While the Administration is proposing to proceed with Federal land acquisitions in areas of national significance specifically designated in Federal law, we still consider it appropriate to postpone grants to States for purchase of lands and facilities for purely local recreation until the Federal deficit situation improves. This proposal poses no personal or economic hardship, nor does it compromise any Federal objective. About $400 million from prior years' appropriations remain available to complete projects underway.

Fish and Wildlife Service

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	455	483	513	547	581	621	2,745
Outlays	470	480	500	534	567	607	2,688
1985 Budget Level:							
Budget Authority	456	462	493	522	557	595	2,629
Outlays	471	472	494	513	546	584	2,608
Change:							
Budget Authority	+1	−21	−19	−25	−25	−26	−116
Outlays	+1	−8	−7	−21	−21	−23	−80

Program Description

The Fish and Wildlife Service operates 419 national wildlife refuges and 75 fish hatcheries. The Service is involved in fish and wildlife research, migratory bird management, endangered species protection, animal damage control, and consultation on water resource development projects.

Current Status

The operations funding level has been relatively stable for several years, representing the continuation of programs for conservation, protection, and enhancement of fish and wildlife.

Certain Federal fish hatcheries serving local areas have been transferred to the States and internal operations have been more efficiently organized by the closure of an unnecessary layer of area offices. These cost savings have been applied to improved maintenance and operations at the same budget level.

1985 Budget Proposals

The Administration's budget for Fish and Wildlife Service operational programs would increase funding by about 1 percent in 1985 to maintain current program levels. Savings would be achieved through additional hatchery transfers or closures.

The 1985 budget proposal emphasizes efforts to conserve valuable wetlands (+$28 million) involving Federal/State cooperation, and a lake liming and evaluation program (+$6 million) to improve the sport fishery and other values in acidified lakes and streams. The construction program would be funded at a lower level (-$20 million) than in 1984.

Rationale

The Administration's proposal would provide for:

- continuation of program operations;
- mitigation of acidified surface waters and evaluation to improve sport fisheries for selected demonstration projects;
- acquisition of Federal refuge wetlands to protect their intrinsic values and initiation of a state wetland grant program;
- additional support for refuge maintenance improvements; and
- limitation of construction projects primarily to remaining health and safety problems in 1985.

National Park Service

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	680	796	823	860	900	942	4,320
Outlays	720	790	811	844	892	936	4,274
1985 Budget Level:							
Budget Authority [1]	682	746	771	796	825	862	3,999
Outlays	722	771	782	795	824	861	4,033
Change:							
Budget Authority	+3	−50	−52	−64	−76	−79	−321
Outlays	+3	−20	−28	−49	−69	−75	−241

[1] The base for calculating 1985 current services is the appropriation amount shown for 1984 plus $64 million appropriated in 1983 but deferred by law until 1984, leaving a current services base program level in 1984 of $744 million, and a 1984 budget program level of $746 million.

Program Description

The National Park Service operates 334 park and historic areas comprising about 75 million acres. There are approximately 250 million recreational visits to these parks and historic areas per year.

Current Status

The reduction in budget authority from current services stems from a one-time bulge of $64 million in 1984 for capital improvement projects. This higher 1984 base results in artificially high current service estimates in 1985 through 1989.

Administration budgets have called for a steady increase in dollars spent on maintaining our national parks. The outlay trend tells the story:

Increased Funding for Park Operations

(Outlays in millions)

Year	Level	Percent change from prior year
1981	607	....
1982	616	1.5%
1983	676	9.7%
1984 budget	722	6.8%
1985 budget	771	6.8%
Average annual change 1981–1985	41	....

1985 Budget Proposal

In 1985 the Administration proposes to continue its policy of allocating resources to enhance the operation of the exisiting 334 units of the national park system, including rehabilitation of aging facilities and utility systems through the multi-year park restoration and improvement program.

In addition to the funding shown here, $100 million would be provided for this initiative through the Department of Transportation's Federal lands highway program for improving roads in the parks.

Rationale

By maintaining an enhanced level of operational funding and continuing the rehabilitation initiative, the Administration is investing in the nationally significant resources held in trust for all Americans by the National Park Service.

Before 1981 Park Service operations were relatively shortchanged as funding focused on expanding the number and types of units in the park system. This Administration has preferred to improve visitor services and protection and eliminate the immediate critical problems of road deterioration, hazardous visitor accomodations, and inadequate water and sewer systems within heavily utilized parks. In the 1985 budget the Administration is proposing increased funds for land acquisition as well as enhanced funding for park operations.

Geological Survey

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	382	430	458	488	518	548	2,442
Outlays	408	428	456	486	516	546	2,432
1985 Budget Level:							
Budget Authority	382	396	426	450	476	504	2,252
Outlays	408	395	425	448	475	504	2,246
Change:							
Budget Authority	....	−34	−32	−38	−41	−44	−189
Outlays	....	−34	−32	−38	−40	−42	−185

Program Description

The Geological Survey (USGS) produces basic scientific data and maps of water, land and mineral resources. Information is provided on the extent and character of these resources and on the geologic processes which affect their development. Users of the products include Government agencies and various individuals and businesses in the private sector.

Current Status

Most of the information generated by USGS is important to the national economy but of such a general nature that it would not normally be produced by any user. A standard set of topographic maps covering the entire country and historic and current data on the quantity and quality of surface and ground water resources are examples of such information. However, some of the users of information generated by the USGS could produce similar data and maps themselves. The information sometimes addresses problems which are local or regional rather than national and is useful to only a limited number of people.

1985 Budget Proposals

This budget proposal would continue the essential national work of the Geological Survey. Reductions below current services are proposed in mapping (-$3 million), geologic and mineral resource surveys (-$13 million) and water surveys (-$18 million). Some of these reductions would be offset, and the services provided, through increased user fees rather than through appropriations. A $3 million increase is proposed to provide map data for the 1990 Census.

Rationale

The proposed 1985 level would reduce funding for programs where the State and local governments, private companies, or other users could perform the work themselves or increase the fee they pay the USGS program for providing the services.

- Coal producers would provide data to State regulatory authorities on the hydrologic consequences of proposed coal mines.
- State and local government and industry would replace Federal support for Water Resources Research Institutes.
- Users would pay increased charges for cartographic and geographic information.
- Energy resource surveys would be reduced in favor of private sector research.

Bureau of Mines

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	138	145	153	161	169	177	804
Outlays	149	144	152	160	168	176	799
1985 Budget Level:							
Budget Authority	138	119	126	132	138	145	660
Outlays	149	127	126	131	137	144	665
Change:							
Budget Authority	....	−26	−26	−29	−31	−32	−145
Outlays	....	−17	−25	−29	−31	−32	−134

Program Description

The Bureau of Mines carries out research to expand general knowledge of mining and to assist the mining industry by developing new mining equipment which reduces hazards to miners' safety and increases productivity. The Bureau also develops new minerals processing techniques which conserve scarce resources or make use of low grade domestic minerals. The Bureau's Mineral Institute program provides grants to universities to carry out similar research. The Bureau also collects data on worldwide mining production, which is used by Government policy makers, industry and academics.

Current Status

The Administration has previously proposed budget savings in the Bureau's research programs because it feels that industry is capable of financing more of the developmental research which the Bureau carries out for the benefit of the mining industry, and sometimes for the benefit of specific companies. Changes to the tax code and improvement in the economy have provided incentives to the industry to increase funding for internal research programs as well as university research.

1985 Budget Proposal

The budget would continue current levels of funding for information collection and for fundamental research which enhances the base of scientific knowledge in the U.S. The budget would reduce funds for the development and testing of prototype equipment and would eliminate funding for Mineral Institutes.

Rationale

Savings in the health and safety research program are proposed because the Bureau has successfully completed development of equipment to meet Federal mining health and safety standards. Savings in other programs are proposed because the costs of development and testing of specific pieces of mining equipment and research on problems of specific mining districts should not be financed by the taxpayer for the direct benefit of an industry. The economic recovery should enable the mining industry to take over these lines of research if they are considered worthwhile.

No funding is proposed for the Mineral Institute program because the program was only intended to provide seed money to strengthen mining programs at participating universities. It has proved successful in helping schools attract non-Federal support for research. The Mineral Institutes currently receive 89% of their research money from non-Federal sources. Therefore, the Federal subsidy to these institutes can be discontinued without seriously weakening their research programs.

Payments to States and Counties From Land Management and Forest Service Receipts

[In millions of dollars]

Agency: USDA/DOI

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,098	1,135	1,292	1,445	1,587	1,696	7,156
Outlays	1,098	1,135	1,291	1,444	1,586	1,695	7,151
1985 Budget Level:							
Budget Authority	1,098	1,073	1,158	1,273	1,378	1,459	6,340
Outlays	1,098	1,073	1,158	1,272	1,378	1,458	6,339
Change:							
Budget Authority	....	−62	−134	−173	−209	−238	−815
Outlays	....	−62	−134	−172	−208	−236	−811

Program Description

The three major programs which provide fiscal assistance to counties and States where Federal lands or resources are located are:

- *Payments to States from Forest Service receipts.*—One-quarter of all national forest receipts plus certain credits and deposit amounts must be paid to States. The States must spend the money to benefit schools and roads in the counties where the national forests are located.
- *Payments to States from Federal mineral leasing receipts.*—Half of receipts derived from on-shore leases are distributed to the States, except in Alaska where 90% of receipts are returned to the State.
- *Payments in lieu of taxes (PILT).*—Payments are made to counties where Federal lands are located, including lands managed by the Bureau of Land Management, the Forest Service, the National Park Service, and other agencies. Payments are 75 cents per acre reduced by amounts received the previous year from selected Federal programs, or 10 cents per acre, whichever is higher.

Current Status

Payments to States from the Forest Service were sharply reduced in 1983 due to the very low volume of timber harvested in 1982. Such payments are projected to increase in 1984 and the future as the large volume of uncut timber under contract is harvested. Payments to States from mineral leasing receipts will be high in 1984 because a statutory change requires the payment schedule to be converted from semi-annual to monthly. This moves 17 months of payments into 1984, with 12 months' share being distributed in 1985. Future receipts are projected to increase steadily due to the active Federal mineral leasing program.

1985 Budget Proposals

The budget proposal would place payments to States from Forest Service receipts on a basis more comparable to the property tax on lands in private ownership. Estimated payments would be $285 million in 1985, compared to $144 million in 1983 and $204 million in 1984.

The proposal for the mineral leasing program would deduct one-half of the collection costs from the States' share before receipts are distributed. Estimated payments would be $599 million.

The PILT program would remain at the 1984 level of $105 million, which represents full funding under current statutes.

Rationale

Forest Service.—The budget proposal would provide more assurance to the counties on the amount of revenue that would be available. It would guarantee that huge reductions such as experienced in 1983 would not recur. It would treat the Federal Government like other landowners for purposes of property taxation. It would also be more equitable to the Government. Under the proposal there would no longer be a "tax" on gross revenue with no recognition of the cost of generating that revenue.

Mineral leasing.—States now receive about 50% of Federal mineral leasing receipts, but the Federal Government bears the total cost of their collection. The budget proposal would deduct approximately one-half of the cost of the Interior Department's royalty management program, $15 million, from the States' share of receipts. As a result, all recipients of the revenues would equitably share in the cost of collecting them.

Rent and Royalties on the Outer Continental Shelf

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority and Outlays	–8,700	–7,400	–11,300	–11,600	–11,000	12,200	–53,500
1985 Budget Level:							
Budget Authority and Outlays	–8,700	–7,400	–11,300	–11,600	–11,000	–12,200	–53,500
Change:							
Budget Authority and Outlays	....	....	....	....	....	....	....

Program Description

This program includes receipts to the Government from the competitive sale of Outer Continental Shelf (OCS) oil and gas leases. Such a lease gives the lessee rights to explore the lease area and to produce any oil and gas discovered subject to the provisions of applicable law and regulation. The program also includes receipts from annual rentals on leases, royalties on production and other forms of receipts to the Government which may be required by lease provisions. The funds collected are treated as undistributed offsetting receipts applied against budget outlays as a whole rather than any specific account or accounts.

Current Status

Receipt levels from this program depend upon a large number of factors including:

- The size, timing, and location of leasing activity as determined by the approved 5-year leasing program. This leasing program is prepared and maintained through a lengthy and detailed administrative process established by the OCS Lands Act. The process is designed to achieve a proper consideration and balancing of economic, social, and environmental values and to ensure that State and local governments, interested Federal agencies, firms in the industry, other private entities and the Congress are adequately informed and have appropriate opportunity to comment and to make recommendations on the proposed program.
- The current and expected market prices for oil and gas.
- The capital available to industry for investment in lease acquisitions, exploration and development, and the alternative opportunities available for investing that capital.

Program changes instituted by this Administration have already achieved major increases in OCS receipts by a policy of area-wide sale offerings, particularly in the Gulf of Mexico planning areas. The Administration's 5-year leasing program also is designed to initiate exploration in "frontier" OCS areas in order to improve our knowledge of what petroleum resources we may have in our offshore lands.

1985 Budget Proposal

The budget estimates for the 1985 part of the approved 5-year program assume a reduction of OCS receipts compared with previous years. Royalties are expected to be moderately below 1984 because of lower expected gas prices. Bonuses from lease sales are expected to decline significantly compared to 1983 and 1984 because several area-wide sales in the Gulf of Mexico planning areas have already leased the most promising tracts and because of the relative geological promise and the timing of the specific sale offerings in those years.

Rationale

The 1985 budget proposal assumes an orderly implementation of the approved program. It also assumes that the long-standing standard processes for ensuring environmental protection, for coordination with State and local governments, for safety in exploration and development, and for achieving fair market value will continue to be fully implemented.

Miscellaneous Interior Offsetting Receipts and Operating Programs

[In millions of dollars] Agency: Department of the Interior

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	−1,210	−1,325	−1,463	−1,671	−1,846	−1,975	−8,280
Outlays	−1,175	−1,322	−1,470	−1,681	−1,854	−1,983	−8,310
1985 Budget Level:							
Budget Authority	−1,210	−1,403	−1,634	−1,850	−2,033	−2,168	−9,088
Outlays	−1,175	−1,374	−1,576	−1,812	−2,016	−2,160	−8,938
Change:							
Budget Authority	....	−79	−171	−179	−187	−193	−808
Outlays	....	−52	−106	−131	−162	−178	−628

Program Description

The funding levels reflected above include both receipt and spending programs. The major share of the receipts are derived from Interior's minerals leasing, timber, recreation fee and Indian claims programs. The major operating programs reflected above include funding for Indian land management and conservation and fiscal assistance for the U.S. territories and Trust Territory.

Current Status

Mineral leasing receipts are shared with the states in which the receipts are generated—50% in all states except Alaska which receives 90%. From the remainder, 10% is deposited to the General Fund to offset the cost of other programs in the Interior Department and 40% is deposited in the Federal Reclamation Fund to finance water projects. Receipt totals are influenced by the market price of minerals, general economic conditions and the pace of leasing on Federal lands. Generally current services and budget levels are identical.

Current law imposes major restrictions on the collection of recreation user fees, many of which have not been increased since the 1960's.

1985 Budget Proposals

The major changes in the Administration's 1985 budget would:

- Increase entrance and user fees collected at recreation sites operated by the National Park Service and the Corps of Engineers by $31 million. (A similar proposal for Forest Service is accounted for elsewhere.)
- Reduce funding of construction grants to the territories and Trust Territory by $38 million as past projects are completed.
- Maintain other programs at the current service level of funding.

Onshore mineral leasing receipts are projected to total $1.3 billion in 1985 but no major policy changes or initiatives are proposed.

Rationale

The Administration believes that those who benefit directly from Federal services should pay a larger share of the costs of the services and the general taxpayer less. Under this policy a large number of user charge proposals have been made by this Administration.

Funding for most previously initiated construction projects in the territories was completed in 1984.

Science, Medical Research and Cultural Programs

National Science Foundation

[In millions of dollars] Agency: National Science Foundation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,326	1,390	1,452	1,514	1,573	1,632	7,561
Outlays	1,242	1,348	1,409	1,467	1,526	1,583	7,334
1985 Budget Level:							
Budget Authority	1,326	1,507	1,575	1,644	1,711	1,773	8,210
Outlays	1,242	1,457	1,530	1,596	1,661	1,720	7,964
Change:							
Budget Authority	....	+118	+122	+130	+137	+141	+649
Outlays	....	+109	+120	+128	+134	+137	+630

Program Description

The National Science Foundation (NSF) chiefly supports basic research in all disciplines of science and engineering, principally through project grants to researchers at academic institutions. NSF also supports programs to help States and localities improve pre-college science education in the Nation's schools.

Current Status

The Administration is committed to excellence and leadership in the pursuit of basic scientific and engineering research vital to the Nation's long-term economic growth. The 1985 budget builds on the Administration's already strong record of support for basic research through programs of the NSF as well as those of other agencies such as the Departments of Defense, Energy, Agriculture and Health and Human Services. For NSF, from 1981 to 1984, the budget has increased by nearly 30%, from $1.0 to $1.3 billion.

1985 Budget Proposal

The 1985 budget for NSF would provide budget authority of $1.5 billion, an overall increase of 14% over 1984. The increased funding would continue support for important ongoing research, initiate several major new research programs, and make the capital investments necessary to enable advances in promising scientific disciplines. Specifically, the proposed budget would:

- Enhance support of research and related professional training in science and engineering: The budget would provide a 13% increase (from $1.17 billion in 1984 to $1.33 billion in 1985) for support of basic research. Included in this enhanced support are:

  - *Investments to increase the productivity of the Nation's scientific and engineering enterprise.*—These include: a 20% increase for improvement of research instrumentation, principally at universities, to provide researchers with state-of-the-art scientific equipment; and increased funding to enhance the access of academic scientists and engineers to supercomputers.

  - *New mechanisms for improving the quality and relevance of research and related training.*— In addition to the support of research and related training through project grants, the budget includes a new program of centers at universities to stimulate cross-disciplinary engineering research and to provide additional valuable opportunities for advanced training of students. In addition, these centers would conduct research in areas important to long-term U.S. economic competitiveness and would promote stronger linkages between universities and industry.

- *Selected investments to advance the frontiers of science in promising disciplines.*—These include the acquisition of an advanced supercomputer for the National Center for Atmospheric Research and initiation of construction of the Very Long Baseline Array radiotelescope: These investments would enable significant advances in radioastronomy, in the earth, atmospheric, and ocean sciences, and in other fields.

- Strengthen science and engineering education: Proposed increases (from $87 million in 1984 to $100 million in 1985) would provide important research training opportunities for graduate students; would help universities retain our brightest young faculty; and, at the pre-college level, would gain maximum leverage of Federal dollars through a few well-designed efforts. Specific programs would include:

  - increased support for the Nation's most promising graduate students through the NSF nationally-competed graduate fellowship program;

  - further support for the Nation's most talented young engineering and science faculty. This support would be provided through the Presidential Young Investigators Research awards, matched by funds from the private sector; and,

  - continued support to enable scientists and educators to develop new or improved instructional materials for pre-college science and mathematics; to support local and regional professional development activities for pre-college teachers; and, to provide annual recognition of the Nation's outstanding pre-college science and mathematics teachers.

Rationale

Support for basic research—and for related training and education activities—is an essential Federal investment for the Nation's long-term economic and technological growth and security. The private sector lacks sufficient incentives to support adequately fundamental scientific research because of its long-term nature and because the benefits of such research cannot be captured fully by individual private firms.

NSF programs, in particular, are central to the continued health of scientific and engineering research at universities. NSF support complements the basic research programs of other agencies.

The proposed budget recognizes that progress in improving pre-college education, including science and mathematics education, will ultimately be achieved by the cooperation of a wide range of institutions encompassing all levels of the public and private sectors. The programs of the NSF, along with support for pre-college science and mathematics education proposed for the Department of Education, serve as catalysts for State, local and private sector efforts.

Department of Energy General Science and Other Funds

[In millions of dollars]

Agency: DOE/Smithsonian

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	638	685	660	672	698	723	3,438
Outlays	624	680	675	678	698	723	3,454
1985 Budget Level:							
Budget Authority	638	746	755	801	842	880	4,024
Outlays	622	684	761	795	836	872	3,948
Change:							
Budget Authority	....	+61	+95	+129	+144	+157	+586
Outlays	−2	+4	+86	+117	+138	+149	+494

Program Description

This category covers two interrelated Department of Energy (DOE) scientific programs—high energy physics and nuclear physics. The purpose of these programs is to perform research on the structure and properties of matter, to understand the basic forces of nature and their relationships, and to study transformations of matter and energy at the most elemental level.

This category also includes a small amount ($115,000 in 1984, 1985, and the out-years) for the Smithsonian Institution Canal Zone Biological Area Fund. Income from donations, subscriptions, and fees are appropriated to this fund to defray part of the expenses of maintaining and operating the Canal Zone biological area. The text below covers only the DOE general science programs.

Operationally, the DOE programs are concerned with "particle" physics and with maintaining advanced accelerators where the experiments take place. A major part of all funding for high energy and nuclear physics is required to meet the direct needs of the accelerator laboratories, and to develop, maintain, and operate the major accelerator and detector facilities. Thus, the programs continually face the problem of bringing large accelerators and expensive state-of-the-art detector systems on-line without disrupting the operating programs. The operating budget also supports university professors and graduate assistants in high energy and nuclear physics and provides solid training for a wide variety of high technology positions in industry.

Current Status

The High-Energy-Physics (HEP) program now supports the three major U.S. facilities used to accelerate elementary particles: Stanford Linear Accelerator Center (SLAC), the Fermi National Laboratory, and the Alternating Gradient Synchrotron at Brookhaven (AGS). HEP also supports university research groups including accelerator user-groups both in the U.S. and abroad, non-accelerator experiments, detector development, and individual investigators.

The Nuclear-Physics program supports the operation of seven national facilities, four major university accelerators, and the operating expenses of 75 experimental groups located at universities around the country. Individual investigators as well as theoretical nuclear physics groups are also supported by this program.

