BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1995

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 1995 contains the Budget Message of the President and presents the President's budget proposals.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 1995 contains analyses that are designed to highlight