Funding for the operating budgets of the high energy and nuclear physics programs has been stable for the past several years, providing a relatively constant program level of effort. The steady increases, past and planned, in these programs reflect primarily advanced accelerator research and development and facilities construction.

1985 Budget Proposal

The 1985 budget would continue to fund these programs at a stable program level of effort. The major features of the budget include:

- increased utilization of existing accelerator facilities, including operation of the newly completed (1983) Energy Saver Superconducting Synchrotron at Fermilab in the energy range from 500 billion to one trillion electron volts;
- completion of the construction at Fermilab of the Tevatron II (proton accelerator) and continuation of the Tevatron I (proton-antiproton colliding beam) project;
- completion of accelerator upgrades at the University of Washington and Yale University;
- continued construction of the Stanford Linear (electron-positron) Collider and the upgrade of existing accelerators at Brookhaven National Laboratory;
- completion of nuclear physics accelerator upgrades at Argonne National Laboratory and the Bates facility at the Massachusetts Institute of Technology; and
- initiation of an advanced nuclear physics electron accelerator facility at Newport News, Virginia, sponsored by the Southeastern Universities Research Association.

The budget also includes funds for continuation of preliminary research and development activities for the design of a possible next-generation high-energy particle physics accelerator.

Rationale

With a relatively stable level of operating funds and large capital budgets for facilities, the United States has stayed at the forefront of science in both high energy and nuclear physics. The U.S. has accelerator facilities that are unique in the world, and laboratories in the U.S. host research teams from around the world. The budgets for the general science programs in 1984 and 1985 continue this policy of stable funding and provide for the construction of facilities with research capabilities not presently available anywhere in the world.

The Federal Government maintains the commitment to support basic research in high energy and nuclear physics not only because it yields an ever deeper understanding of the constituents of matter and energy and their role in the physical universe, but also because it provides a national base of knowledge, techniques, instrumentation, and skilled manpower for many critical industries. Nuclear knowledge, techniques, instruments, and applications pervade modern American society. These serve as the basis for our national defense strategy, for therapeutic and diagnostic medical applications, for the generation of electricity, and for a large and diverse array of applications in industry and other areas of science.

Arts and Humanities

[In millions of dollars] Agency: NEA/NEH/IMS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	323	340	357	374	390	406	1,867
Outlays	310	326	348	366	379	394	1,812
1985 Budget Level:							
Budget Authority	323	282	283	284	285	286	1,420
Outlays	310	314	293	290	286	286	1,469
Change:							
Budget Authority	....	−58	−74	−90	−105	−120	−447
Outlays	....	−12	−54	−76	−93	−108	−342

Program Description

The programs of the National Endowment for the Arts, the National Endowment for the Humanities, and the Institute of Museum Services provide discretionary grants to State and local governments and non-profit organizations in support of the humanities and the arts.

Current Status

In 1985 constant dollars, outlays for the arts and humanities peaked in 1980, after more than an *eleven-fold* increase in the previous decade. In contrast, constant dollar outlays over the 1980 to 1989 period are expected to stabilize and recede slightly from the peak.

Recent restrained funding levels have been adequate to fund a broad array of small competitive programs. These range from fellowships for individual artists and scholars to operating support for museums and cultural institutions.

1985 Budget Proposal

The 1985 budget proposes a moderate 13% reduction from the 1984 enacted level. All grant programs, with the exception of two small museum programs, would be funded at slightly reduced levels.

Rationale

The 1970's growth rate for these cultural activities was unsustainable. Federal encouragement of cultural activites can be achieved at below peak funding levels, particularly if priority is given to increasing private sector funding. Toward this end, these cultural agencies, and the President's Committee on the Arts and Humanities, have launched activities to enhance private investment in cultural activities nationwide. These efforts include expansion of matching grant programs; initiation of grant and technical assistance programs to help local arts agencies and emerging arts organizations expand their financial base; and efforts to link businesses with educational and arts institutions seeking financial support for major new endeavors.

Biomedical Research and Research Training

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	4,476	4,698	4,940	5,182	5,421	5,650	25,892
Outlays	4,193	4,710	4,939	5,181	5,420	5,649	25,900
1985 Budget Level:							
Budget Authority	4,476	4,572	4,694	4,813	4,928	5,038	24,045
Outlays	4,193	4,509	4,693	4,812	4,926	5,037	23,976
Change:							
Budget Authority	....	−127	−246	−369	−493	−612	−1,847
Outlays	....	−201	−247	−370	−494	−612	−1,924

Program Description

This grouping includes biomedical research and training programs funded by the National Institutes of Health (NIH). These programs support biomedical and behavioral research at universities here and abroad; finance research in Federal laboratories; and subsidize the training of researchers.

Current Status

In constant 1985 dollars, funding for NIH biomedical research and training *nearly tripled* in the two decades between 1962 and 1982. Since 1982, the annual average real growth rate has been reduced from 5.2% over the 1962-1982 period to 4.4% over 1982-1989.

1985 Budget Proposal

The 1985 request includes an increase of $95 million, 2% over the 1984 enacted level and 14% over the 1983 enacted level. New and competing research awards would be given the highest priority. NIH would support 5,000 such grants in 1985; the average project grant award would increase 5% over the 1984 level. Basic research would be emphasized.

In constant 1985 dollars, the proposed outlay level of $4.5 billion for 1985 would exceed the 1981 peak for NIH biomedical research and training activities by almost $100 million.

Rationale

Holding 1985 budget growth below the inflation rate would help keep the long term growth trend of these NIH activities at a more sustainable level for the remainder of the 1980's.

Research project grants should continue to receive the highest funding priority because they are the primary means by which fundamental discoveries emerge.

Behavioral Research and Research Training

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	384	381	419	437	455	473	2,165
Outlays	334	381	419	437	455	473	2,164
1985 Budget Level:							
Budget Authority	384	373	385	396	406	416	1,977
Outlays	334	372	385	396	406	416	1,976
Change:							
Budget Authority	....	−7	−34	−41	−49	−56	−187
Outlays	....	−8	−34	−41	−49	−56	−188

Program Description

The Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) focuses on alcohol, drug abuse and mental health problems by funding research in prevention, lifestyles and other areas to reduce the prevalence of related disorders. ADAMHA supports behavioral research at universities, finances research in Federal laboratories, and subsidizes the training of researchers.

Current Status

The 1985 budget represents continued support for a strong and dynamic program of research and research training on the major behavioral and substance abuse disorders.

1985 Budget Proposal

In 1985, $356 million is proposed for ADAMHA research, a $10 million or 2.9% increase over 1984. In addition, $17 million, the 1984 level, would support 982 research trainees. New and competing research project grants would remain a high priority and ADAMHA would support 500 such grants in 1985, an increase of 21 over the 1984 anticipated level.

Rationale

In 1985, increases would be targetted on research project grants. This mechanism has been the primary means for enhancing increased understanding of problems associated with mental health and substance abuse.

Research, Libraries, Smithsonian and Public Broadcasting

[In millions of dollars]

Agency: DOC/ED/HHS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	740	779	827	878	927	979	4,390
Outlays	780	818	839	863	912	984	4,416
1985 Budget Level:							
Budget Authority	740	668	685	704	726	749	3,532
Outlays	780	788	739	704	719	745	3,695
Change:							
Budget Authority	....	−111	−142	−174	−201	−230	−858
Outlays	....	−30	−100	−159	−193	−239	−721

Program Description

This program grouping includes Federal support for the National Institute of Education (NIE), the National Institute for Occupational Safety and Health (NIOSH), the National Center for Education Statistics (NCES), library programs, the Library of Congress, the Smithsonian Institution, the Corporation for Public Broadcasting (CPB), and the public telecommunications facilities, planning, and construction program (PTFP).

Current Status

In 1985 constant dollars, Federal funding for these disparate activities peaked in 1974. Since 1980, expenditures for all activities except the Smithsonian have declined in constant dollars.

1985 Budget Proposals

The 1985 budget proposes to reduce total Federal spending on these activities by $30 million over what would be required to maintain the current program level. Over the 1985-89 period, the Administration proposals, if adopted, would result in savings of $721 million and would:

- provide increased support for NIE in 1985 and then maintenance of that level through 1989;
- maintain support for NCES at its 1984 funding level over the five year period;
- provide increasing support for the Smithsonian Institution programs, and more limited growth for the Library of Congress;
- steadily reduce Federal support for CPB beginning in 1986;
- eliminate support for NIOSH occupational health training demonstration projects, but maintain support for other NIOSH applied research;
- eliminate entirely Federal support for libraries and for the PTFP Program.

Rationale

Increased support for NIE would fund efforts to improve the quality of American education, while continued support of NCES would ensure a steady stream of data on the condition of American education.

Increased support for Smithsonian programs continues the Federal Government's commitment to provide for the protection of the Nation's vast collection of artifacts, for programs of research and exhibitions aimed at public education, and for the upkeep and safety of Smithsonian museum buildings.

The Corporation for Public Broadcasting provides funds to the 260 public radio and 176 public television stations which comprise the public broadcasting network. The proposal to phase down Federal support for public broadcasting recognizes the predominance of alternative funding sources and that Federal support is no longer as necessary as it may have been during the industry's infancy.

Federal support for surveillance and research into the causes of and methods to prevent occupational hazards should be continued. However, after 7 years, it is time to turn over support for the NIOSH demonstration occupational health training program to private industry, which is the primary beneficiary of such training, and individuals, who may fund their own training through existing Federal student assistance programs.

The PTFP program was intended to help expand the availability of noncommercial, educational, informational, and cultural television and radio programs. Since over 95% of the United States currently receives public broadcasting programming, there is no reason to continue Federal funding for this activity.

The Federal Government has provided more than $2 billion over the past 25 years to assist public libraries to expand and improve services. As a result, access to public libraries is now virtually universal, and Federal support is no longer essential.

Central Services and Functions

National Oceanic and Atmospheric Administration

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,001	1,118	1,194	1,227	1,281	1,338	6,159
Outlays	1,023	1,090	1,184	1,219	1,274	1,330	6,097
1985 Budget Level:							
Budget Authority	1,001	884	917	934	1,020	1,080	4,835
Outlays	1,023	924	925	936	1,003	1,062	4,851
Change:							
Budget Authority	....	−234	−277	−293	−262	−258	−1,324
Outlays	....	−166	−259	−283	−270	−268	−1,246

Program Description

The National Oceanic and Atmospheric Administration (NOAA) provides: 1) national weather forecasts and severe weather warnings; 2) management and protection of marine fisheries and mammals; 3) development and production of aeronautical and nautical maps and charts; and 4) oceanic and atmospheric research.

Current Status

Over the past 15 years since NOAA was established in 1970, the agency's annual expenditures have increased by almost 75% in constant dollars. This cost increase is a result of expanded responsibilities in fisheries management and environmental research and development (R&D), and the introduction of new advanced weather and satellite technologies. The Administration has proposed that escalating costs be offset by eliminating non-essential services and subsidies to special interest groups.

1985 Budget Proposal

The 1985 budget proposal would decrease Federal support for NOAA programs by 20% below current services. The Administration proposal emphasizes priority NOAA life safety programs, such as detection of tornados and hurricanes and high-priority R&D, and targets resources to NOAA programs that provide greatest benefit for the general public and that protect the public interest. Thus, Federal marine fisheries activities would be focused on management and protection of stocks; industry assistance and market development programs would be terminated. Equipment modernization would be provided for the National Weather Service, while forecasting services for specific user groups would be terminated. Lower priority research programs would be curtailed, while essential longterm research, e.g., acid rain, would be emphasized. Increases would provide an upgraded three-weather-satellite system, while a costly, duplicative fourth satellite would be terminated. Savings would be achieved by increasing the cost of aeronautical and nautical maps sold to the public. Finally, operational costs would be reduced by contracting-out functions to the private sector whenever practicable.

Rationale

The appropriate Federal role in marine fisheries is ensuring that resources are well managed and available to future generations, not developing new markets and products for the industry.

When products are produced by the Government for specific user groups, e.g., aeronautical and nautical charts for general aviation and recreational boating, the beneficiaries should pay higher fees and not force the general taxpayer to subsidize these services.

An upgraded three-weather-satellite system would maintain the 24-hour coverage of the United States essential for nationwide severe weather warnings and gather global meteorological data for general weather forecasts. Funding for an unnecessary fourth satellite, that would add over $300 million to the budget from 1985-1989, would be eliminated.

Census, Economic Statistics, and Productivity Improvement

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	186	209	245	326	459	624	1,863
Outlays	198	206	236	300	413	567	1,722
1985 Budget Level:							
Budget Authority	186	214	254	334	466	631	1,898
Outlays	198	206	246	309	422	574	1,756
Change:							
Budget Authority	....	+5	+9	+8	+7	+7	+36
Outlays	....	−1	+10	+8	+8	+7	+34

Program Description

The Department of Commerce's Census Bureau and the Bureau of Economic Analysis (BEA) are the principal sources of data on the population and economy of the United States. The Census Bureau conducts surveys and censuses on population and on various sectors of the economy. The Bureau of Economic Analysis maintains the national income and product accounts, the balance of payments accounts, and other measures of overall economic activity. In addition, the Department of Commerce's Office of the Under Secretary for Economic Affairs provides economic analysis on a wide range of policy issues and advises the Federal Government and various industries on ways to increase private sector productivity and innovation.

Many Census Bureau surveys are conducted every 5 or 10 years and, therefore, have periodic increases and decreases in their funding requirements. These include the 1987 economic, agriculture, and government censuses, funding for which increases from 1985 to 1988, and the 1990 decennial census.

Current Status

Overall, the statistical programs have been funded at current services levels and focused towards the needs of Government policy makers. Those surveys that served narrow interest groups and were not essential to Federal policy makers have been eliminated or conducted less frequently. Efforts have also been made to reduce respondent burden.

Essential base programs have been maintained and important new efforts have been undertaken. For example, data collection began in the fall of 1983 for a major new household Survey of Income and Program Participation. This survey will provide new and better data on income, wealth, and eligibility for and participation in various government programs, such as aid to families with dependent children, unemployment insurance, workers compensation, and veterans benefits.

1985 Budget Proposal

The 1985 budget continues to restrain programs of lower priority while funding important new initiatives. Funding is provided at roughly current services levels to continue current economic and demographic data collection and analysis. New data on international services and investment transactions and a monthly survey of the domestic services industries would be funded in 1985. Outyear funding is provided for the 1987 and 1990 periodic censuses.

Rationale

In the past several years, there has been increasing concern over the large statistical discrepancies in the balance of payments accounts, which are presumed to be largely in the capital account. The new data on international services and investment are expected to correct some of this discrepancy by providing detailed information on such items as interest earned, or paid, on foreign investments and other international financial services transactions.

The domestic services industries, particularly financial services, are an important, and growing, sector of the economy. The new monthly services survey would provide more detailed data on this sector. In addition, increased out-year funding would ensure adequate planning and pretesting of methodology for the 1990 decennial census.

Patent, Trademark, and Copyright

[In millions of dollars]

Agency: DOC/LC

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority	143	157	150	157	162	154	781
Outlays	194	154	154	157	163	158	786
1985 Budget Level:							
Budget Authority	143	166	182	201	211	210	970
Outlays	194	160	180	198	210	213	961
Change:							
Budget Authority	....	+9	+32	+44	+49	+56	+190
Outlays	....	+7	+26	+41	+47	+54	+175

Program Description

The activities of the Patent and Trademark Office (PTO) of the Department of Commerce and the Copyright Office of the Library of Congress stimulate innovation and creativity by protecting the intellectual property rights of inventors, designers, and authors.

Current Status

These activities are for the most part self-sustaining with users paying the direct costs of services. New patent and trademark user fee legislation (P.L.97-247), which was enacted in 1982, established full cost user fee recovery of costs associated with granting patents and registering trademarks. The bill provided that a lower fee would be charged to small inventors.

At the time the legislation was enacted, the Administration made the following commitments to PTO users: (1) to reduce patent pendancy rates to 18 months by 1987 (from peak levels of 25-26 months); (2) to reduce the time to first action on a trademark registration request to 3 months and the time to disposal of a trademark registration request to 13 months (from peak times of 11 and 24 months); and (3) to automate PTO by the 1990's.

1985 Budget Proposal

The 1985 budget includes an increase of 6% above current services for an increase in the number of patent examiners to reduce pendancy rates and for continued automation of PTO operations.

Rationale

The activities of the Patent and Trademark Office and the Copyright Office are important central functions appropriately carried out by Government. Increases in the patent examiner core and automation of PTO operations would enable PTO to issue valid patents more promptly and provide for wide and timely dissemination of new technology.

National Bureau of Standards and Telecommunications

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	130	141	151	162	172	183	809
Outlays	136	148	150	160	171	182	811
1985 Budget Level:							
Budget Authority	130	142	142	152	163	175	773
Outlays	136	147	147	151	162	173	780
Change:							
Budget Authority	....	....	−9	−10	−9	−8	−37
Outlays	....	−1	−3	−9	−9	−8	−30

Program Description

Since the early 1900's, the Federal Government has been responsible for developing, maintaining and providing the Nation's scientific and technical standards and measurements that promote ease of commerce between vendors and consumers. The National Bureau of Standards (NBS) and the National Telecommunications and Information Agency (NTIA), both within the Department of Commerce, have the lead in the development of civilian standards. NTIA is also responsible for the Federal Government's telecommunications policy.

Current Status

NBS funding over the 1981-1984 period has gradually shifted from supporting applied research that directly benefits private industry to facility upgrades and the development of the NBS scientific and technical personnel resources. These personnel resources are required for standards development generic to American industry and Government. During this same period, NTIA has reduced its outlays, in real terms, by 43% and its staff by 40%.

1985 Budget Proposal

The Administration's proposal would maintain the capabilities of the Federal Government at their current level. Minor programmatic increases would permit greater involvement in analyzing the implications of, and developing standards for, a worldwide digital communications network and new materials processing and production. In addition, facilities improvements, including purchase of a supercomputer for faster, more complicated research, and modification of a reactor that would permit measurement of the properties of high technology materials, would also be undertaken. These increases would be partially offset by eliminating direct Federal funding of research on fire safety and building performance and by reducing the Federal Government's role in computer standards development.

Rationale

The development of a worldwide digital communications network should not occur without American political, technical, and industrial contributions. High technology products represent the newest area of domestic and international competition for America's industries. For example, a potential $200 billion global market for biotechnology-based products is projected by the year 2000. This market can be tapped more quickly if standards describing bioprocesses are available.

Fire safety and building standards are viewed as primarily the responsibility of State and local governments. Additionally, the industries involved in voluntary computer standards development are strong enough to be able to assume more of the role that the Federal Government currently plays.

International Trade Administration

[In millions of dollars] Agency: Department of Commerce

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	178	187	196	205	214	224	1,025
Outlays	193	181	194	203	213	222	1,014
1985 Budget Level:							
Budget Authority	178	174	184	190	201	210	958
Outlays	193	176	183	191	200	209	958
Change:							
Budget Authority	....	−13	−12	−15	−13	−14	−66
Outlays	....	−5	−11	−12	−13	−14	−56

Program Description

The International Trade Administration (ITA) promotes U.S. exports, administers U.S. export and import control programs, and provides trade policy advice to the Secretary of Commerce.

In addition, ITA administers trade adjustment assistance (TAA), a program authorized by the 1974 Trade Act. TAA provides technical assistance and loans to firms injured by import competition.

Current Status

ITA outlays increased by 76% between 1980 and 1984 in constant dollar terms. (Most of this increase is due to transfers of programs to ITA.)

The Administration is committed to helping U.S. businesses develop and expand exports.

1985 Budget Proposals

The Administration would maintain total ITA funding at roughly the 1984 level. As proposed in 1984, TAA would be terminated. Increases would be provided for the administration and enforcement of export controls, and for analyses of the global competitiveness of U.S. industries.

Rationale

Termination of trade adjustment assistance is justified because:

- U.S. trade laws provide remedies against unfair import competition. The fact that a firm has been harmed by import competition should not in itself constitute justification for special Federal assistance; indeed, it is unfair to firms that have been harmed by other causes; and
- high default rates—delinquencies, liquidations, and writeoffs totaling 61% suggest that the loan program has failed to produce the intended adjustment.

A funding increase for export controls would:

- improve the effectiveness of export controls for national security and foreign policy purposes;
- improve administration of export controls by tightening monitoring of distribution licenses, establishing a foreign availability data base, increasing technical support for international coordination of export controls, and adding computer capacity; and

- improve enforcement of export controls by increasing field office staff and headquarters intelligence staff.

The bargaining power of U.S. trade negotiators would be strengthened by increasing the quantity and quality of economic analysis of trade in specific product-country combinations.

Internal Revenue Service

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	3,326	3,523	3,731	3,950	4,201	4,383	19,788
Outlays	3,283	3,422	3,656	3,873	4,122	4,302	19,375
1985 Budget Level:							
Budget Authority	3,326	3,560	3,756	3,968	4,191	4,428	19,903
Outlays	3,283	3,488	3,676	3,886	4,105	4,339	19,494
Change:							
Budget Authority	....	+37	+25	+18	−11	+45	+115
Outlays	....	+66	+20	+13	−17	+37	+119

Program Description

The Internal Revenue Service (IRS) is charged with administering the tax law. It carries out this mission through a broad spectrum of program activities including: routine processing of tax returns and other documents; identifying unreported tax liabilities; investigating tax fraud; and collecting assessed, but unpaid, taxes.

Current Status

During this Administration, IRS has given priority to modernizing and streamlining service operations and improving tax enforcement.

A key enforcement initiative in the 1983 and 1984 budgets was the dedication of over 5,400 positions and $300 million to improvement of identification and collection of unpaid taxes, with a related receipts increase of $4.6 billion over the two year period. In the Tax Equity and Fiscal Responsiblity Act (TEFRA) of 1983, Congress provided IRS with significant new compliance tools including greatly expanded information reporting, penalties for submitting or preparing false returns, and amendment of the statutory interest rate on underpayments and overpayments to better conform to current economic conditions.

To modernize its operations, in 1982 IRS began replacing the basic machinery of the tax administration system with state of the art equipment. This initiative was extended in 1983 and 1984 to peripheral tax processing activities and selected operational functions.

1985 Budget Proposal

The 1985 budget reflects an increase of $37 million over current services. Within this relatively level funding, significant productivity and management savings would be redirected to improve compliance, to implement legislative mandates, and to continue efforts at modernizing operations through the application of automated data processing and related technologies.

Rationale

One principal challenge currently facing tax administration is how best to contain the $90 billion annual tax gap, that is, taxes owed but unpaid. In 1985, IRS seeks to strengthen its compliance efforts and close known gaps in unreported revenue, overstatement of deductions, and outstanding accounts receivable. Through these enforcement activities, IRS would generate over $30 billion in additional direct revenue in 1985.

A second major objective for IRS in 1985 is to continue to enhance the efficiency and effectiveness of the tax administration system through technology. Over two-thirds of the requested increases in this area are related to projects begun in prior years, including: replacement of service center processing equipment; utilization of optical scanning for certain documents; and implementation of an automated collection system. New projects focus on the creation of management information systems, the improvement of communications capability, and the automation of selected operational functions.

This modernization program is critical to the viability of the tax administration system in the coming decade. It would enable IRS to streamline its operations by utilizing updated data input, processing, and operational technologies. Although the major benefits in personnel and interest savings would not accrue for several years because of system design and acquisition costs, the 1985 budget reflects substantial savings from capital investments in technology made in earlier years, which have been reallocated to finance the budget initiatives.

General Services Administration Property Supplies and Records

Agency: General Services Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	460	498	550	606	664	723	3,040
Outlays	604	618	510	549	607	641	2,926
1985 Budget Level:							
Budget Authority	460	485	545	602	659	718	3,008
Outlays	604	485	419	505	517	587	2,513
Change:							
Budget Authority	....	−13	−4	−5	−5	−5	−31
Outlays	....	−133	−90	−45	−90	−55	−413

Program Description

The General Services Administration (GSA) provides centralized administrative services to Federal agencies in the following areas:

- procurement and nationwide distribution of supplies and equipment services;
- Government-wide maintenance and preservation of valuable records and archives;
- regulatory oversight for procurement and management of automated data processing (ADP) and telecommunications equipment and services; and
- management of Federal real property assets, including construction, repair and alterations and dispersal, and maintenance of federally occupied buildings.

Current Status

Overall there is no significant change planned in resource levels from prior years. The Administration has, however, focused GSA efforts on implementation of a number of government-wide management improvements. These initiatives include a reduction of workspace, review of the Federal field structure, and increased surplus property sales. (See chapter on Management Initiatives).

1985 Budget Proposals

Highlights of the President's 1985 budget proposal include the following:

- $90 million for construction and acquisition of Federal buildings;
- $40 million for maintenance of 14.8 million cubic feet of Federal records by Federal Records Centers; and
- $16 million for development and conversion of management information systems to support all public building service programs.

Rationale

Funding for construction and acquisition of Federal buildings is necessary to meet the goal of increased occupancy in federally owned, as opposed to leased, space.

Maintenance of records in Records Centers rather than agency space represents significant cost savings to the Government. The average cost of maintaining records in agency space is $12.90/cubic foot compared to storage in Records Centers at $0.89/cubic foot.

Development of an automated information system for real property management would improve GSA's building operations and resource allocation in response to customer agencies' requirements.

District of Columbia Payments and Net Loans

Agency: District of Columbia Government

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	567	555	575	594	612	611	2,947
Outlays	567	555	575	594	612	611	2,947
1985 Budget Level:							
Budget Authority	567	469	473	477	480	483	2,382
Outlays	567	469	473	477	480	483	2,382
Change:							
Budget Authority	....	−86	−103	−117	−132	−128	−564
Outlays	....	−86	−103	−117	−132	−128	−564

Program Description

The Federal Government provides the District of Columbia Government with a Federal payment to offset the costs of the Federal presence in the District of Columbia. Additionally, the Federal Government makes payments to the city for annual contributions to the District's pension fund as well as reimbursements to the District for water and sewer services provided to Federal buildings. Also, the city borrows capital from the U.S. Treasury for the financing of capital projects.

Current Status

The District currently finances its capital projects at the prevailing Treasury rate. It is more costly for the city than financing its projects in the tax exempt bond market. Additionally, it unnecessarily entangles the Federal Government in the finances of a local government.

The District Government fully appreciates this dilemma and recently embarked on its first step toward financial independence by issuing revenue anticipation notes to meet its operating cash needs.

1985 Budget Proposal

The 1985 budget provides for a record increase in the Federal payment (from $386 million to $425 million) and assumes the successful entry of the District into the tax exempt bond market to finance capital projects.

Rationale

The Administration supports the efforts of the District of Columbia Government to enter the private market. This would be consistent with the policies of the Administration to eliminate the Federal Government as a unnecessary financial intermediary. Furthermore, the District would save millions of dollars each year if it were in the tax exempt bond market

Central Services and Functions

[In millions of dollars] Agency: Various

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	562	591	789	918	1,051	1,192	4,541
Outlays	538	577	740	866	996	1,133	4,312
1985 Budget Level:							
Budget Authority	536	574	788	905	1,038	1,180	4,484
Outlays	513	560	738	849	984	1,123	4,254
Change:							
Budget Authority	−25	−17	−1	−13	−13	−12	−56
Outlays	−25	−17	−1	−17	−12	−10	−58

Program Description

Included in this category are a number of disparate activities involving central services functions of the general government. Among these are energy information programs, selected labor activities, Treasury fiscal service operations, General Services Administration property receipts and other miscellaneous offsetting receipts and payments.

Current Status

Overall, there is no significant planned change in the level of effort from earlier years for operating accounts. There are, however, some major changes in assumptions underlying receipt estimates.

1985 Budget Proposals

Highlights include:

- *Bureau of Labor Statistics.*—Funding will be increased to continue the revision of the Consumer Price Index.
- *Treasury fiscal operations.*—Mint inventories will be drawn down to reduce funding requirements for coin production.
- *GSA real property receipts.*—Substantial lowering of previous estimates will bring projected receipts into line with current expectations based on two years' experience with the program.
- *Panama Canal.*—Increased operating requirements and receipts reflect an improved economic climate for the maritime industry.

Rationale

For operating programs, the budget presents a current services approach with continued emphasis on management improvements. In receipt and miscellaneous payments activities, the budget estimates reflect the most realistic projections possible based upon currently available information.

Departmental Administration and Other Overhead

Domestic Agency Administrative Expenses

[In millions of dollars]

Agency: Various

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	3,037	3,217	3,454	3,694	3,926	4,168	18,458
Outlays	3,132	3,296	3,441	3,687	3,925	4,149	18,498
1985 Budget Level:							
Budget Authority	3,042	3,083	3,301	3,476	3,672	3,875	17,407
Outlays	3,151	3,165	3,280	3,475	3,669	3,851	17,439
Change:							
Budget Authority	+5	−134	−153	−217	−253	−293	−1,052
Outlays	+19	−132	−161	−212	−257	−297	−1,059

Program Description

This category covers the departmental administrative overhead costs of domestic agencies. It consists primarily of departmental or major bureau salaries and expense accounts in the Departments of Agriculture, Health and Human Services, Labor, Education, Energy, Housing and Urban Development, Transportation, Interior, Justice, Commerce, and Veterans Administration. These accounts finance activities associated with overall direction of the agencies and their components.

The cost of the direct management of Federal programs, including entitlement programs, is discussed in other factsheets, as are the costs of Federal employee health benefits and life insurance and Federal employee workers' compensation.

Current Status

Along with the rapid expansion of Federal programs during the 1970's, departmental administrative overhead increased. Outlays for 1970 were $2.2 billion in 1985 constant dollars. By 1980, they were $3.8 billion, or 70%, higher.

Since 1981, the first three budget rounds of belt-tightening for domestic programs and a vigorous, multi-faceted program to improve management in the Federal Government have successfully reduced costs in this category. As a consequence, constant dollar outlays for overhead in the enacted 1984 budget are $3.3 billion, a decline of more than $500 million, or 14%, from 1980 in real terms.

1985 Budget Proposal

In 1985, the total outlays for departmental administrative overhead would be $3.2 billion, a decline of about $650 million, or 17%, from 1980 in real terms.

The President's 1985 budget proposes savings from current services in each year of the 5-year forecast period through improved efficiencies and increased productivity. As the above table in nominal dollars shows, the total outlay savings from current services for 1985 through 1989 would be $1.1 billion. The average annual savings would be 6%, beginning with 4% in 1985 and steadily increasing to 7% in 1989.

Despite these savings, there would be some overhead increases from 1980 in real terms. Generally, the increases are to support higher domestic program levels. In Interior, the overhead increase is for Inspector General activities. The increases are:

Overhead Increases

(1985 constant dollar outlays in millions)

	1980	1985 budget	1989 budget
Agriculture:			
Farmers Home Administration	316	331	330
Other	170	256	244
Interior	75	87	87
Law enforcement	84	113	115

Rationale

One of the central themes of this Administration has been to improve the efficiency of Government. The President's 1985 budget proposals for this category reflect savings from continuing efforts to reduce domestic program levels; minimize wasteful spending; and improve agency operations.

With real savings of 14% from 1980 to 1984 and with average annual savings from current services of 6% through 1989, it would be optimistic to expect significant additional savings without further large reductions in the domestic program levels that require administrative overhead support.

Federal Employee Health Benefits

Agency: Office of Personnel Management

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,506	1,342	1,848	2,087	2,344	2,631	10,252
Outlays	1,309	1,339	1,554	1,756	1,965	2,185	8,800
1985 Budget Level:							
Budget Authority	1,506	1,342	1,415	1,522	1,621	1,722	7,622
Outlays	1,309	1,339	1,314	1,429	1,534	1,637	7,252
Change:							
Budget Authority	....	....	−432	−566	−723	−909	−2,630
Outlays	....	....	−240	−328	−431	−548	−1,547

Program Description

The Federal employees' health benefits (FEHB) program provides health care and insurance for Federal workers and annuitants. There are about 3.7 million participants in the program, nearly 40% of whom are annuitants. Unlike most employee health programs, the cost of FEHB is shared by the Federal Government and employees, with employees paying about 40% and the Government paying about 60% of the total cost.

Current Status

About 180 private carriers contract with the Federal Government to provide employee health benefits. Of these, nearly 80% are health maintenance organizations. The Office of Personnel Management, which manages the FEHB program, expects to make payments to health carriers of $7.8 billion in 1985. The Federal Government, including the Postal Service, contributes about $4.7 billion of that amount; the balance is derived from contributions by employees, annuitants and other sources.

Federal employees are free to choose from among a wide range of health care options. Along with the large number of carriers participating in the program, this freedom has tended to encourage competition that has restrained cost increases. When average premiums increased by over 20% in 1982, employee selection of low-cost plans held overall cost increases in the FEHB program to 4%.

1985 Budget Proposal

The Administration has introduced legislation that would build on the competitive features of the FEHB program and result in large outlay savings. The key features of the Administration proposal are:

- basing the Government share of FEHB costs on a general price index rather than the limited index that is used currently;
- dropping the current 75% limit on the Federal contribution to any plan and replacing it with a system that would provide employees with rebates if they choose low-cost plans;
- encouraging a wider range of plans to participate, thereby giving employees a wider range of choices; and
- requiring the U.S. Postal Service and other off-budget entities to pay their fair share of the health benefits costs of their annuitants.

These measures would reduce outlays 20% from the current services levels currently projected for the period 1986-89.

Rationale

In a time of rapidly rising health care costs, the FEHB program is a vivid example of how competition can be used to restrain health care cost increases. Free choice by consumers from among a variety of health plans is more effective than centrally-imposed Government mandates and regulations.

The Administration's proposal for FEHB would give consumers an even wider range of choices. With more alternatives and incentives to choose low-cost plans, the Administration's proposal is estimated to reduce FEHB outlays by 20% (or $1.5 billion) in the period 1986-89.

Some proposals for FEHB would mandate certain forms of coverage and reduce the competitive forces in the FEHB program. Rather than giving Federal employees a wider range of choices, these proposals would reduce the flexibility that Federal employees now have to choose the health plan that best meets their needs. Mandated coverage for certain forms of health care is estimated to increase costs for both employees and the Government by as much as 50% over current levels.

Social Insurance Administrative Expenses

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	72	165	268	373	482	1,361
Outlays	5,622	5,863	6,106	6,369	6,568	6,794	31,700
1985 Budget Level:							
Budget Authority	....	20	145	247	351	459	1,223
Outlays	5,626	5,767	5,971	6,167	6,307	6,472	30,684
Change:							
Budget Authority	....	−52	−20	−21	−22	−23	−138
Outlays	+4	−97	−135	−202	−261	−322	−1,017

Program Description

Social insurance administrative expenses includes the administration costs of four major programs: Social Security, Civil Service Retirement, Medicare, and Unemployment Compensation.

- The costs of administering the old-age, survivors, and disability insurance programs are funded from the Social Security trust funds.
- Federal grants pay 100% of the costs of State administration of unemployment compensation programs under State and Federal laws.
- The costs of administering Civil Service Retirement and Disability Insurance are funded from the Civil Service Retirement and Disability trust funds.
- Funds are transferred from the hospital insurance and supplementary medical insurance trust funds to support research, survey and certification of facilities, Medicare contractors, and other activities.

Current Status

Funding for social insurance administrative expenses more than doubled, in constant 1985 dollars, between 1965 and 1982. Funding increased an average of about $209 million a year in real terms.

1985 Budget Proposals

The 1985 budget proposes spending of $5.8 billion on social insurance administration. Spending will increase $100 million in real terms a year from 1982 to 1985, a reduction in the average amount of growth from the 1965-82 period by more than one-half. Within this restrained growth level, the administration of social insurance programs has been redirected to focus on quality control, productivity improvement, and other priorities.

The 1985 budget proposes $1.6 billion for medicare administration, an increase of $51 million over the 1984 level. Funds would also be included for the Prospective Payment Assessment Commission, which was created by the Social Security Amendments of 1983. The budget proposal includes a 1984 supplemental request to fund studies of the medicare prospective payment system, mandated by the Tax Equity and Fiscal Responsibility Act and the Social Security Amendments of 1983. The budget also proposes legislation to improve the administration of medicare, including:

- increasing the flexibility of the Secretary of Health and Human Services in contracting for medicare claims processing by allowing for reimbursement to contractors on other than a cost basis and eliminating the right of providers to select individual contractors;
- devolving the functions of end-state renal disease networks to other entities with the capacity for data collection and monitoring;
- streamlining claims processing functions; and
- improving service to beneficiaries.

For 1985, Federal grants will finance an estimated 49,000 staff years at State and local offices which process unemployment compensation payments. The Department of Labor and the States will implement a quality control system to measure uniformly the accuracy of unemployment insurance payments in a representative sample of claims.

The budget proposes to continue two major initiatives in the Social Security Administration:

- Improvement of SSA's automated processing capability under the systems modernization plan, with an investment of $210 million in new spending authority. The effects of system enhancements have already resulted in improved service, more accurate payments, and increased productivity.
- Reform of the disability insurance appeals process to ensure that reviews of continuing disability eligibility are fair and humane, while ensuring that only those who are legally entitled to benefits are being paid.

Rationale

The 1985 budget proposals would strengthen administration of social insurance programs and improve service; invest in efforts that will reduce the future growth in spending levels; improve productivity of the Federal workforce; and conserve trust fund dollars by ensuring that benefits are paid accurately to those who are legally eligible.

Federal Employee Group Life Insurance

Agency: Office of Personnel Management

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985-89
Current Services:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−640	−692	−749	−837	−936	−1,046	−4,260
1985 Budget Level:							
Budget Authority	....	....	....	....	....	....	....
Outlays	−640	−692	−749	−837	−936	−1,046	−4,260
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Federal Employees Group Life Insurance fund finances insurance premiums paid to private insurance companies for Federal employees group life insurance and expenses of the Office of Personnel Management in administering the program for non-Postal Service employees. Premium costs for the regular program are met by withholding 24 cents biweekly from the salaries of employees for each $1,000 of life insurance and a 50% matching by employer-agencies. The optional program is financed by withholding from employees' salaries or retirees' annuities.

Life Insurance Program Statistics

	1985 estimates
Active employee participants	2,494 million
Annuitant participants	1,345 million
Insurance in force, active employees	$171 billion
Insurance in force, annuitants	$21 billion

Current Status

The Federal Employees Group Life Insurance Act of 1980 increased basic coverage for participants under the age of 45 and offered additional optional coverages. The carrier-held contingency reserve for the basic program was reduced to $50 million as of June 30, 1976 and is expected to remain at this level. Excess income from the program over benefit payments and other expenses is deposited in the U.S. Treasury to the credit of the Employees Life Insurance Fund.

1985 Budget Proposal

Total Federal Group Life Insurance Fund reserves will increase from an estimated $5.9 billion in 1984 to $6.6 billion in 1985. The difference between receipt and benefit payments under the policy will continue to be held in reserve for paying future life insurance claims.

Rationale

The Federal Group Life Insurance Program is a fully-funded program and therefore places no drain on the Federal Treasury. Surpluses are projected to increase; therefore, no 1985 reform has been proposed.

Federal Employees Workers' Compensation

[In millions of dollars]

Agency: Department of Labor

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	216	207	215	225	231	250	1,128
Outlays	216	207	215	225	231	250	1,128
1985 Budget Level:							
Budget Authority	216	191	178	184	189	206	948
Outlays	216	191	178	184	189	206	948
Change:							
Budget Authority	....	−16	−37	−41	−42	−44	−180
Outlays	....	−16	−37	−41	−42	−44	−180

Program Description

The Department of Labor provides workers' compensation benefits to Federal employees or their survivors for job related injuries, illnesses, or death. Benefits include payment of medical expenses and tax-free cash income which can be 75% of the pre-tax salary for an employee with dependents. The Federal agencies reimburse the Department of Labor for costs of benefits paid for their employees, help determine eligibility for benefits, and continue paying a disabled worker's full salary during the first 45 days of a disability.

Current Status

The costs of FECA in this Administration have been restrained by a cooperative effort of the Department of Labor and other Federal agencies to improve the quality of determinations made in the program. Examination of initial claims have been improved to assure that benefits are paid only for those who are disabled and whose injury or illness arose out of and in the course of Federal employment. Controls have been established to prevent excessive medical payments. The rolls of those receiving monthly disability checks are regularly examined to assure that the employee is still disabled, that widows have not remarried, and that children are still dependents. The results of this effort are impressive:

- Federal workers recognize that benefits will be paid only to those eligible. Whereas from 1977 to 1980 the number of FECA claims averaged 30,622 a year, from 1981 to 1983 they averaged 22,676.
- The number of people receiving monthly disability checks has stabilized. Whereas from 1977 to 1980 the number had increased by 5%, from 1981 to 1983 the number decreased by 6%.

1985 Budget Proposal

Legislation will be proposed to make the timing of cost of living adjustments to monthly FECA benefits the same as that proposed for civil service retirees. This would result in delaying the cost-of-living adjustment now scheduled to be paid with the April 1985 checks to January 1986, with subsequent adjustments paid in January of each year. Budget savings in FECA from this proposal would total $180 million in the 1985-1989 period. In addition, the Administration continues to urge the Congress to enact proposed FECA reforms which would facilitate the rehabilitation and reemployment of disabled Federal workers, including assigning a rehabilitation specialist to a disabled employee and increasing the duty of the employing agency to attempt to design a job that a partially disabled worker could perform. The reforms would also recognize FECA as a wage replacement, not retirement, program and tie benefit increases to increases in Federal pay.

Rationale

Until Congress enacts the reform legislation, cost-of-living adjustments should be the same as for civil service retirement, since those eligible for FECA income payments have the option of choosing civil service disability retirement or survivor annuities.

The primary goal of disability programs should be, to the extent possible, the restoration of the disabled to their full potential.

Low-Income Benefit Administrative Expenses

[In millions of dollars]

Agency: HHS/USDA

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	4,424	4,785	5,049	5,308	5,560	5,809	26,510
Outlays	4,358	4,774	5,035	5,291	5,545	5,795	26,440
1985 Budget Level:							
Budget Authority	4,424	4,873	5,182	5,470	5,740	5,998	27,263
Outlays	4,375	4,858	5,167	5,453	5,725	5,984	27,187
Change:							
Budget Authority	....	+88	+133	+162	+180	+190	+753
Outlays	+17	+84	+132	+162	+180	+189	+747

Program Description

The Federal Government helps finance the cost of State and local administration of means-tested welfare programs.

Current Status

The Food Stamp, Medicaid and Aid to Families with Dependent Children (AFDC) programs are administered through State welfare offices. The Federal Government currently matches State administrative expenses at a 50% rate for these programs on an open-ended basis. Some expenses, such as those for anti-fraud activities and management information systems, receive a higher Federal match.

The Child Support Enforcement (CSE) program finances most State and local administrative expenses for establishing paternity and collecting support from legally liable absent parents. In AFDC cases, these collections offset State and Federal welfare payments.

The Supplemental Security Income (SSI) program is administered through Social Security offices with the Federal Government financing 100% of the costs. In addition, the Federal Government also funds the administrative costs of supplemental benefit programs for 26 States.

This factsheet also covers the Federal administrative costs of the Departments of Agriculture (USDA) and Health and Human Services (HHS) to operate these programs.

1985 Budget Proposal

The President's budget would increase administrative spending for these programs by $753 million over current services during 1985-89, primarily due to effects of legislative proposals in AFDC and Medicaid which are described in separate factsheets. In addition, the budget proposes to reform financing rules for Child Support Enforcement.

Rationale

The proposed change in administrative funding for these programs is the result of several factors:

- The President's budget would mandate comprehensive programs of work-related activity for AFDC applicants and recipients in all States. Although the proposal results in benefit savings which are reflected in the AFDC factsheet, the savings are partially offset by increased administrative costs.

- The 1985 budget includes several incentives for States to improve Medicaid administration. These incentives include bonuses for reducing payment errors and increasing debt collection.
- To improve program administration at the Federal level, the Health Care Financing Administration of HHS would assume responsibility from the Office of Inspector General for administering grants to States for State Medicaid Fraud Control Units.
- The above increases in administrative costs would be partially offset through productivity gains expected in the Federal management of these programs. As a result, the President's budget request does not include a full inflationary increase for Federal administrative costs.
- The budget proposes a package of reforms to the Child Support Enforcement program. These proposals are designed to give States powerful new financial incentives to increase collections from absent parents in both AFDC and non-AFDC cases, and to reduce administrative costs through new laws and procedures. The budget proposals would set up new performance-oriented bonus systems, modestly reduce the matching rate for CSE administrative costs, require States to implement laws such as automatic mandatory wage withholding when support payments are not made on time, and establish new Federal payments to encourage collections in interstate cases. Overall, these proposals increase federal CSE costs beginning in 1986, but yield offsetting savings through reduced AFDC costs, which are reflected in a separate factsheet.

Legislative Functions

[In millions of dollars]

Agency: Legislative Branch

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,463	1,426	1,504	1,500	1,568	1,580	7,577
Outlays	1,345	1,460	1,526	1,520	1,575	1,576	7,657
1985 Budget Level:							
Budget Authority	1,463	1,416	1,500	1,496	1,564	1,575	7,552
Outlays	1,345	1,451	1,522	1,516	1,571	1,572	7,632
Change:							
Budget Authority	....	−10	−4	−4	−4	−4	−25
Outlays	....	−9	−4	−4	−4	−4	−25

Program Description

This category includes funding for the Senate, the House of Representatives, and the several legislative branch agencies, specifically the Congressional Budget Office, the Architect of the Capital, the Library of Congress, the Government Printing Office, the General Accounting Office, and other smaller agencies.

Current Status

Outlays for legislative functions grew at an average annual rate of 5.6% in constant dollars from 1970 to 1980 and will increase by 3.4% per year from 1981 to 1985. This pattern is similar to, but somewhat higher than, that of total budget outlays, excluding interest.

Over short periods of time, the legislative functions budget is affected significantly by construction activity. This is the case in 1985 and 1986, when substantial renovation and restoration of Library of Congress buildings will be done. Otherwise, the legislative functions budget grows at a relatively stable rate. An exception in 1985 is the General Accounting Office, for which an increase of about 20% is requested.

1985 Budget Proposals

The budget for legislative functions for 1985 and beyond is essentially at the current services level and is projected to grow very little in nominal terms through 1989. In constant dollars, the budget for this activity shows a decline of 2.0% per year from 1985 to 1989.

The 1985 increase for the General Accounting Office is for increased staff, program enhancements, and higher uncontrollable costs. An increase of 500 (or 10%) is requested for permanent staff positions, of which 480 would be filled by new auditors. Two thirds of the new auditors would be devoted to automatic data processing and telecommunications activities. The requested increase would also finance the replacement of the current AT&T CENTREX system with a PBX voice/data integrated system and the purchase of microcomputers, and cover anticipated higher administrative costs, e.g., travel, average pay per workyear, standard level user charges, etc.

The 1985 increase requested in the legislative functions budget for travel is 18%. A substantial part of this is for GAO. Comparable percentages for the judicial and executive branches are 7% and 4.5%, respectively.

Rationale

In accordance with law, the legislative functions budget is presented in the President's budget without review and in the amounts submitted by the agencies.

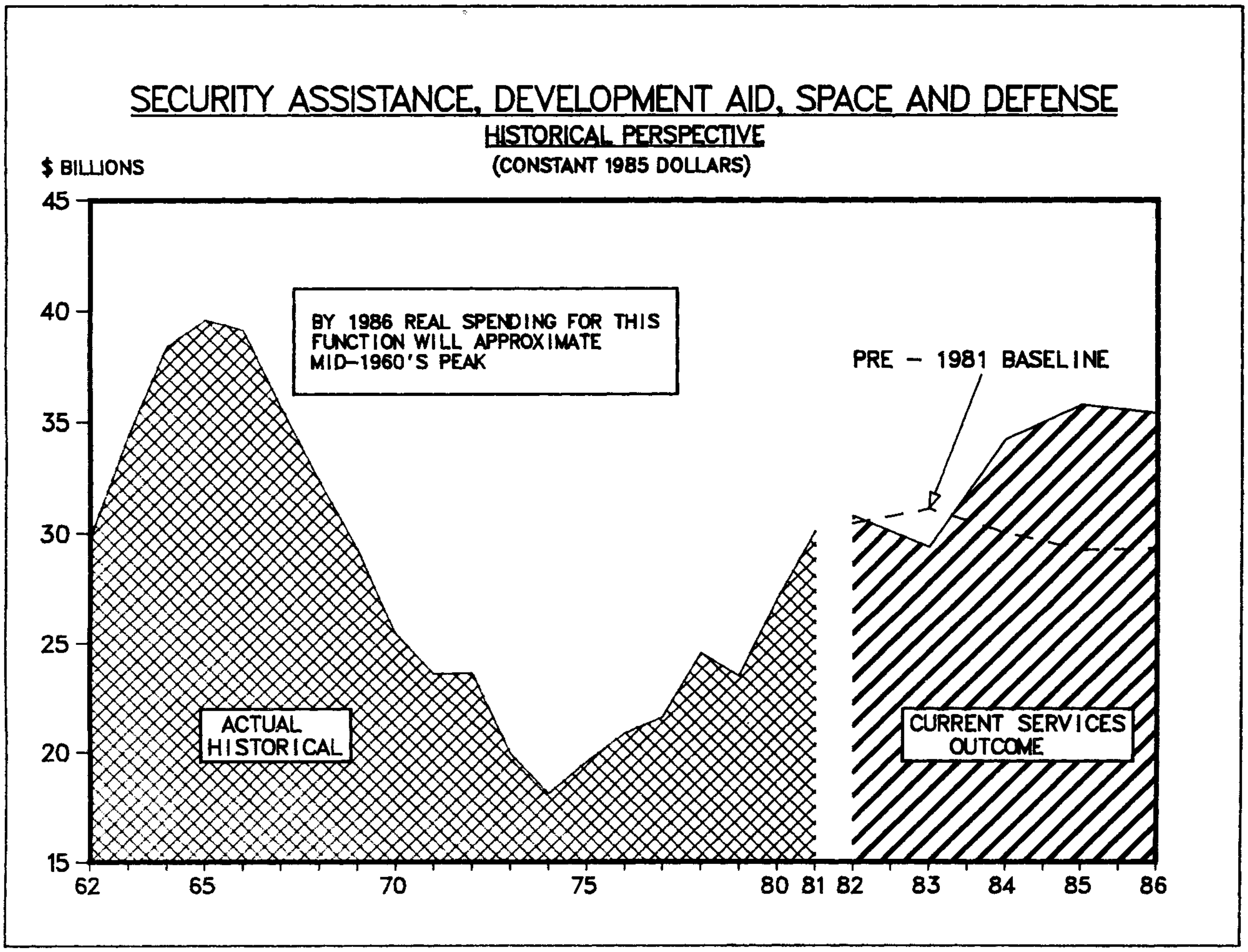
CHAPTER 9

Security Assistance, Development Aid, Space, and Defense-Related Programs

Security Assistance, Development Aid, Space, and Defense-Related Programs Overview

National Interest Programs

This grouping consists of programs that for the most part have attained priority status as the Administration's foreign policy, international security, and national leadership objectives have been defined and developed. The grouping includes Defense-related Programs (primarily nuclear weapons programs in the Department of Energy), Foreign Assistance Programs, Administration of Foreign Affairs, Space Programs, Coast Guard and Strategic Stockpiles. Except for the growth in Coast Guard expenditures, between 1965 and 1974 real spending for this set of programs fell sharply, from a level of $39.6 billion in 1965 to a low of $18.1 billion in 1974 (outlays in constant 1985 dollars).



During the late 1970's, there was a gradual increase in funding, but the dollar levels still did not match the needs. Consequently, increases to the current services funding level are proposed for most programs within this component of the non-Department of Defense (DOD) budget, following increases in 1981-84. Overall, the President's 1985 budget calls for a $4.3 billion increase to $41.0

billion over the 1985 current services level of $36.7 billion for National Interest Programs (budget authority in constant 1985 dollars).

When viewed in historical perspective, it is clear that the rising budget levels for National Interest Programs proposed in the 1985 budget are not unprecedented. As shown in the table below, constant dollar outlay levels for this function recorded in the early 1960's exceeded the levels proposed for 1985-1989. Moreover, the real GNP forecast for the late 1980's will be about twice as large as that which supported the higher 1960's level.

Trends in National Interest Programs

(Outlays in billions of 1985 dollars)

	Average annual outlays					
	1962 to 1966	1967 to 1971	1972 to 1976	1977 to 1981	Proposed 1982 to 1986	Proposed 1985 to 1989
Strategic Stockpiles[1]	−0.7	−0.4	−1.1	1.4	2.6	1.8
Defense-Related	6.5	4.2	3.4	3.9	6.8	8.4
Development Aid	10.8	7.8	5.7	5.4	5.3	5.2
Administration of Foreign Affairs	1.3	1.4	1.5	1.8	2.3	2.8
Civil Space Program	12.0	11.6	6.5	5.8	6.6	6.9
Coast Guard	1.0	1.4	1.6	1.8	2.3	2.3
Financial Accounts[1]	−0.1	−0.1	−0.2	−0.3	−0.3	−0.3
Foreign Military Sales[1]	−0.5	0.3	−0.2	2.4	3.9	4.1
Other Security Assistance	6.0	3.3	3.4	3.0	3.6	3.7
Central American Aid	....	....	....	....	0.4	0.7
Total National Interest Programs	36.3	29.3	20.4	25.3	33.5	35.7
Percent of 1962–66 level	....	81%	56%	70%	92%	98%

[1] Minus sign denotes offsetting receipts.

Indeed, the 1985 and out-year spending levels proposed for these priority purposes appear to be high relative only to the severely depressed levels that occurred during the mid-1970's. The low levels of that period are attributable to a confluence of factors including large, unsustainable one-time sales from the strategic stockpile, and lower levels of real spending for NASA (following completion of the Apollo space program), security assistance, and foreign economic aid. By 1981, however, constant dollar National Interest spending had already risen by 67% to about $30 billion from the mid-1970's low of about $18 billion, as these temporary factors reversed and additional requirements for security assistance and foreign policy support emerged.

From 1981 to 1985, constant dollar spending for National Interest Programs has risen by a further 22% in response to a wide variety of new requirements identified by the Administration—including a substantial upgrade in the capabilities and effectiveness of the U.S. Information Agency, provision of more adequate security assistance, and augmentation of the emergency preparedness program. While these requirements were not fully anticipated in earlier Administration budget plans, the 1985 request represents a significant restoration of spending levels that have been traditionally required to maintain an effective foreign policy, national leadership in space, and a variety of defense-related programs. The President's 1985 budget for National Interest Programs, as well as the projection for the rest of the decade, also includes a substantial realignment of priorities among programs within the overall function.

Changing the Trend in National Interest Programs

(Outlays in billions of 1985 dollars)

	1981 actual	1984 current services	1985 proposed	1989 proposed
Strategic Stockpiles	4.0	2.6	2.0	1.7
Percent change from 1981	....	−35%	−49%	589%
Defense-Related	4.5	6.6	7.6	8.7
Percent change from 1981	....	48%	71%	96%
Development Aid	5.8	5.5	5.8	4.7
Percent change from 1981	....	−4%	1%	−18%
Administration of Foreign Affairs	1.8	2.3	2.5	2.9
Percent change from 1981	....	33%	45%	65%
Civil Space Program	6.0	6.7	6.7	7.2
Percent change from 1981	....	13%	12%	20%
Coast Guard	1.9	2.4	2.4	2.2
Percent change from 1981	....	22%	24%	14%
Financial Accounts [1]	−0.6	−0.3	−0.3	−0.2
Percent change from 1981	....	53%	51%	63%
Foreign Military Sales	3.4	4.6	5.2	3.5
Percent change from 1981	....	35%	50%	3%
Other Security Assistance	3.4	3.7	3.9	3.6
Percent change from 1981	....	11%	16%	7%
Central American Aid	....	....	0.8	0.6
Total National Interest Programs	30.1	34.3	36.7	35.0
Percent change from 1981	....	14%	22%	16%

[1] Minus sign denotes offsetting receipts.

The decline in spending for Strategic Stockpiles from 1981 to 1985 primarily results from the substantial progress which the Administration has made in implementing the Strategic Petroleum Reserve, which has permitted a tapering off in outlays for this program.

The increased spending since 1981 for Defense-related programs, is largely driven by the Strategic Weapons Modernization Program and the need to upgrade the Department of Energy's nuclear weapons research, production, and testing facilities. Likewise, the emergency prepareness increases are integrally related to the Administration's overall national security objectives.

The 65% real increase projected over the decade of the 1980's for Administration of Foreign Affairs, including the Department of State and the international communications agencies, provides an illustration of previously unanticipated budget requirements. These activities are personnel and overhead intensive; it has been discovered that significant loss of mission capability occurred during the 1970's and that substantial additions to personnel, facilities, security, and specialized functions will be needed in order to support adequately U.S. foreign policy objectives.

After declining throughout the 1970's, spending for the Space Program has now been stabilized and will rise substantially above current services levels in the out-years, as the manned space station development activities gain momentum.

Similarly, spending for the Coast Guard has increased because of continuous modernization needs during the last decade.

For Foreign Military Sales, Other Security Assistance, and Central American Aid, the proposed 1985 spending of $9.8 billion is a 45% increase from the 1981 level of $6.8 billion (outlays in constant 1985 dollars). About $800 million or 26% of the increase of $3.1 billion is for Central American Aid which is intended to provide for a comprehensive plan of support for democratic elements, reform programs, and human freedom in Central America. Other proposed increases are intended to help key friends and allies build adequate defense forces, to provide further support for the peace process in the Middle East, and to secure base rights and facilities.

Proposed Funding of National Interest Programs

(Outlays in billions of 1985 dollars)

	1985	1986	1987	1988	1989	Total
Strategic Stockpiles	2.0	1.9	1.7	1.7	1.7	9.1
Defense-Related	7.6	8.4	8.6	8.7	8.7	42.0
Development Aid	5.8	5.2	5.3	5.2	4.8	26.2
Administration of Foreign Affairs	2.5	2.6	2.9	2.9	2.9	13.9
Civil Space Program	6.7	6.8	6.9	7.1	7.2	34.6
Coast Guard	2.4	2.3	2.3	2.2	2.2	11.5
Financial Accounts [1]	−0.3	−0.3	−0.3	−0.2	−0.2	−1.3
Foreign Military Sales	5.2	4.3	3.8	3.7	3.5	20.5
Other Security Assistance	3.9	3.7	3.7	3.7	3.6	18.5
Central American Aid	0.8	0.6	0.7	0.7	0.6	3.4
Total National Interest Programs	36.7	35.6	35.7	35.5	35.0	178.5

[1] Minus sign denotes offsetting receipts.

Overall, the funding levels proposed in the 1985 budget closes what had previously been in many cases a growing gap between recognized needs and projected budget paths. The added fiscal burden is modest and the national interests served are of paramount importance.

The factsheets on particular aspects of national interest programs are grouped as follows:

Strategic Stockpiles includes factsheets on the National Defense Stockpile and the Strategic Petroleum Reserve. Defense related contains factsheets on Atomic Energy Defense (Department of Energy) and Federal Emergency Prepardness (Federal Emergency Management Agency). Development aid includes six factsheets on the various aspects of this subfunction. The NASA space program and the Coast Guard each has one factsheet. Financial Accounts includes the US quota in the International Monetary Fund, Exchange Stabilization Fund, and repayment of loans to the United Kingdom. The Foreign Military Sales Financing factsheet includes the foreign military sales credit program and the Guarantee Reserve Fund. Other Security Assistance includes the Economic Support Fund and military grant assistance and training. Finally, there is one factsheet covering assistance to Central America.

As in other chapters, separate factsheets on some items in this category are not included so factsheet totals will not add to the category total. Factsheets have not been written for peacekeeping operations and Israeli facilities and off-setting receipts (mostly AID).

Strategic Stockpiles

National Defense Stockpile

Agency: General Services Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	23	27	29	30	31	33	149
Outlays	144	19	28	30	31	32	139
1985 Budget Level:							
Budget Authority	23	28	30	31	32	34	155
Outlays	144	19	29	31	32	34	145
Change:							
Budget Authority	....	+1	+1	+1	+1	+1	+6
Outlays	....	+1	+1	+1	+1	+1	+6

Program Description

The General Services Administration maintains the National Defense Stockpile of strategic and critical materials for use in a national emergency. This responsibility includes the acquisition and disposal of commodities for the stockpile, as well as the operating activities associated with the maintenance and storage of goods.

Current Status

Administration efforts to restructure the stockpile have been limited by a congressional prohibition on the sale of excess silver. Silver represents the most valuable excess commodity in the stockpile—roughly 137 million ounces are available for sale. In order to restructure stockpile holdings, new sales are needed to generate income into the fund for additional purchases.

1985 Budget Proposal

For the period 1984 to 1989, projected obligations for acquisitions are $120 million each year, disposals of excess commodities range from $78–120 million, and operating expenses run from $23–34 million.

The Administration request proposes a current services purchase level of $120 million to support priority acquistions for the stockpile. These purchases are predicated on an income stream dependent on the reauthorization of silver sales occurring during the latter part of 1985. The proposed level of silver sales for 1985 is very modest—slightly above 5 million ounces.

Without the reauthorization of silver, there would not be sufficient income to support the projected level of new purchases.

Rationale

The President has repeatedly committed the Administration to a restructuring of the National Defense Stockpile. The budget implements that objective in the least disruptive manner consistent with national defense priorities and conditions in the commodities markets.

By law stockpile sales must not disrupt the market for any commodity. The reauthorization of silver sales at the level proposed in the President's budget should not materially affect its market price.

Strategic Petroleum Reserve

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	809	2,843	2,414	2,397	2,445	687	10,785
Outlays	2,366	2,457	2,430	2,346	2,417	2,036	11,687
1985 Budget Level:							
Budget Authority	809	2,337	1,940	1,903	1,934	2,001	10,115
Outlays	2,360	2,025	1,962	1,864	1,911	1,964	9,727
Change:							
Budget Authority	....	−506	−474	−494	−511	+1,314	−671
Outlays	−6	−431	−468	−482	−506	−72	−1,960

Program Description

The Strategic Petroleum Reserve (SPR) is the emergency stockpile of crude oil which the Federal Government is accumulating in underground storage facilities along the coast of Texas and Louisiana. The SPR is designed to help ensure the Nation against any severe disruptions which might occur in world oil supplies.

Current Status

The Administration has made substantial progress in implementing the program since 1981. The growth of the reserve continues at a steady and ambitious pace.

- More than 385 million barrels (MB) of oil were stored in SPR as of mid-February 1984. The program is more than half-way toward its long-term goal of 750 MB.
- The amount of oil stored in SPR has more than tripled in the past 3 years. SPR is currently being filled at a rate of 186,000 barrels per day (B/D).
- Development of SPR has been a high priority objective of the Administration. Nearly $12 billion has been spent on this program during a period of tight budget restraint—$3.8 billion in 1981, $3.9 billion in 1982, $1.9 billion in 1983 and $2.4 billion in 1984.

1985 Budget Proposal

The budget proposes that the SPR be filled at the rate of 145,000 B/D—an ambitious fill rate, but a reduction from the current rate.

- The current services estimate assumes that the SPR fill rate continues at 186,000 B/D.
- The proposed budget assumes that the rate continues at 145,000 B/D starting in 1985.
- The proposed change from current services would reduce Federal spending by almost $2.0 billion in outlays through 1989.

Rationale

What is proposed is a marginal change in an important program, providing for its continued expansion and enhancement of national security, but at a somewhat reduced rate, consistent with sound management and the need to bring Federal spending under control.

The level of oil now in SPR already provides a significant level of protection.

- 385 MB is the equivalent of approximately 90 days of U.S. 1983 net oil imports. The original 1975 legislation establishing the SPR called for a stockpile approximately equal to 90 days of oil imports at that time. Given the reduction that has occurred in oil imports since that time, the SPR today already provides a level of protection in line with that intended in its original legal mandate.
- The 385 MB of oil already stored is also the equivalent of 750 days—over two years—of U.S. oil imports from the Persian Gulf.

Maintaining the higher fill rate would provide marginal additional benefits, but it would provide them at a high cost. For example:

- The higher fill rate would increase the stockpile by only 15 MB or 3% by the end of 1985, but it would increase program outlays by over $400 million in that one year alone.
- What is true for 1985 is also true for the other years: in no year is SPR 10% larger under the higher fill rate than under the lower fill rate.
- While the higher fill rate has a negligible effect on SPR size, the nearly $2 billion increase in outlays that result from the higher rate is a significant budgetary drain at a time of large deficits.

Considerations of sound program management support the lower SPR fill rate proposed in the budget.

- The proposed fill rate would essentially fill all permanent storage capacity as it becomes available. Not more than 5% of storage capacity would be left unfilled at any time. This approach leaves a margin for error and provides program flexibility. The higher fill rate would press capacity limits and provide no such flexibility.
- Attempting to maintain the higher fill rate could complicate program implementation. Such an approach could be reminiscent of the early stages of the program, when management considerations were subordinated to excessively rapid pumping of oil into the ground—and waste and mismanagement resulted.

The SPR is only one part of an overall strategy for dealing with turbulence in world oil markets. Many of the other factors which affect the American people's ability to cope with a crisis are favorable. The impact of any disruption on the American people, consequently, would be changed only marginally, if at all, by a higher SPR fill rate.

- There is substantial unused capacity in worldwide oil (approximately 10 MB/D) and North American gas (2 to 5 TCF) that could become available should a supply interruption take place.
- The Federal program responsible for the gasoline lines and energy shortages in past disruptions—Federal oil allocation and Government administered price ceilings—has been dismantled. With that program in place, gas lines were inevitable—regardless of the size of SPR. With that program dismantled, market forces will work to eliminate shortages. A slightly larger SPR would have no effect on this key issue.
- There are an estimated 4.7 billion barrels of oil stocks held by governments and private industry worldwide that would be in place for use during a supply disruption.

Defense-Related Activities

Atomic Energy Defense

[In millions of dollars] Agency: Department of Energy

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	6,555	6,981	6,903	6,722	6,716	6,866	34,189
Outlays	5,900	6,475	6,809	6,575	6,541	6,644	33,044
1985 Budget Level:							
Budget Authority	6,712	7,807	8,731	9,187	9,377	9,580	44,682
Outlays	6,002	7,134	8,187	8,760	9,165	9,470	42,716
Change:							
Budget Authority	+158	+826	+1,828	+2,465	+2,660	+2,714	+10,494
Outlays	−102	+660	+1,378	+2,185	+2,624	+2,826	+9,671

Program Description

The Atomic Energy Defense program of the Department of Energy (DOE) is responsible for the design, testing and production of all nuclear weapons (missile warheads, bombs and artillery shells) used in the strategic and tactical nuclear forces of the United States. This program also provides for the production of nuclear materials for incorporation in the weapons, and for the safe management of the nuclear wastes resulting from the production of nuclear materials.

Current Status

Funding for this program has been increasing in recent years primarily to support the modernization of nuclear weapons, in parallel with the ongoing modernization of strategic and tactical nuclear forces within the Department of Defense (DOD). During most of the 1970's, the total number of nuclear weapons in the nuclear stockpile steadily declined, as the rate of retirements of old weapons exceeded the rate of production of new weapons. During this same period, the average age of the nuclear weapons increased significantly. This period was also accompanied by a steady aging and deterioration of the facilities used in weapons and materials production. The current multiyear program is replacing older nuclear weapons with new weapons having improved command and control and safety features. The DOE weapons complex is also being refurbished to enable it to meet the higher weapons production workload needed to support DOD weapons systems such as the Bl-B bomber, the Trident submarines, and the Peacekeeper missile.

1985 Budget Proposal

The 1985 budget would continue funding to support the modernization of nuclear weapons. It would provide the minimum funding needed by DOE to support the schedules for delivery of nuclear weapons to the DoD as authorized by the President. It also would provide increased support for research and development on several weapons concepts that may be used in future ballistic missile defense systems. In addition, the 1985 budget proposes necessary increases for the support of environmental, safety and safeguards programs at the various DOE weapons R&D and production facilities.

- The environmental and safety programs would significantly upgrade existing pollution control and radiation protection systems at DOE facilities. Also included would be the accelerated cleanup of chemical wastes that resulted from program activities in previous decades.
- The safeguard systems at DOE facilities would be substantially reinforced to offer a greater assurance that any clandestine or overt actions against these facilities would be rapidly detected and overcome.

The budget would continue activities to dispose of waste from DOE defense programs, the construction of an R&D facility in New Mexico to demonstrate the disposal of such wastes, and also the construction of a facility in South Carolina to solidify nuclear wastes currently being stored temporarily in tanks in liquid form.

Rationale

The principal reason for the growth in the DOE Atomic Energy Defense program is the need to modernize nuclear weapons. More modern weapons will incorporate improvements in command and control and safety features. The improvements in command and control features would help increase the assurance that surviving weapons could be effectively used following a Soviet first strike, thus increasing the credibility of our nuclear forces as a deterrent. The safety improvements would provide additional assurance that nuclear weapons cannot be accidently detonated.

Modernization of nuclear weapons would be required even if the Soviet threat had remained unchanged. However, the threat has grown significantly, and consequently new, modernized DoD weapons systems are required. This determines the specific production schedules of new nuclear weapons compatible with these systems.

Emergency Preparedness

Agency: Federal Emergency Management Agency

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	429	464	491	519	546	573	2,594
Outlays	402	428	453	474	499	525	2,379
1985 Budget Level:							
Budget Authority	429	542	600	681	776	804	3,403
Outlays	402	489	549	630	717	815	3,200
Change:							
Budget Authority	....	+78	+108	+162	+230	+230	+809
Outlays	....	+60	+96	+156	+218	+291	+820

Program Description

The Federal Emergency Management Agency (FEMA) is the major agency responsible for civil defense and emergency preparedness planning. Civil defense is the largest component of these activities.

Current Status

The Administration sees a continuing need to increase emergency preparedness programs, including civil defense, that were neglected in the past.

1985 Budget Proposal

The Administration proposes a 50% increase—$82 million—in the civil defense program to better prepare communities to respond to all types of natural and other emergencies. Further increases are proposed in subsequent years. This increase is partly offset by minor changes in other preparedness programs.

Rationale

This program has received minimal funding for many years. The result has been deterioration in the capability of communities to respond to emergencies. This multi-year proposal will provide the needed equipment, facilities and plans to assist Federal, State, and local officials to respond quickly to emergencies of all kinds.

Development Aid

Multilateral Development Banks

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,324	1,389	1,453	1,516	1,576	1,635	7,569
Outlays	1,505	1,564	1,390	1,643	1,762	1,448	7,808
1985 Budget Level:							
Budget Authority	1,644	1,236	1,287	1,287	1,287	1,287	6,383
Outlays	1,513	1,452	1,273	1,502	1,590	1,229	7,046
Change:							
Budget Authority	+320	−154	−166	−229	−289	−348	−1,186
Outlays	+8	−112	−117	−142	−172	−219	−762

Program Description

The multilateral development banks provide investment capital and technical assistance to developing nations. They have become the largest source of development lending to the Third World, lending $20 billion in 1983. Each institution makes loans on both hard (market-related) and soft (very low interest) terms. Loans are repaid over periods ranging from 15 to 50 years. The hard loans are supported mainly by bank borrowings on world capital markets backed by donor guarantees. Soft loans are more costly in budgetary terms since they are supported almost entirely by contributions from industrial country bank members. Contributions for soft lending account for the bulk of U.S. contributions to the banks.

Because of the relatively low repayment stream from the banks' long-term loans and because of the continuing need for development finance, the banks' resources are periodically replenished to meet demand for new lending. The total amount of new contributions and industrialized country shares are determined in international negotiations, with contributions paid in installments over several years. The amounts requested for the multilateral banks in the budget represent annual contributions to the four institutions of which the United States is a member: the World Bank and its affiliates, and the regional banks for Latin America, Asia and Africa.

Current Status

Over the last three years, the United States has made significant progress toward fulfilling funding commitments made by previous Administrations to the banks. This includes not only completing payments to the most recent round of replenishments, but clearing up all but $14 million of $250 million in payments to earlier replenishments dating from the mid-1970's. With passage of pending 1984 proposals, the United States would be essentially current on its pledges to all institutions.

- *The World Bank group.*—A capital increase for the World Bank, negotiated by the Carter Administration, was ratified in 1982 and installment payments are now being made. The U.S. pledge to the sixth replenishment of the International Development Association, completion of which was delayed one year by the Congress, would be completed with passage of a pending 1984 supplemental.

- *Regional Banks.*—The U.S. pledges to past replenishments of the Inter-American Development Bank, Asian Development Bank, and African Development Fund would be nearly completed in 1984. New replenishments of these institutions have been negotiated along with U.S. membership in the African Development Bank. Equal annual payments are now being made to all these institutions.

1985 Budget Proposal

In addition to payments to ongoing replenishments of the World Bank and the three regional banks, the 1985 request would fund two new initiatives.

- The United States would participate in a seventh replenishment of the International Development Association (IDA) with a $2.25 billion (25%) U.S. share. This is a significant reduction from the $3.24 billion commitment to the last IDA replenishment, but should be sufficient to meet the needs of the poorest borrowers. The first of three $750 million annual payments is requested in 1985.
- The United States would join a new institution intended to support the private sector in Latin America, the Inter-American Investment Corporation. The United States would assume a 26% share of contributions to be made between 1985 and 1988. The first $20 million payment is requested in 1985.

Rationale

The 1985 proposals would fully implement the findings of the Administration's assessment of the multilateral banks conducted in 1982. That study found that the banks serve U.S. objectives by encourging the participation of developing countries in a market-oriented world economic system, and promoting longterm growth and stability. Among the goals set for future U.S. participation in the banks were:

- encouragement of a stronger market-orientation in bank lending, and a greater emphasis on policy reform; and
- a gradual shift away from soft lending toward hard (market-rate) lending by banks in future bank replenishments, thereby providing major budgetary savings.

The 1985 budget proposals, especially the request for the seventh replenishment of IDA, would realize these goals.

- Concessional pledges would be 40% or $400 million per year, below the last round of replenishments.
- Bank lending programs would continue to grow, reaching $26.5 billion by 1986, but with lending on more market-related terms overall.

Bilateral Development Assistance

Agency: Agency for International Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:[1]							
Budget Authority	1,980	2,060	2,157	2,254	2,347	2,440	11,258
Outlays	1,820	1,923	2,022	2,110	2,202	2,306	10,563
1985 Budget Level:[1]							
Budget Authority	1,988	2,147	2,208	2,244	2,299	2,351	11,250
Outlays	1,823	1,959	2,085	2,163	2,219	2,277	10,703
Change:							
Budget Authority	+8	+87	+52	−10	−47	−89	−8
Outlays	+3	+36	+63	+53	+17	−29	+140

[1] These are gross totals that have not been offset by AID and other receipts.

Program Description

This bilateral development assistance category includes two groups of programs:

- Development loans and grants administered by the Agency for International Development (AID). Assistance is provided in the areas of agriculture and rural development, population planning, health, education and human resources development, energy, and science and technology in more than 60 countries in Latin America, Africa, and Asia.
- Development assistance provided through:
  - the Inter-American Foundation, which assists indigenous private organizations to enhance local participation in economic development in Latin America and the Caribbean;
  - the African Development Foundation, which promotes nongovernmental small-scale indigenous development projects in Africa as a complement to other U.S. development assistance efforts;
  - the Trade and Development Program, which finances feasibility studies and other project planning services for major development projects and thus enhances the use of U.S. technology, goods and services in economic development activities; and
  - the narcotics control program of the Department of State, which provides assistance to foreign governments and international organizations to help them control the production, processing, and illegal trafficking in narcotics and psychotropic drugs.

Current Status

The bilateral assistance program has not grown in real terms over the past several years. During this period the program has been reoriented to emphasize:

- support of sound economic policies in recipient countries;
- utilization of American and recipient country private sectors as vehicles for economic growth;
- enhancement of the capacity of indigenous institutions in developing countries; and
- increased use of science and technology in development.

1985 Budget Proposal

The 1985 budget request for bilateral development assistance represents an 8% increase over 1984 levels, or 3% in real terms. Of the proposed increase, $75 million would provide initial funding for the new economic policy initiative for Africa, a five-year, $500 million effort designed to provide special support to those sub-Saharan African countries committed to resolving their deep-seated economic and financial problems through appropriate policy reforms.

Rationale

The reoriented bilateral development assistance program will be an important component of the overall assistance effort in many countries. The growth proposed is consistent with the recommendations of the Commission on Security and Economic Assistance (the Carlucci Commission), which had broadly based congressional and private sector membership. As the Commission recommended, the program puts special emphasis on assistance to Central America and the Caribbean and on Africa. Not only the Africa initiative but other elements of the program as well are designed to elicit indigenous policy reforms in order to achieve self-sustaining growth and reduce dependence on external aid.

Contributions to International Organizations

[In millions of dollars]

Agency: DOS/AID

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	901	926	957	956	994	1,031	4,864
Outlays	920	915	960	1,002	1,027	1,061	4,966
1985 Budget Level:							
Budget Authority	889	820	787	794	814	835	4,050
Outlays	904	835	792	843	850	867	4,187
Change:							
Budget Authority	−12	−107	−170	−162	−180	−196	−814
Outlays	−16	−80	−168	−159	−178	−194	−779

Program Description

Contributions to the United Nations and other international organizations include (1) assessments for United Nations peacekeeping operations, (2) the organizations' operating expenses based on binding membership agreements, and (3) voluntary contributions for developmental, humanitarian and scientific programs of the United Nations and other international organizations.

Current Status

The Administration recognizes the important functions that most international organizations perform. Nevertheless, many of the organizations' budgets grew very rapidly throughout the 1970's and the early 1980's. Efforts to reduce increases in assessed contributions by pressing for lower budget growth have been successful. Enacted appropriations for voluntary contributions continue to exceed amounts proposed.

1985 Budget Proposal

Assessed contributions for operating expenses would include savings due to exchange rate gains and reduced growth of organizations' budgets.

Assessed contributions for UN peacekeeping activities would be at the level of current spending, the amount requested by the organizations.

Contributions to the UN Educational Scientific and Cultural Organization (UNESCO) are terminated in 1986 and beyond.

Voluntary contributions would be maintained at the same levels proposed in recent years.

Rationale

There has been substantial agreement among international organization member governments that after the rapid growth of the 1970's and early 1980's, a period of consolidation and rationalization was advisable. Holding real program growth near zero for a period while sorting out priorities among activities not only benefits contributors but should also strengthen the organizations' primary operations.

UN peacekeeping forces make a significant contribution to stability in countries and regions, such as the Middle East, of high importance to the United States.

Reductions of over $50 million a year beginning in 1986 result from the United States' planned withdrawal from UNESCO. Announced in December, 1983, the withdrawal was based on the adverse trends in the management, policy, and budget of UNESCO which have consistently detracted from the organization's effectiveness in pursuing the principles of its constitution, which the United States strongly supports.

At a time when U.S. foreign aid must be increased to meet serious security and economic threats to third world countries in Central America and elsewhere, untargeted voluntary contributions to international organizations must receive a lower funding priority. Moreover, the assistance provided by these organizations tends to be less well suited toward inducing needed economic policy reforms than other bilateral and multilateral aid.

P.L. 480 Food Aid

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,052	1,281	1,297	1,322	1,348	1,363	6,611
Outlays	1,052	1,281	1,297	1,322	1,348	1,363	6,611
1985 Budget Level:							
Budget Authority	1,052	1,319	1,300	1,288	1,278	1,258	6,443
Outlays	1,052	1,319	1,300	1,288	1,278	1,258	6,443
Change:							
Budget Authority	....	+38	+3	−34	−70	−105	−168
Outlays	....	+38	+3	−34	−70	−105	−168

Program Description

The P.L. 480 program provides surplus agricultural commodities to food deficit countries and meets humanitarian needs abroad. Under Title I of P.L. 480, low interest rate loans finance commercial commodity sales to ease recipient country financial strains. Loan repayments are available to finance a portion of this program, reducing the need for new budget authority. Under Title II, food is made available on a grant basis, normally directly to target population groups too poor to purchase food and/or affected by natural disasters or other emergencies.

Current Status

The 1984 enacted level of $1,052 million represents an increase of 2% in value terms over the 1983 actual levels and will provide approximately the same volume. The Administration has proposed a $90 million supplemental appropriation to provide additional Title II commodities for emergency aid to the drought-stricken nations of Africa.

1985 Budget Proposal

The proposal would increase P.L. 480 budget authority by 25%, or $267 million, above the 1984 enacted level. For 1985 this increase would provide $113 million for additional commodities and ocean freight differential payments and $154 million to offset a projected shortfall in Title I loan repayments.

Rationale

P.L. 480 food aid exports support U.S. foreign policy, economic development and humanitarian goals abroad. The provision of food assistance promotes political stability in developing countries by reducing the threat of food shortages and helping to meet continuing emergency needs. The food aid program also helps relieve debt pressures in the third world by reducing the need for scarce foreign exchange. On the other hand, the rapid growth in the food aid program sought by some could create disincentives to food production in recipient countries. Conditions attached to Title I programs encourage recipients to adopt appropriate policies for agricultural development.

Peace Corps

[In millions of dollars]

Agency: Peace Corps

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	115	123	131	139	147	155	694
Outlays	114	122	130	138	146	154	689
1985 Budget Level:							
Budget Authority	115	116	123	129	135	141	644
Outlays	114	116	123	129	134	140	642
Change:							
Budget Authority	....	−6	−7	−10	−12	−14	−50
Outlays	....	−6	−7	−9	−12	−14	−47

Program Description

The Peace Corps recruits, trains, and maintains U.S. volunteers overseas to fill the trained manpower needs of developing nations and to promote mutual understanding.

Current Status

In the last three years, the Peace Corps has provided an average of 4,700 workyears of service annually in nearly 60 developing countries, in energy, health, education, agriculture, employment generation and a range of other fields.

1985 Budget Proposal

The 1985 budget request would fund the Peace Corps at the 1984 level. Because of inflation abroad, this funding level would lead to a modest 2% drop in volunteer-year levels.

Rationale

In the last year, the Peace Corps has been recognized in various studies of U.S. foreign aid and foreign policy as a valuable element of the U.S. presence abroad. Its contribution would be maintained under this proposal, consistent with budget stringencies.

International Refugee Assistance

[In millions of dollars] Agency: Department of State

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	323	339	355	370	385	400	1,849
Outlays	348	354	352	367	382	397	1,852
1985 Budget Level:							
Budget Authority	338	341	333	323	329	336	1,662
Outlays	356	363	338	330	331	336	1,697
Change:							
Budget Authority	+15	+2	−22	−48	−56	−64	−188
Outlays	+7	+9	−14	−37	−52	−61	−155

Program Description

Refugee assistance provides for the selection, transportation and initial resettlement of refugees admitted to the United States.

Funds are also provided to international organizations and American voluntary agencies to care for large numbers of refugees in several regions around the world. The U.S. share of these efforts is usually about 30%.

Displaced persons within nations (Lebanon and El Salvador) are helped through a separate program of the Agency for International Development.

Current Status

During the past few years, there have been no large outflows of refugees comparable to the previous Cuban (Mariel) exodus or the Afghanistan and Indochinese outpourings. Regrettably, refugee departures from the Soviet Union have slowed to a trickle. As a result of these developments, admissions to the United States have steadily declined from a high of 217,000 in 1980 to 61,000 last year. Large numbers of refugees in camps in Southeast Asia, Pakistan, the Middle East, Africa and Central America still require substantial care and maintenance support.

1985 Budget Proposal

A 1985 budget request of $341 million, about the same as 1984, would admit 72,000 refugees in 1985, the same as authorized for 1984. Would continue recent levels of world-wide care and maintenance aid.

Rationale

The refugee program is a reflection of longstanding U.S. concern about refugees unable to return to their countries. The proposed refugee admissions level, mainly Southeast Asians, would further reduce politically destabilizing camp populations in Thailand and elsewhere. Reduced admissions are estimated in out-years as outflows from Indochina decline and camp populations are reduced. No major crises are anticipated abroad in 1985 or out-years; an emergency fund is available to meet unforeseen needs.

Compact of Free Association (Micronesia)

[In millions of dollars] Agency: Department of State

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	....	....	....	....	...	....
Outlays	....	....	....	....	....	....	....
1985 Budget Level:							
Budget Authority	....	295	143	145	146	148	877
Outlays	....	295	143	145	146	148	877
Change:							
Budget Authority	....	+295	+143	+145	+146	+148	+877
Outlays	....	+295	+143	+145	+146	+148	+877

Program Description

This Compact, negotiated with and approved by the Federated States of Micronesia and the Marshall Islands, will change the status of the two entities from a United Nations trusteeship, managed by the United States, to States freely associated with this country.

While the States will govern their internal affairs and conduct their foreign relations with other nations, the U.S. Government will retain full authority in security and defense matters and the right to establish and maintain military bases there.

The Compact binds the United States to make annual payments to the two States over the next 15 years totalling $2.2 billion to aid in their development.

Current Status

It is anticipated that the Congress will shortly begin consideration of compact legislation.

1985 Budget Proposal

The Administration will seek a $295 million appropriation upon enactment of the Compact by the Congress. At that time, a $96 million Interior Department request for its ongoing programs for managing the Trust Territory of the Pacific Islands will be reduced.

Rationale

The Compact recognizes the legitimate rights of the two States for self-determination and sovereignty, consistent with U.S. democratic principles. United States security interests in the area are fully protected. The legitimate economic development needs of the Micronesian peoples will be fully met. Funds will be used by the two States both for their governmental operations and for their economic development.

Foreign Affairs-Related Agency Expenses

Foreign Affairs Administrative Expenses

[In millions of dollars] Agency: Department of State

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,408	1,486	1,568	1,662	1,756	1,849	8,322
Outlays	1,457	1,416	1,494	1,585	1,677	1,767	7,938
1985 Budget Level:							
Budget Authority	1,443	1,691	1,855	1,932	2,036	2,110	9,624
Outlays	1,471	1,635	1,650	1,914	2,017	2,130	9,347
Change:							
Budget Authority	+35	+204	+288	+271	+279	+261	+1,303
Outlays	+14	+219	+156	+330	+340	+364	+1,408

Program Description

This category finances the operating costs of the Department of State in carrying out United States foreign policy.

Current Status

The Administration is committed to strengthening our ability to promote American interests abroad. In 1982, a major effort was begun to enhance our capacity to understand foreign developments and to respond accordingly. A principal feature of that continuing effort is better staffed and supported embassies. A steady upgrading of the protective security and communications capability of American embassies and consulates has been necessary for the effectiveness and safety of our diplomatic and consular personnel. A growing passport and consular workload has also added to the requirement for additional staff and support.

1985 Budget Proposal

This proposal would:

- Strengthen the reporting and analysis produced by the embassies and the Department.
- Permit the opening of several new diplomatic and consular posts.
- Increase the number of security personnel and improve protective measures.
- Provide additional personnel to meet growing passport and consular workloads.
- Permit the development and construction of needed office space and staff housing abroad.

Rationale

The pace at which world events unfold and the need to protect and promote American interests demand a strengthened American diplomatic presence abroad. We must improve our information flow and be better staffed to deal with foreign leaders in seeking solutions to world problems. Making such improvements requires additional people abroad and the support they need to do their jobs. It is especially important that we adequately support these people because of the growing violence against American personnel and facilities abroad. This budget would continue what has been a major Administration effort over the past three years.

Foreign Information and Exchange

[In millions of dollars] Agency: U.S. Information Agency

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	787	848	923	1,114	1,124	1,113	5,122
Outlays	770	879	906	1,119	1,134	1,130	5,168
1985 Budget Level:							
Budget Authority	787	955	1,090	1,262	1,254	1,269	5,830
Outlays	770	913	1,108	1,283	1,267	1,280	5,851
Change:							
Budget Authority	....	+107	+167	+148	+130	+156	+708
Outlays	....	+35	+202	+164	+133	+150	+683

Program Description

The U.S. Information Agency (USIA) increases the understanding by foreign peoples of the American people, official U.S. policies, and the advantages of democratic governments and open societies. It operates through academic, leader and youth exchanges, Voice of America broadcasts in 42 languages, Radio Marti broadcasts to Cuba, media materials, seminars, and libraries and cultural centers in 127 countries. In addition, the Board for International Broadcasting provides grants to Radio Free Europe/Radio Liberty which broadcasts in 21 languages to Eastern Europe and the Soviet Union.

Current Status

For a number of years prior to 1980 USIA programs declined in real terms. Recognizing the need to improve foreign understanding of American society and policies, the Administration began three years ago a major effort to expand and improve foreign information and exchange activities. This effort had as its centerpiece the expansion and modernization of the Voice of America. It also incorporated improvements in existing USIA programs such as the popular exchange of persons programs, and the initiation of new programs, such as the Worldnet television link, Radio Marti, and the National Endowment for Democracy.

1985 Budget Proposal

The budget proposes a $107 million increase (13%) in USIA programs. Primary elements include:

- initial work on new radio transmitter facilities, replacement equipment on existing facilities and expanded programming for the Voice of America, which is the United States' principal vehicle for communicating directly with the people of the world;
- full operation of Radio Marti, which broadcasts to the people of Cuba;
- increases for the President's international youth exchange program, academic and other exchange programs;
- additional grants to the National Endowment for Democracy; and
- new efforts to use television to increase the accessibility of American leaders to foreign television journalists and audiences.

Rationale

An up-to-date understanding of the United States and its policies by foreign peoples and governments is important to world peace and American security. Expanded and improved efforts are urgently needed to increase the ability of the United States to state and explain its objectives to foreign peoples. The United States must draw on its expertise in communications to counter the large and growing Soviet propaganda and disinformation campaign. The success and attractiveness of our free political and economic systems provide an ideal context from which increased informational efforts can be effectively mounted.

Space Program

National Aeronautics and Space Administration Space Programs

Agency: National Aeronautics and Space Administration

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	6,590	6,556	6,180	5,598	5,347	5,321	29,002
Outlays	6,427	6,415	6,132	5,594	5,341	5,333	28,815
1985 Budget Level:							
Budget Authority	6,590	6,813	7,237	7,686	8,125	8,562	38,423
Outlays	6,427	6,684	7,122	7,508	8,005	8,416	37,735
Change:							
Budget Authority	....	+257	+1,057	+2,088	+2,778	+3,240	+9,420
Outlays	....	+269	+991	+1,914	+2,664	+3,083	+8,921

Program Description

National Aeronautics and Space Administration (NASA) space programs currently include the Shuttle-based system to bring about routine access to space; space-based scientific studies to increase our knowledge of the Earth and its space environment, the solar system, the galaxy, and the universe; research and development to encourage the application of space technologies to needs on Earth; and initial studies of a manned space station to introduce a new era in man's use of space. These programs cover all of the activities of NASA except aeronautical research and development (R&D) and other aeronautics-related support.

Current Status

Increased funding is essential to the goal of this Administration to maintain U.S. leadership in space for the benefit of the U.S. and all mankind. The achievement of this goal requires the continuation of a balanced program in space science, applications and technology, including the initiation of new missions launched from the Earth or the Space Shuttle and, in the longer term, a permanent U.S. presence in space through the Space Station.

1985 Budget Proposal

The 1985 budget for NASA space programs would provide an overall increase of more than $200 million in budget authority over the 1984 budget, including $150 million to initiate planning for the manned Space Station. Highlights include:

- *Space Station.*—The budget would provide the funding essential to define the scope of this auspicious project. The Space Station would provide permanent space facilities having outstanding versatility; they would function simultaneously as a laboratory, observatory, and center for commercial manufacturing and for spacecraft assembly, storage, service, and repair. The budget envisions that this challenging and forward-looking project will be in place within a decade at a cost of some $8 billion. International and private sector participation is a key objective of this undertaking.
- *Space Transportation.*—The budget would provide for assuring the routine operation of our highly successful Space Shuttle transportation system. It would provide for completing production of the four Space Shuttle orbiter vehicles; for continued development of the Centaur rocket to expand greatly the capability to launch high-performance payloads from the Shuttle

to higher Earth orbits or beyond; for improvements in the performance and reliability of the Shuttle system; and for support of the aggressive Shuttle flight program.

- *Space Science and Applications.*—Proposed 1985 funding would continue a balanced and vigorous program. In addition to a high level of ongoing efforts, several major new projects are proposed, including the Mars Geoscience/Climatology Orbiter to continue the Nation's highly successful program of planetary exploration; the Upper Atmospheric Research Satellite to study the composition and dynamics of the Earth's upper atmosphere; and the Scatterometer instrument to study wind patterns on the oceans' surfaces. Important ongoing activities include ground-based research and spacecraft developments. Scheduled for launch in the 1985-1988 period are the Space Telescope, the Gamma Ray Observatory, the Galileo Mission to explore Jupiter, the Venus Radar Mapper, and additional experiments using the Space Shuttle-based Spacelab. Flight demonstration of the Advanced Communications Technology Satellite program would be dropped in favor of a more appropriate program of ground-based research on satellite communications technology.
- *Other Agency-Wide Supporting Activities.*—Funding is proposed that would maintain the national technical capability inherent in the agency's current civil service workforce; expand efforts to address generic space technology needs; maintain and improve satellite tracking and data acquisition systems; provide new facilities construction for major R&D programs; and improve the rehabilitation and maintenance of technical equipment and the agency's physical plant.

The following table summarizes the proposed 1985 budget for NASA:

National Aeronautics and Space Administration Space Activities

(Dollars in millions)

	Budget authority		
	1983	1984	1985
Space Transportation	3,567	3,533	3,166
Space Station	....	....	150
Space Science and Applications	1,069	1,143	1,381
Agency-Wide Support Activities	1,692	1,914	2,115
Total NASA Space Activities	6,328	6,590	6,812

Rationale

Space Station.—This project presents a new technological challenge and an important step in assuring continued U.S. leadership in space in the 1990's and beyond. The Space Station would allow working in space on a full time basis to utilize fully the capabilities of the Space Shuttle and to maximize the unique advantages provided by the environment of space. It would offer a degree of flexibility and versatility that cannot be achieved with the Shuttle alone or with unmanned space facilities. The Space Station will also allow the U.S. to continue its leadership in international cooperation in space and to utilize more fully the unique strength of the Nation's industry in exploring commercial opportunities in space. The new technologies developed by this project promise even further benefits as they "spinoff" into the U.S. economy.

Space Transportation.—The budget would continue the rapid progress being made towards achieving a fully operational and cost-effective vehicle, the Space Shuttle, to provide routine access to space, including capabilities for retrieval, service, and repair of spacecraft in orbit. The overall decrease in funding proposed for space transportation reflects primarily the planned completion of Shuttle orbiter procurement. Options for resuming orbiter production are maintained.

Space Science and Applications.—The proposed program would ensure continued U.S. preeminence in planetary exploration and space-based astronomy and would take advantage of major opportunities to better understand the Earth, its dynamics, its resources, and its environment. The proposed Upper Atmospheric Research Satellite and the Scatterometer instrument would allow important global environmental measurements that can only be achieved through advanced space technology.

The Advanced Communications Technology Satellite flight demonstration would be dropped to avoid government competition with recently announced plans by the private sector. The private sector has stated a commitment to proceed independently with an alternative new communications satellite project using advanced technology. As with the goals of the previously planned Federal efforts, the anticipated private efforts would also help open new markets and allow more efficient use of available radio frequencies and critical orbital locations for communications satellites.

Agency-Wide Support Activities.—The increased funding proposed for these activities would accommodate the proposed expansion of space operations and planned R&D programs, and would address agency-wide needs and problems associated with the promising new era of permanent space facilities that the Administration's program would make possible in the 1990's.

Coast Guard

Coast Guard

[In millions of dollars] Agency: Department of Transportation

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,478	2,296	2,422	2,545	2,667	2,787	12,716
Outlays	2,254	2,420	2,527	2,661	2,649	2,701	12,959
1985 Budget Level:							
Budget Authority	2,485	2,284	2,393	2,484	2,579	2,679	12,419
Outlays	2,260	2,421	2,449	2,496	2,534	2,604	12,505
Change:							
Budget Authority	+6	−12	−29	−61	−88	−108	−298
Outlays	+6	+1	−78	−165	−115	−97	−454

Program Description

The Coast Guard is responsible for a broad range of activities including search and rescue, maritime law enforcement, aids to navigation, commercial vessel safety, military preparedness, icebreaking and others. It employs about 45,000 personnel and a large fleet of vessels and aircraft to accomplish this work.

Current Status

The Coast Guard's workload is constantly changing and is difficult to forecast. The Government's posture for many years has been to maintain a stable Coast Guard while providing it with modern capabilities which can be redeployed from time to time as requirements dictate. For example, law enforcement has overtaken search and rescue as the largest activity in the Coast Guard.

New modern ships and aircraft have contributed to reductions in maritime smuggling since the February 1982 intensification of interdiction patrols. Seizures in fiscal 1983 were 37% below 1982 due to the deterrent value of Coast Guard patrols, declining use of marijuana, and shifts in cultivation and smuggling practices.

1985 Budget Proposals

The 1985 budget proposes a stable program with a modest increase above inflation to $1.8 billion in budget authority for operating expenses, $0.4 billion for capital investment, $59 million for reserve training and $115 million for other activities. The fleet would continue to be modernized with new patrol boats, cutters and aircraft. A less than one percent reduction in non-operational Government personnel is proposed based on the expectation that contractors could provide certain support functions less expensively than Government personnel.

Rationale

Heavy capital investment in the Coast Guard between 1976 and 1984 is finally resulting in the delivery of many new vesels and air- craft. Some moderation in the pace of capital investment can be undertaken prudently as the capital spending emphasis shifts from the purchase of expensive new vessels and aircraft toward the less costly mid-life renovation of vessels acquired in the 1960's.

Although interdiction of marijuana smuggling will continue to have very high priority, the point has been reached where only moderate further intensification of the high levels of drug patrols should be planned for 1985:

- Surveys show marijuana use declining steadily among those under 25 (monthly and daily use were down 27% and 49%, respectively, in high schools between 1979 and 1983).
- While maritime interdiction properly punishes criminals and disrupts the smuggling that peaked in 1980, there appears to be a trend of increased domestic cultivation supplanting imported marijuana supplies.
- Information published by the National Institute on Drug Abuse confirms that greater awareness about the harmful effects of marijuana (this perception increased 80% between 1979 and 1983) and changing user preferences are the major factors which are determining its declining use despite its continuing availability.

In other programs, stable funding is proposed because the Coast Guard has successfully achieved many of the objectives set in the 1970's. Workload has declined or stabilized in many mission areas:

- oil spills peaked in 1977 and have declined as oil imports are reduced and tanker safety improves;
- search and rescue calls have declined an average of 3% a year since 1978 due to better vessel construction, better weather forecasting and better boater education; and
- fisheries enforcement—which was intensified in 1977—has become more manageable due to a reduction in the number of foreign fishing vessels in the U.S. Fisheries Conservation Zone and greater familiarity on the part of fishermen with U.S. fishing regulations.

The 1985 budget reflects these shifting workloads which have allowed the Coast Guard to redeploy resources to drug interdiction and to increase the amount of joint training it is able to do with Navy units.

To improve efficiency and reduce costs, in 1985 the Coast Guard plans to enter into contracts to provide a variety of support functions now provided by military and civilian personnel. These are jobs of a largely commercial nature that can be provided more economically by the private sector such as: janitorial services, grounds maintenance, welding shops, food service and similar jobs. Some work involving the maintenance of aids to navigation will also be contracted. These contractual efforts should produce significant savings in the future.

The Administration continues to support the collection of user charges from those who benefit directly from Coast Guard services.

Financial Accounts

Various International Financial Programs

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	8,380	−85	−87	−89	−90	−92	−444
Outlays	−285	−303	−303	−289	−280	−274	−1,449
1985 Budget Level:							
Budget Authority	8,380	−88	−87	−89	−90	−92	−447
Outlays	−285	−306	−303	−289	−280	−274	−1,452
Change:							
Budget Authority	....	−3	....	....	....	....	−3
Outlays	....	−3	....	....	....	....	−3

Program Description

This category has four elements:

- *The U.S. quota in the International Monetary Fund (IMF).*—The IMF is an international organization established in 1944 to promote a stable and efficient international monetary system. The 146 member countries have "quotas" in the Fund which are determined by international negotiation. These quotas represent the amounts of deposits which members must make in the Fund and determine the amounts which members may withdraw and borrow from it. The IMF lends to countries in order to overcome temporary balance of payments problems if these countries are prepared to undertake reforms intended to correct the problems. The overall size of the Fund is increased periodically to reflect the needs of the international monetary system.

- *Loans to the International Monetary Fund (IMF).*—The U.S. has contributed to two IMF loan programs; the General Arrangements to Borrow (GAB) and the Supplementary Financing Facility. The GAB were established in 1962 by 13 IMF member countries and Switzerland, including the U.S., as a means of supplementing the IMF's resources when needed to forestall or cope with an impairment of the international monetary system. The Supplementary Finance Facility is a temporary program set up in 1979 to augment the ability of the IMF to assist member countries with serious balance-of-payments problems.

- *The Exchange Stabilization Fund.*—This fund is used by the Secretary of the Treasury to make transactions in gold and foreign exchange, as necessary, to promote orderly exchange arrangements.

- *Repayment of loans to the United Kingdom.*—This is the repayment stream from World War II loans.

Current Status

Congress approved an increase in the U.S. contribution to the IMF in 1984 of $8.5 billion, including $5.8 billion for the U.S. quota increase and $2.7 billion for an increase to the IMF General Arrangements to Borrow.

1985 Budget Proposal

There are no new proposals for these programs in 1985. Negative outlays reflect receipts in the Exchange Stabilization Fund and continued repayment of the U.K. loan.

Rationale

There are no new proposals because the actions taken in 1984 to increase U.S. resource commitments to the IMF should be adequate to support increased IMF activity for several years.

Foreign Military Sales

Foreign Military Sales Financing

Agency: Funds Appropriated to the President

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	5,502	5,879	6,141	6,394	6,639	6,899	31,952
Outlays	5,300	6,196	7,083	6,504	6,734	6,991	33,509
1985 Budget Level:							
Budget Authority	5,502	8,042	6,094	5,694	5,481	5,409	30,719
Outlays	5,300	5,058	4,257	4,165	4,061	4,059	21,599
Change:							
Budget Authority	....	+2,163	−47	−700	−1,158	−1,490	−1,233
Outlays	....	−1,139	−2,827	−2,339	−2,673	−2,932	−11,910

Program Description

The Foreign Military Sales Credit (FMSCR) program helps finance the purchase of defense articles, construction services, and training by friendly governments of eligible countries. The program provides loans on terms that range from highly concessional interest rates to Treasury borrowing rates. Maturities range from 7 to 30 years. Repayment of certain loans is forgiven, making them grants.

Also included in this category are FMSCR receipts, which are the repayments from loans of earlier years, and the Guarantee Reserve Fund, which is available to reimburse the Federal Financing Bank (FFB) for loss of receipts due to delinquent and rescheduled loan repayments.

Current Status

Foreign military sales financing provides the necessary funding to support the foreign policy interests of the United States by promoting and assisting friendly countries in defending mutual security interests in various regions of the world. The recent, rapid growth of this program has corrected serious underfunding of needs in key countries.

Through 1984, FMSCR has taken the form of guarantees of loans made by the Treasury Department's FFB. These loans have been made at Treasury's borrowing rates for comparable maturities. The FMSCR loans have been off-budget except for the forgiven loans.

1985 Budget Proposal

A major financing change proposed in 1985 places the entire FMSCR program on-budget and provides some loans on concessional terms. Because, for some countries, the terms of the financing are more important than the size of the loans, the greater concessionality in the new program will permit the total level of new loans to decrease without harming U.S. security interests. In 1985 the decrease would be from the 1984 level of $5.7 billion to $5.1 billion.

Within the lower total program, concessional and forgiven loans would increase by $1.8 billion, approximately doubling the grant value (i.e., subsidy) provided to recipients.

Major lending would be provided to Israel ($1.4 billion), all forgiven credits; Egypt ($1.175 billion), also all forgiven; Turkey ($525 million); Greece ($500 million); Spain ($400 million).

A $274 million replenishment requested for the Guarantee Reserve Fund is needed to ensure an adequate reserve for payments to the FFB for delinquent and rescheduled FMSCR loans.

Rationale

The FMSCR program supports a number of key national security and foreign policy objectives:

- furthering the peace process in the Middle East through large scale aid to Israel and Egypt, which have been strongly supportive of U.S. objectives;
- securing base rights and facilities in countries such as Turkey, Greece and Spain;
- helping reduce the economic burden of security-related expenditures by providing grant and concessional financing, which is particularly important to poorer countries; and
- supporting key friends and allies, notably in Central America who are endangered by violent subversion.

The proposed financing shift toward increased concessionality achieves two objectives. First, it takes into account that a number of countries face serious economic problems, due to world recession and security threats, that make repayment of high-interest loans very difficult if not impossible. This step will, however, result in higher budget outlays in the future because of diminished offsetting receipts. Second, the shift on-budget makes explicit to Congress and the public the full scope of U.S. military aid.

Foreign Military Sales and Special Defense Acquisition Funds

Agency: Funds Appropriated to the President

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	−700	100	400	500	700	900	2,600
Outlays	−878	104	205	25	94	101	529
1985 Budget Level:							
Budget Authority	−700	100	400	500	700	900	2,600
Outlays	−878	104	205	25	94	101	529
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Foreign Military Sales (FMS) trust fund facilitates government-to-government sales of defense articles and services. Foreign governments make payments for such articles and services to this fund, and the U.S. government in turn used these payments to pay suppliers. Because this account is used to transfer foreign monies, it does not involve foreign aid. The Special Defense Acquisition Fund finances the procurement of military equipment in anticipation of its transfer to governments overseas.

Current Status

Program activity is primarily a product of the level of orders by foreign governments for defense articles and the procurement process for those orders.

1985 Budget Proposal

Normal levels of activity are assumed for 1985, including $15 billion of new FMS orders.

Rationale

The trust fund is a necessary and legislatively required account to facilitate military sales. The acquisition fund reduces the adverse impact on U.S forces of diversions from production or U.S. military stocks.

Other Security Assistance

Economic Support Fund

Agency: Funds Appropriated to the President

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	2,958	3,035	3,175	3,311	3,444	3,571	16,535
Outlays	2,900	2,955	3,025	3,159	3,369	3,489	15,996
1985 Budget Level:							
Budget Authority	2,958	3,068	3,138	3,205	3,270	3,330	16,010
Outlays	2,900	3,050	3,000	3,100	3,160	3,200	15,510
Change:							
Budget Authority	....	+32	−37	−106	−174	−241	−525
Outlays	....	+95	−25	−59	−209	−289	−486

Program Description

The Economic Support Fund (ESF) provides grants and low-interest loans to countries of particular security and political importance to the United States. This fund provides the resources to carry out U.S. economic development policies, to provide balance of payments and budgetary support, and to promote essential economic policy reforms in recipient countries.

Current Status

ESF continues to provide vital economic assistance necessary to support and advance U.S. foreign policy objectives worldwide. The growth in the program, nearly 60% between 1980 and 1984, was needed to alleviate the adverse impact of world recession on many key developing countries and to counter the serious economic difficulties of countries facing threats to their security.

1985 Budget Proposal

The 1985 ESF request is for $3.1 billion, nearly $200 million more than the 1984 program, but less than 2% higher when adjusted for inflation.

Countries to receive the largest amounts are: Israel ($850 million), Egypt ($750 million), Pakistan ($200 million), Turkey ($175 million), and Sudan ($120 million).

Funds were included for Central America for 1985 at 1984 budget request levels pending analysis of the Bipartisan Commission report on aid to the region (see separate factsheet).

Rationale

The Economic Support Fund supports a number of key national security and foreign policy objectives.

- Over half of total funding would be provided to Israel and Egypt in recognition of their strong support of U.S. policies and of the heavy burdens that instability in the Middle East has placed on their economies.
- The proposed aid to Pakistan will strengthen a friendly country facing the threat of a hostile neighbor and Soviet troops on its border. ESF is critical to the support of other governments threatened by the Soviet Union and its radical allies. Sudan is continually threatened by Soviet-backed Libyan and Ethiopian governments.

- Aid would be provided to Turkey and a number of other countries to help alleviate economic dislocations.
- Finally, aid is provided in conjunction with U.S. access to military facilities in strategic locations.

Because of the flexibility permitted under ESF authority in setting terms and conditions of assistance, this program has been especially valuable in meeting a range of short- and long-term U.S. objectives. The modest increase requested for 1985 for countries outside Central America reflects the important progress made during this Administration in providing adequate amounts of assistance to the most important countries.

Military Grant Assistance and Training

Agency: Funds Appropriated to the President

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	564	592	621	648	675	701	3,238
Outlays	591	621	650	679	707	735	3,392
1985 Budget Level:							
Budget Authority	564	866	888	908	926	944	4,532
Outlays	591	782	838	895	934	956	4,404
Change:							
Budget Authority	....	+274	+267	+260	+250	+242	+1,293
Outlays	....	+161	+187	+216	+226	+221	+1,012

Program Description

The Military Assistance Program (MAP) and International Military Education and Training (IMET) provide grant funding for the procurement of U.S. defense articles, related services, and training by friendly governments and international organizations.

Current Status

MAP and IMET programs provide the necessary funding to support the foreign policy interests of the United States and promote and assist sympathetic countries in defending mutual security interests in various regions of the world. Both programs have grown significantly during this Administration. Grant military assistance has grown from $110 million in 1982 to more than $500 million in 1984, in order to help countries facing both serious international payments problems and serious security threats. The military training program has doubled since 1980 in dollar funding and grown even more in the numbers of persons trained.

1985 Budget Proposal

The 1985 MAP request is for $800 million to meet continuing, critical security and balance of payments problems in the poorer countries of the world.

Provision has been made to augment grant aid for Central America carried in the totals above at 1984 request amounts as outlined in the following factsheet. Outside Central America grant military aid would be provided in relatively modest amounts, in part because only limited assistance is desirable for small and very poor countries. Among the larger programs, Turkey would receive $230 million and Portugal $70 million in conjunction with agreements for U.S. base access. Sudan would be allocated $69 million, reflecting Libyan and Ethiopian threats to its security and very grave balance of payments difficulties. The IMET request of $60.9 million is nearly 20% higher than the 1984 program.

Rationale

Grant military aid meets the same important international security objectives as discussed for the foreign military sales credit program (see factsheet on Foreign Military Sales and Defense Acquisition Funds) but is focussed generally on the poorest countries. The requested funding increase is important to correct previous shortfalls in funding that have limited the ability of the United States to meet pressing needs in key countries. Because it does not produce future budget offsets, as does the credit program through repayments, grant aid will remain considerably smaller than military credits. It is, nonetheless, critical. The military training program is widely regarded as a highly cost-effective means of supporting the military forces of other countries. Trainees not only learn needed skills but have the opportunity to observe how our professional military establishment functions within the framework of democracy.

Assistance to Central America

Agency: Funds Appropriated to the President

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....
1985 Budget Level:							
Budget Authority	500	750	750	750	750	750	3,750
Outlays	300	800	675	750	750	750	3,725
Change:							
Budget Authority	+500	+750	+750	+750	+750	+750	+3,750
Outlays	+300	+800	+675	+750	+750	+750	+3,725

Program Description

The amounts for assistance to Central America shown above were intended to provide for various kinds of military and economic assistance to Belize, Costa Rica, El Salvador, Guatemala, Honduras, Panama, and regional organizations. The budget was prepared before the executive branch had an opportunity to review the recommendations of the National Bipartisan Commission on Central America (NBCCA), chaired by former Secretary of State Kissinger. Under the circumstances, 1985 amounts were set aside for Central America in the regular program accounts at the levels requested for 1984.

It was, however, clear to the Administration during budget preparation that significant increases in assistance would be required. Lump sum amounts approximating the expected additional requirements were included in the budget so that the budget totals would not be understated. Absent an analysis of the Commission Report, it was judged to be undesirable to break down the annual increments by specific programs.

Current Status

In mid-February the Administration submitted the Central America Democracy, Peace, and Development Initiative as well as the specific appropriations increases for the various assistance programs for 1984 and 1985 that support the NBCCA report.

1985 Budget Proposal

The Assistance to Central America request for 1984 and 1985 has been replaced by requests in specific regular accounts. The major amounts of required additional budget authority are:

U.S. Bilateral Assistance to Central America

(Dollars in millions)

Major accounts	1984	1985
Military Assistance	259	124
Economic Support Fund	290	371
Functional Development Assistance	73	157
Operating Expenses (AID)	2	6
Operating Expenses (Peace Corps)	2	9
Public Law 480	25	36
U.S. Information Agency	8	36
Other	....	11
Foreign Military Sales Credit	....	−15
Total, Bilateral Assistance	659	735

Rationale

The Administration believes that it is vital strategically, politically, and morally to provide a comprehensive plan of support for the democratic elements, the reform programs and human freedom in Central America. The U.S. must assist in bringing peace to this troubled region so close to home.

CHAPTER 10

Department of Defense Military Functions

Department of Defense Military Functions

A $46.8 billion increase in budget authority is being proposed for the Department of Defense in 1985. After adjustments for anticipated inflation, budget authority would increase by 13% over 1984 and outlays would increase by 9.3% over 1984. This proposed level of funding reaffirms this Administration's commitment to the American people to provide the military strength needed to ensure the future security of this Nation's values and institutions. The 1985 budget requests the minimum level of resources necessary to achieve our national defense objectives in the face of serious, sustained challenges. A vigorous effort is being made to ensure that the resources requested are used in an efficient and effective manner.

Department of Defense Military Functions [1]

(Dollars in billions)

Level	1984	1985	1986	1987	1988	1989
Current Services:						
Budget Authority	258.0	321.3	356.2	388.3	424.5	464.0
Outlays	231.0	277.3	314.7	345.6	377.2	412.4
1985 Budget Level:						
Budget Authority	258.2	305.0	349.6	379.2	411.5	446.1
Outlays	231.0	264.4	301.8	339.2	369.8	398.8
Change:						
Budget Authority	+0.2	−16.3	−6.6	−9.1	−13.0	−17.9
Outlays	....	−12.9	−12.9	−6.4	−7.4	−13.6

[1] Military Functions include most of the activities of the Department of Defense (excluding only the Corps of Engineers civil functions).

Putting The Defense Budget Into Perspective

The proposed budget would not be an excessive burden on the economy.—Critics of the Administration's defense build-up frequently compare the proposed budget levels to those which prevailed in the late 1970's and allege that Administration policies have resulted in inordinate budget growth. That represents a misleading view of defense funding requirements, as well as failure to consider the longer trend of post-war budgetary history. The needed Defense budget growth *launched on a bipartisan basis by Congress in 1980 and accelerated during the Reagan Administration* does not come close to imposing the burden on the U.S. economy experienced during earlier periods. Relative to GNP, projected 1985 defense spending is actually 30% lower than what the national economy proved capable of sustaining in 1968. Between 1968 and the low point in 1976, constant dollar defense expenditures plummeted by 36% and the GNP share fell from 9.9% to 5.5%, or by over two-fifths. This massive drop resulted from short-run national policy trends, the operational cost reductions attributable to the withdrawal from Vietnam, and the large mid-70's decline in end-strength. Investment in both strategic and conventional weapons programs was allowed to decline substantially. That low expenditure burden was unsustainable, however, for the long run because it resulted in funding levels that were inconsistent with stated bipartisan national security objectives—objectives that have remained generally consistent throughout the post-war period. As substantial as the proposed increases appear to be, they would result in *a lower claim on GNP than that which prevailed during the entire 1954–1970 period* which ranged between 7% and 11.0%, and averaged 8.6%. Devotion of 7% of GNP to the Nation's military security in a difficult and threatening world can hardly be considered excessive. Indeed, it represents no more than a mid-point between the normal burden prior to the 1970's and the temporarily depressed levels of the mid and late 1970's.

Defense spending has already been reduced.—The prospect of continued high Federal deficits has led some to suggest reductions in the Defense program. Thus far it has not been well understood just how much the Defense budget has been reduced below the President's original plan. In March 1981, the President's Five Year Defense Program called for an increase of $186 billion in budget authority over the Carter proposal for 1982–86, corresponding to an increase in defense outlays of $116 billion. Actions to date by the Executive branch and by the Congress have reduced the planned increase in budget authority over Carter by $93 billion, for a net five-year increase of only $93 billion. The resulting increase in actual defense spending over Carter for 1982–86 is only $12 billion—10% of the originally planned increase in spending.

Projected growth would not be excessive.—Some critics have charged that 13% real growth in budget authority would be excessive. Last year's plan for 1985 called for $321.6 billion for Defense, an increase of 11.1% in real terms over the 1984 budget request of $273.4 billion. The *revised* 1985 request of $305 billion represents a real growth of only 6.8% over the 1984 requested funding level for Defense. With respect to the 1984 Congressional Budget resolution level of $261.6 billion for Defense, the 1985 request represents a real growth of 11.6% a growth rate comparable to that projected a year ago. Congress ultimately appropriated over $15 billion less than the President's request for 1984, and over $3 billion less than the Congressional budget resolution.

Defense spending, despite its importance, has been a declining function of Federal spending.—The Defense share of Federal outlays dropped from an average of 48% in the 1950's to about 30% today. Even with the continuing build-up, Defense spending will account for only 33% of the Federal budget in 1989. Non-Defense spending, which comprised about 50% of total Federal outlays in the 1950's, now represents more than 70% of the budget.

The Defense build-up is achievable.—In-depth analyses of defense industrial capacity by the Department of Commerce, with the cooperation of the Department of Defense, have concluded that, in most cases, existing domestic capacity is adequate to supply projected Defense and non-Defense needs. In fact, the latest reports show that even as capacity utilization rates for our manufacturing industries are approaching the 80% level, the economy more than adequately accommodates our Defense program.

In considering the Defense budget it is important to understand the economic effect of that budget because that effect is an element of the nation's cost. Nevertheless, *the threat to the national security determines the Defense requirement and that alone is the basis for the budget.*

The Threat to Our Security is Real and Growing

The Soviet Union is the principal threat.—During the 1970's, the Soviets greatly improved their military power and became more adventuresome in their use of that power, both directly and through the indirect support of client states. The resulting changes in the balance of military power constitute a threat to all of the free world that cannot go unanswered.

Soviets Spent Heavily to Achieve Military Capabilities.—From 1980 to 1984, Soviets annually spent an average of 32% more on defense program than the U.S. spent.

Soviets Invest more in Defense than the United States.—In 1983, the dollar estimate of Soviet defense investment (procurement, research and development, military construction) was about 33% greater than U.S. defense investment. During the past decade (1974–1983), the dollar value of Soviet defense investment exceeded U.S. investment by almost one-half trillion dollars (in 1985 dollars). This included $250 billion more in strategic nuclear forces.

Warsaw PACT invests more than U.S. and its allies.—Investments over the last decade of the Soviet Union, plus those of its Warsaw Pact allies was over $105 billion more than the combined efforts of the U.S., our North Atlantic Treaty Organization allies and Japan. Moreover, about 95% of Warsaw Pact spending is Soviet spending, and therefore under direct Soviet control. To contrast, only about 62% of the Alliance spending is U.S. spending.

Warsaw PACT Produces More Weapons than NATO in most categories.—As a result of the Soviet's massive defense investments their production of major weapon systems, since 1974, has greatly exceeded that of the U.S. In addition, Warsaw Pact production has exceeded overall NATO production, except for general purpose naval forces.

Production of Selected Weapons, 1974–1983

	United States	U.S.S.R.	U.S.S.R. to United States Ratio	NATO	Warsaw Pact	Warsaw Pact to NATO Ratio
ICBM's	350	2,300	6.6:1	350	2,300	6.6:1
Tanks	6,250	23,700	3.8:1	10,450	27,850	2.7:1
Tactical Combat and Interceptor Aircraft	3,500	8,400	2.4:1	7,300	10,000	1.4:1
Major Surface Warships	83	91	1.1:1	172	107	.6:1

In many important areas, the Warsaw PACT has more forces than NATO.—The 1970's witnessed a major buildup in strategic forces by the Soviet Union which eliminated the strategic superiority the U.S. had maintained since the beginning of the nuclear age.

- Soviets now have a significant advantage over the U.S. in numbers of deployed strategic weapons systems.

Strategic Forces

(As of January 1, 1984)

	United States	U.S.S.R.
Delivery Vehicles	1,957	2,754
Missiles	1,632	2,379
ICBMs	(1,040)	(1,398)
SLBMs	(592)	(981)
Bombers	325	375

- Soviets also enjoy a near-monopoly in deployed, longer range intermediate range nuclear forces (LRINF).

Longer Range Intermediate Range Nuclear Forces (LRINF)

	United States	U.S.S.R.
LRINF Warheads	25	1,371

- Warsaw Pact has a great advantage in conventional forces in Europe.

Selected Conventional Forces

(Deployed)

Tanks	2.5 to 1 Warsaw Pact Advantage
Interceptor Aircraft	4.6 to 1 Warsaw Pact Advantage
Submarines	2.1 to 1 Warsaw Pact Advantage

Other Threats Also Require Attention.—The growing economic and political interdependence of the Western nations and the Third World increases the importance of those areas to our economy and security. We depend on some of these countries for strategic minerals and resources, as do our friends and allies. Thirty percent of U.S. exports now go to the Third World, up from 25% in 1976. Vital sea lines of communication pass through strife-torn regions such as the Persian Gulf, the Caribbean, and Southern Africa. We must be prepared to counter Soviet backed moves in those areas.

Our Strategy for Responding to the Threat

U.S. military strategy is defensive in nature. Our objective is to deter war, but failing that to successfully defend ourselves. For deterrence to succeed, enemies must perceive that our forces could survive a first strike; our threatened response to an attack must be credible; and the distinction between peace and aggression must be clear. Should deterrence fail, our policy is to limit the scope of the conflict to the theater of the attack, and to limit the duration and intensity of the conflict.

We carry out these objectives by several means. First, we participate in and contribute to a *collective defense posture* that incorporates the combined strengths of the U.S. and our allies. Second, to provide the first line of conventional defense in Western Europe and Northeast Asia, we and our allies maintain *forward deployments* of military forces in those areas. These forces will be augmented in times of conflict. In addition, we and our allies have rapid deployment forces that are available for deployments in other threat areas. Third, we seek a flexible force structure that builds upon our alliances and deployments and offers us a *range of responses*. Fourth, our defensive orientation requires that our forces maintain a *high state of readiness*.

Accomplishments and Plans for Carrying Out the Strategy

Strategic Force Modernization.—President Reagan has vigorously pursued a plan for maintaining deterrence by replacing our aging nuclear forces with modern forces while negotiating arms reductions with the Soviet Union. These modernization efforts are linked firmly to U.S. arms control objectives. The prospect of more capable U.S. forces provides the Soviets with incentives to negotiate genuine reductions. Also, the deep cuts we seek in the destructive power of ballistic missile warheads should improve the survivability of our future intercontinental ballistic missile (ICBM) force. Modernization and reductions are directly linked through the nuclear weapons "build down" proposed by the President in the START negotiations.

The 1985 budget sustains the modernization plan begun in 1981, adds a vigorous development program for a small land-based intercontinental missile, and begins a long-term research and development program to counter ballistic missiles with defensive measures. Key elements of the strategic offensive modernization program are described below.

- The Peacekeeper ICBM is being developed and procured to redress the unfavorable balance in land-based missile capabilities and to encourage the Soviet Union to negotiate arms reductions. The planned force of 100 missiles will be deployed by 1990.
- The first B-1B bombers will be deployed in 1985; in addition, 34 more of the total planned buy of 100 bombers will be procured in that year. These bombers will have a much greater

capability to penetrate improved Soviet air defenses than current B-52 bombers, which are now being provided with stand-off air-launched cruise missiles.

- Development of an advanced technology (stealth) bomber is also underway.
- The sea-based strategic missile modernization program calls for replacing the aging fleet of Poseidon submarines with more capable and survivable Trident submarines and missiles and for achieving a capability to destroy hard targets by developing the Trident II missile. These sea-based missiles are considered more survivable than bombers or land-based missiles. Trident submarines are deployed and more are being procured at the rate of one per year, and the new Trident II missile is scheduled for initial deployment in 1989.

Little modernization of strategic defensive forces took place in the 1970's. As a result, our strategic air defense interceptors have become obsolete. The Soviet Union has operational ballistic missile defense and antisatellite systems, while we have none. We are strengthening our space surveillance capabilities and pursuing an operational antisatelite system. We are also improving our network of air defense radars and modernizing our interceptor forces. More importantly, in response to the President's initiative of last March, we have prepared a long-term research program to explore the technologies required for a highly effective defense against ballistic missiles. As opposed to earlier programs that would only intercept reentry vehicles in the final phase of their flight, the new initiative will examine possibilities of engaging ballistic missiles and warheads through the launch-to-impact sequence.

Rebuilding Our Conventional Forces.—When this Administration took office, our military forces were inadequate to achieve national security objectives. Force readiness and sustainability were low, our mobility forces were inadequate for force deployments, our naval forces were spread too thin, and weapons systems were not being modernized fast enough to keep pace with the threat. Since then, considerable progress has been made in improving our military capabilities, and in restoring credibility. A decade of neglect, however, cannot be turned around in 3 years. More remains to be done.

The readiness and sustainability of our forces have increased substantially since 1981. The condition of the equipment and readiness have improved, the forces are more fully manned, and our Guard and Reserve forces are better equipped and better integrated with the active forces into a total force. Selected National Guard units are receiving our most modern armor, the M-1 tank and Bradley Fighting Vehicle; Air National Guard and Air Force Reserve units are flying the F-16, and Naval Air Reserve units will receive the F/A-18. The Naval Reserve is now operating the Perry-Class guided-missile frigate. Trained strength in reserve units has increased from 76% of the wartime requirement in 1979 to 88% in 1984. When the munitions and secondary items included in the 1985 budget are delivered to the field, stockage levels and other measures of sustainability will have increased almost 50% over the levels in 1980.

Administration supported pay increases totaling more than 30% and benefit increases in housing and other allowances have substantially improved recruiting and retention programs. All military services have met or exceeded their recruitment objectives for the last 3 years. In 1983, 91% of the recruits were high school graduates compared to 68% in 1980. In 1983 reenlistments in the Navy and Air Force soared to rates of 68% and 79%, respectively.

To correct the force structure and equipment deficiencies, our modernization efforts have been accelerated. Funding has been increased for programs that were budgeted at low and inefficient rates, such as the M-2 Bradley Fighting Vehicle and UH-60 Blackhawk helicopter, the Navy's AIM-9 Sidewinder missiles and F-14 aircraft, and the Air Force's F-15 and F-16 fighter aircraft. The Marine Corps AV-8B aircraft and Navy aircraft carriers are now being built. A commitment has been made to a 600 ship Navy and to land and air forces equipped to respond to the threat we face.

To augment our forward deployed forces during conflict, we must be able to deploy additional forces in a timely manner. Our current goal is, through the combination of US and allied mobility forces and prepositioning, to be able to deploy forces to Southwest Asia while also reinforcing NATO and critical areas of Northeast Asia. To achieve this we are procuring new C-5s and KC-10s, expanding our Ready Reserve Force of ships, developing the C-17 aircraft and procuring equipment for offloading ships in austere ports.

Special Operations Forces (SOF) are being revitalized. Working with the armed forces of 15 countries from different parts of the world, this element of our forces is crucial to helping these countries deal effectively with the global campaign of destabilization that threatens their countries. In crisis situations, these forces offer a flexible alternative to conventional forces, and in a major conflict would be an important component of our conventional operations.

The 1985 budget also supports the establishment of a new light Army infantry division (17th). This division will have about 10,000 soldiers when fully activated. Smaller and more strategically deployable than current divisions, this new force will provide a new versatility and flexibility across the entire spectrum of threats which the United States may face in the future.

Getting The Most For The Taxpayers Money

A vigorous management improvement program is being pursued by the Department of Defense.

- To reduce the costs of weapons systems, the acquisition process has been overhauled to reduce acquisition time, provide for more stability in long-term procurements, increase competition, and strengthen the defense industrial base.
    - Twelve new multi-year procurement programs are contained in the 1985 budget for a savings of $0.9 billion.
- To reduce the costs of spare parts and other support items the following actions have been taken:
    - The military services have been directed to seek refunds for past overcharges.
    - Competition is being expanded and alternative sources of procurement are being developed.
    - The largest ever DOD-wide audit to examine spare parts purchases has been initiated by the Inspector General.
    - Employee incentives are being used for finding cost savings and new procedures have been adopted to identify large price increases.
    - The audit staff has been reorganized and expanded.
    - A joint Department of Defense and Department of Justice Procurement Fraud Unit has been created to coordinate investigative, audit and prosecutive activities. The unit has already obtained 14 indictments and 9 convictions on procurement related allegations.
- To improve planning, programming and budgeting the Defense Department's management systems have been streamlined to emphasize planning, clarify the roles of the military services and the Secretary of Defense's staff, and to permit the Defense Resources Board to focus on major issues.

In summary, the Administration's National Security Program is necessary and achievable:

- Strong program is required by Soviet actions.
- Program is not detrimental to the economy.
- Defense resources are being managed carefully.

CHAPTER 11

Management Initiatives

Management Initiatives Overview

In 1981, it was apparent that Government had grown too large, and that it was important to reduce its size and make its operation more efficient. It was also widely felt that improved management of Government could help ensure that a greater share of Federal expenditures would benefit the intended recipients. Thus, early in this Administration, a major goal was established: to provide needed services in the most economical and efficient way possible.

GAO reports indicate that previous efforts at management improvement failed because of a lack of support from the Executive Office of the President and the absence of a linkage of management initiatives with the annual process of developing the President's budget. With this in mind, the Reagan Administration developed a management improvement program with significant Presidential involvement and support. And, for the first time, organized reviews of management improvement activities have been included in the budget review process.

As a result, major management improvement initiatives are now underway that will fundamentally change the way the Federal Government operates. These initiatives reflect the efforts this Administration is making to bring permanent improvements to the management of the Federal Government. It is one of the most ambitious programs to improve management and reduce costs ever undertaken.

This Administration's management initiatives seek to overcome specific problems that have been prevalent in Government. The Federal Government has not managed its cash well; it has not put enough emphasis on debt collection; it has allowed incompatible and redundant administrative systems to proliferate; and it has not always had good financial data.

1985 Budget Initiatives

As part of the overall management improvement initiative of this Administration, the 1985 budget process included organized reviews of management improvement issues. These issues were selected after a careful review of management and administrative operations and problems, and were screened to identify targets of opportunity that would lead to accomplishment. Government-wide policies for management and administrative operations were developed and used to assign specific management goals to agencies for the period 1984 to 1988. A Government-wide system was established to track agency progress in reaching these goals. This will ensure the continuity, support, and emphasis on implementation that previous management reform efforts have lacked.

As a result of the 1985 management reviews, agencies were directed to achieve $2.8 billion in management-related deficit reductions in 1985 and $7.4 billion over the 1984 to 1988 period. These deficit reduction measures relate to outlay savings or increased receipts; they do not include cost avoidances or savings captured outside the 1985 budget review.

1985 Management Related Deficit Reductions

(Dollars in millions)

	1984	1985	1986–88	Total 1984–88
Outlay savings for 20 largest agencies:				
Reduce fraud, waste and abuse [1]	647	658	1,404	2,709
Improve agency management	19	303	2,157	2,479
Adopt cross-agency management systems	1	22	71	95
Other	34	75	357	466
Subtotal, outlays	702	1,058	3,989	5,749
Revenue increases:				
Collection of delinquent taxes	....	1,700	....	1,700
Total	702	2,758	3,989	7,449

[1] The accomplishments of the Inspectors General usually result in the more efficient use of resources and have not been included as budget savings in this category.

Major Management Objectives

The 1985 management-related deficit reduction targets shown in the table reflect the four major objectives of the Administration's management reform program. Specifically, they are as follows:

Reduction of fraud, waste, and abuse.—This objective seeks improved control over the expenditure of Federal funds through more vigorous collection of debt owed the Federal Government; adoption of more sophisticated cash management and internal control procedures; and the pursuit of questionable Federal expenditures through the activities of the Inspectors General.

Significant accomplishments in this area include:

- initiation of a major program aimed at collecting delinquent debt owed to the Federal Government;
- improved use of over $30 billion in funds through the effort of the President's Council on Integrity and Efficiency, established in March 1981 to coordinate the work of the Inspectors General; and
- internal control system improvements resulting from agency-wide evaluations and actions taken pursuant to the Federal Managers' Financial Integrity Act.

Plans for 1985 include:

- increasing agency emphasis on debt collection, including application of the latest computer and telecommunications technology to collection functions;
- supplementing the traditional audit approach of the Inspectors General with increased emphasis on prevention;
- continuing to institutionalize the internal control evaluation, improvement, and reporting process in Federal agencies; and
- improving the use and management of cash balances and the payment process.

Agency deficit reduction goals for 1984 to 1988 are illustrated in the following table:

Fraud, Waste and Abuse-Related Deficit Reductions

(Dollars in millions)

	1984	1985	1986	1987	1988
20 largest agencies:					
PCIE [1]	....	....	....	....	....
Debt Collection [2]	417	2,147	418	475	475
Cash Management	230	211	36	....	....
Total	647	2,358	454	475	475

[1] The accomplishments of the Inspectors General usually result in the more efficient use of resources and have not been included as budget savings.
[2] Includes $1.7 billion in receipts for 1985 related to increased collection of delinquent taxes.

Improvements in agency management.—This objective is to improve the efficiency and effectiveness of agency administrative operations. This can be accomplished through such means as the consolidation of common administrative support servicing operations; implementation of staffing standards; and reductions in non-personnel resources such as office space, travel, printing, and publications costs.

Accomplishments already made in this area include:

- establishment of a Government-wide program to consolidate and eliminate unnecessary periodicals and publications, and
- adoption of procurement reforms aimed at enhancing competition, improving agency management of the procurement process, and resulting in significant savings and cost avoidances.

Plans for 1985 include:

- consolidating, where cost effective, administrative support operations, both in headquarters and in field locations;
- improving service and reducing personnel costs by adopting productivity standards and correcting overclassification in the mid and upper level positions;
- closing and downgrading printing plants and duplicating facilities where the private sector offers cost-effective alternatives; and
- closing 17 agency travel offices by taking advantage of commercial travel services.

Administration goals for improving agency management between 1984 and 1988 are shown in the following table:

Savings Related to Improved Agency Management

(Dollars in millions)

	1984	1985	1986	1987	1988
20 largest agencies:					
Consolidations of Administrative Support Systems	18	82	107	145	155
A-76 (efficiency reviews)	1	33	89	148	180
GS 11-15 Overgrading	....	106	228	362	488
Printing and Publications	....	11	10	10	10
Space Management	....	69	73	74	74
Travel Management	....	1	1	1	1
Total	19	303	508	740	909

Development of management processes that cut across agencies.—This objective focuses on improving and standardizing management systems common to all Government agencies, including financial and accounting systems, payroll and personnel systems, and real and personal property systems. These improved systems will greatly strengthen central policy direction of administrative support services, resulting in Government-wide management efficiencies. One accomplishment in this area is the development of an electronic communications network, now connecting senior officials in the twenty largest agencies with the White House.

Specific plans include:

- introducing Government-wide accounting system standards;
- developing centrally coordinated administrative systems plans, feasibility studies, and/or design specifications;
- expanding the electronic data system to more agency officials;
- requiring agencies to develop comprehensive department-wide plans for all administrative processes and systems; and
- consolidating payroll/personnel systems.

Savings from Cross Agency Processes and Systems

(Dollars in millions)

	1984	1985	1986	1987	1988
20 largest agencies:					
Financial Operations and Planning Systems	1	....	3	3	3
Payroll/Personnel Systems	....	20	24	16	9
Other	....	2	4	4	4
Total	1	22	31	23	16

Improving delivery of services.—This objective looks at the way the delivery of Federal services is handled across the country. The goal is to achieve improved service at lower cost through improved technology and management techniques such as prescreening, computer matching, adjusted payment schedules, contractor and grantee performance incentives, and a streamlined field structure.

Management Factsheets

More detailed descriptions of this Administration's management initiatives, including the issues addressed in the 1985 budget review process, are provided in the following eight factsheets.

Fraud, Waste, and Abuse-Related Deficit Reductions

President's Council on Integrity and Efficiency

Program Description

The President's Council on Integrity and Efficiency (PCIE), made up of 18 agency Inspectors General, representatives of the Justice Department and the Office of Personnel Management, and the Special Counsel of the Merit Systems Protection Board, has provided a focal point for the President's efforts to reduce fraud, waste, and abuse in Federal programs. This interagency working group has been responsible for providing leadership in the use of computer applications for the matching and prepayment screening of beneficiaries, and in Government-wide initiatives to make program and administrative systems less vulnerable to fraud, waste, and abuse.

Current Status

Over the past 2-1/2 years, the PCIE has reported semi-annually to the President on its accomplishments as a Council and on individual efforts by Inspectors General. Since the Council's creation in March 1981, the Inspectors General (IGs) have secured commitments for more efficient use of or attempted collection of over $30 billion in Government funds. Results from March 1981 through September 1983 include:

- over $26 billion in commitments by agency managers to more efficiently use resources;
- approximately $4 billion in commitments by agency managers to recover funds, call loans, and cancel guarantees;
- approximately $154 million in revenues and penalties assessed through both civil and criminal actions;
- 6,563 successful prosecutions; and
- 7,419 administrative actions against Federal employees and contractors.

These figures alone do not adequately reflect the impact of the IG program. The work of the Inspectors General has created an awareness that the Federal Government is concerned about fraud, waste, and abuse, and has had an important deterrent effect. For example:

- Based on the finding of its Inspector General, the Department of Education has referred delinquent loans to the Department of Justice for collection. In several cases, the U.S. Attorney has repossessed automobiles from individuals with delinquent student loans, resulting in television and newspaper coverage in a number of communities and a greater awareness of the consequences of non-payment.
- The Federal Employees Receiving Government Assistance Project has uncovered 1,881 employees and retirees who improperly received $14 million under Federal benefit programs. An additional 159,580 employees and retirees with delinquent indebtedness totaling over $189 million have also been pinpointed.

This Federal Employees project has resulted in program and system improvements such as benefit pre-screening, revamped payment systems, and a greater awareness by agency managers of operational weaknesses.

The PCIE's long-term Computer Match Project has been instrumental in developing a network of resources and expertise to further the Government's use of advanced technology to stem fraud, waste, and abuse in Federal programs. This PCIE project has developed a compendium of "best computer match practices," and inventories of state computer matching activities, and has provided a conduit for sharing techniques, information, and expertise among state and Federal agencies.

In the past year, the emphasis of the Council has shifted from the traditional audit approach of post-action reviews to a more active front-end emphasis on preventing fraud, waste, and abuse. The prevention thrust is reflected in a number of Government-wide projects geared to improving program and administrative systems, implementing front-end checks prior to the awarding of contracts, grants or benefits, and a combined effort to improve the Government's procurement systems.

1985 Budget

The accomplishments of the Inspectors General are generally not construed as budget savings. The major contribution of the PCIE and the Inspectors General is to make recommendations for more efficient ways to use resources. Increased efficiencies usually result in reallocation of savings for program purposes.

Debt Collection

Program Description

An estimated $288 billion was owed to the Government on September 30, 1983. Most of this debt is not yet due; however, almost $44 billion of the total, as of September 1983, was delinquent or in default. Of this amount, $26 billion is related to overdue taxes that are being pursued by the Internal Revenue Service, and $18 billion relates to delinquent loans or delinquent accounts receivable. Some of these delinquent debts will have to be written off because the cost of recovery exceeds the amount likely to be recovered.

A significant cause of this problem is the past failure of agencies to pursue collection aggressively and a general attitude among debtors that they do not have to repay their debts to the Government. The President has committed the Administration to increasing collection of delinquent debts, including delinquent taxes owed the Internal Revenue Service.

Current Status

Several efforts have been launched to attack existing delinquency problems and improve debt collection practices across the Government.

- Debt information is being automated to improve the reliability and timeliness of accounts receivable reports.
- Uniform delinquency rules are being applied to ensure proper management of debt portfolios.
- Uniform standards for writing off uncollectable debts are being established and enforced.
- Agencies are preparing detailed plans that outline specific steps to be taken to implement the Debt Collection Act of 1982.
- Debt servicing and collection functions are being automated, using the latest computer and telecommunications technology.
- Risk analysis and credit scoring procedures are being used to ensure the integrity of the process for extending credit.

Under a Government-wide reporting system implemented in 1982, selected agencies are submitting quarterly financial reports that include information on:

- total debt owed;
- the age and amount of delinquent debt;
- the amount of interest assessed and collected on delinquent debts; and
- the number and value of debt cases referred to GAO and the Justice Department for collection.

Examples of successful debt collection operations include:

- The Department of Health and Human Services, especially the Social Security Administration, has upgraded its systems and procedures for debt collection, emphasizing the recovery of delinquent debts.
- The Education Department has identified over 46,000 Federal employees who are delinquent in repaying $68 million in student loans. The Department is working with other Federal agencies to recover these funds and to date, over $4 million has been collected. Under the Debt

Collection Act Federal employees who do not cooperate in repaying their debts can have their salaries offset to recover funds owed the Government.

1985 Budget Impact

As a result of this year's review of agency debt collection estimates, an additional $2.1 billion is expected to be collected.

Cash Management

Program Description

The Cash Management Project was initiated to address the serious need for better oversight of the Nation's cash balances and the flow of Government funds.

In 1985, the Federal Government will collect and spend nearly a trillion dollars. The Government is the largest single spender in the United States but one of the most antiquated in the management of money. By using simple cash management techniques such as electronic transfers, delayed drawdowns, and lock boxes, the Government will be able to better manage its cash on hand and save millions in interest costs.

Current Status

The Cash Management Project was initiated in early 1983 and is a joint project under the leadership of the Department of the Treasury and the Office of Management and Budget. The project has developed cash management action plans for 20 agencies and is currently monitoring 316 initiatives.

Agency examples of cash management savings include:

- The Department of Housing and Urban Development estimates it will be able to save several million dollars over the next few years by avoiding duplicate interest payments on public housing note sales.
- The Department of Labor's Employment and Training Administration has been able to save $750,000 by effectively monitoring and controlling grantees' cash balances.
- The Internal Revenue Service will develop and implement improved cash management procedures which will add over $200 million in receipts to the Treasury in 1984.

1985 Budget

Government-wide cash management goals totalling $210.8 million have been established for 1985. Examples of agency accomplishments which will be achieved in 1985 are:

- Conversion of Department of Health and Human Services grantee recipient payments to the Treasury Financial Communications System will save $60 million in 1985.
- Implementing a concentration banking system and using electronic funds transfer for collecting and disbursing loans will reduce 1985 outlays by $113 million for the Department of Agriculture's Farmers Home Administration and its Commodity Credit Corporation.

Savings Related to Improved Agency Management

Consolidation of Administrative Support Systems

Program Description

Multiple Federal administrative support facilities and widely scattered small administrative support centers have resulted in duplication of effort, low productivity, and high costs. The cost of processing administrative payments, for example, varies widely across agencies. Using successful consolidations as models, such as the Department of Commerce's Regional Administrative Support Centers, agencies are reviewing their administrative support systems with an eye toward consolidation and cross-servicing with other agencies. Such arrangements achieve economies-of-scale that reduce overhead costs.

Current Status

Several agencies have already consolidated administrative support operations.

- The Department of Commerce has consolidated regional administrative support operations in Seattle, Washington; Boulder, Colorado; Kansas City, Missouri; and Norfolk, Virginia.
- The Department of the Interior is preparing a plan to analyze the possible consolidation of more than 20 administrative payments processing centers. The plan will cover the consolidation of administrative payments operations, with implementation during calendar year 1985.
- The Department of Transportation will present a plan for a single administrative payments center to begin operation in calendar year 1985.

1985 Budget

The 1985 budget contains savings totaling $81.6 million as the result of consolidations of administrative functions. Examples of actions being taken are:

- The Department of the Treasury will begin to consolidate administrative payments processing.
- The Department of Health and Human Services will reduce administrative payments processing from fifty-five centers to 29 centers and will develop a plan for further consolidation.
- The Departments of Interior, Agriculture, and Labor will each consolidate their headquarters administrative support operations.

Reductions in Personnel Levels and Costs

Program Description

Reduction in personnel levels and costs have been made possible by the use of productivity standards, efficiency reviews, and adjustments in grade structure. Specifically, productivity standards have been applied to several administrative functions to determine appropriate staffing levels. Agencies are performing efficiency reviews as required by OMB Circular No. A-76 and savings targets have been established. Administrative personnel levels have been adjusted to reflect reduced program activities, and agency grade structures will be modified to correct the overgrading of positions at the higher grade levels.

Current Status

Federal agencies are currently applying productivity standards to determine appropriate staffing levels in the administrative processing operations. Most of these savings will be realized in 1985.

Federal agencies are required by OMB Circular A-76 to evaluate commercial-industrial type activities to determine if they can be performed more cost effectively by contracting with private industry. All agencies have developed inventories of commercial-related activities to be reviewed; several have completed many of their evaluations and reduced personnel costs:

- The General Services Administration has conducted reviews of 58 activities in 1983 and saved approximately $7.2 million by eliminating the equivalent of 713 full-time positions (FTEs).
- Department of Defense estimates that the A-76 cost studies conducted over the last four years are achieving savings of over $300 million annually. Over 900 cost comparisons have been conducted that have reduced personnel by 15,500. These reductions have been offset by increases due to higher priority national defense missions. The Department of Defense is reviewing activities involving 10,000 FTEs in 1984.
- The Department of the Interior is reviewing activities involving 3,080 FTEs in 1984.

From 1982 to the end of 1984, programmatic and other reductions are expected to reduce total non-defense employment by 75,000 FTEs.

1985 Budget Proposals

Savings of $33.4 million and 3,700 FTEs from A-76 efficiency reviews are reflected in the 1985 budget.

To correct the overgrading of General Schedule grades 11 through 15 or equivalent positions, funding for these positions is being reduced by $1.2 billion over the four year period 1985-88. Agencies will individually manage the correction of the grade imbalance.

Reduction in Non-Personnel Resources

Program Description

Non-personnel resources represent a significant portion of overhead costs. A number of initiatives have been undertaken to reduce these costs. In-house printing operations and travel offices have been reduced by greater reliance on the private sector, yielding improved service at less cost. Tighter authorization policies and increased use of discounts have further reduced travel costs. Strengthened reviews and evaluations have reduced space, publications, and audio-visual costs.

Current Status

One hundred eleven of the more than 1,000 printing and duplicating facilities in the Federal Government have been targeted for closure or downgrading. Much also has been accomplished to date in the consolidation and elimination of publications. Since April 1981, one out of every four publications in the Federal Government has been eliminated or consolidated.

Improvements in space and property management have resulted in the sale of 407 "items" by the General Services Administration and the Department of the Interior, for a return of $195 million. The Department of the Interior has also sold 10,376 acres of public land for a return of $8.1 million.

The widespread use of Federal and other travel discounts ($377 million in 1983 savings alone), tighter travel authorization procedures, and the increased use of commercial travel offices to make low cost travel arrangements have resulted in more efficient use of travel funds.

1985 Budget Proposals

By closing or downgrading printing plants and duplicating facilities, and by increasing commercial contracts, printing services will be improved. Savings in 1985 for the twenty largest agencies will be $11.5 million. Total savings for the 4-year period of 1985 to 1988 will be $41.6 million for these 20 agencies, and $50 million for all agencies.

Reductions in space needs due to decreased program requirements and the application of tighter space standards are expected to save $69 million in 1985.

Closing 17 agency travel offices, relying on private travel agents, and other initiatives will save $1.2 million annually and upgrade the quality of travel services available to Federal employees.

Savings From Cross Agency Processes and Systems

Financial Operations and Planning

Program Description

Burgeoning Government grants, contracts, and loans have generated a proliferation of stand alone, imcompatible financial management and accounting systems. The introduction of standard accounting procedures and common data elements and a comprehensive information flow will make it possible for senior policy officials to analyze trends and performance. This will enhance the quality of resource allocation decisions and bring to Government expenditure controls similar to those found in large private sector organizations.

Current Status

The introduction of Government-wide accounting system standards and common data requirements has just begun. Nonetheless, several improvements have already been achieved and many more are in the planning stage.

- Commerce has created a department-level financial information system that extracts data from eight incompatible bureau systems. This system will serve as a prototype for financial information systems throughout the Executive Branch.
- Funding requests for ten financial systems involving nine agencies were deferred pending the development of acceptable automated data processing plans, feasibility studies and/or design specifications.
- An automated grant payment system has been implemented by the Department of Health and Human Services. This system will result in interest savings and adoption by other grant making agencies could achieve additional savings.

1985 Budget Proposal

Agency budgets have been reduced $400,000 by discouraging development of uncoordinated financial systems. Improved systems will give top managers better tools for controlling expenditures and making budget decisions.

The 1985 budget provides for investment of $67 million for improvements in agency financial management systems. The Department of Defense has a major initiative underway to streamline, integrate, and modernize its systems.

- Seven domestic agencies (Department of Transportation, Department of Education, Department of Housing and Urban Development, Department of the Interior, Department of Labor, Department of Commerce, and Department of Energy) are working together to develop a common accounting system that could ultimately serve the needs of all domestic agencies.
- The four major international agencies (State, Agency for International Development, United States Information Agency, and the Peace Corps) are working together to develop a system to serve overseas needs.

Personnel and Payroll Systems

Program Description

There is no reason to continue the approximately 150 personnel/payroll processing systems which perform virtually identical functions for Federal agencies. To reduce the number, the most modern and least costly systems are being identified and put to use by more agencies. Information compatibility and cost-effectiveness are being enhanced by requiring small agencies and agencies with older or less efficient systems to obtain processing services from agencies with more-up-to-date systems. In addition, automation of labor intensive functions is being encouraged. Consolidating parallel systems within agencies and designing system upgrades will be patterned on approved criteria. In the near future, these approaches will eliminate more than half the systems being used today and will avoid substantial costs for upgrading outdated systems. In general, there is an accelerated trend toward the development of generic systems.

Current Status

Early results of this program evolved from targets of opportunity identified during an inter-agency review of existing practices.

- The Department of Education is now being serviced by the Department of the Interior's payroll and personnel processing systems; the Departments of Commerce and Housing and Urban Development will obtain personnel/payroll processing from another agency in 1985.
- During 1984, the General Services Administration, Department of the Treasury, Small Business Administration, and Department of Labor will be adopting the Air Force personnel system.
- Veterans Administration, National Aeronautics and Space Administration, Department of Justice, and Environmental Protection Agency will review and assess options for personnel and payroll systems during 1984 to determine the most cost-effective approach.
- The Department of State, Agency for International Development, United States Information Agency, and the Peace Corps plan to adopt a personnel/payroll system which will service all four agencies, and will lead to future savings and the avoidance of development and maintenance costs.

1985 Budget Proposal

The 1985 budget contains savings of $20.5 million due to consolidations and increased automation of payroll and personnel systems. Agencies with unusually high costs for their personnel/payroll systems will be reviewing their operations. Costs will be reduced by obtaining services from another agency or through internal improvements. All agencies employing fewer than 6,000 people have been directed to seek personnel/payroll processing services from one of a few agencies with advanced systems. Savings and management improvements expected include:

- $33 million will be saved (and 20% of the personnel staff reduced) when Health and Human Services automates and otherwise improves its existing payroll/personnel system, beginning in 1985 and continuing through 1988.
- $8.4 million a year will be saved by Treasury by consolidation of its personnel/payroll systems.
- $800,000 will be saved by the Department of Labor by converting to the Air Force personnel system.

Appropriations of $1.5 million have been requested for Office of Personnel Management to upgrade its Central Personnel Data File so that this Government-wide data file can provide better and more reliable data to the Congress, General Accounting Office, Office of Management and Budget, and Federal agency managers.

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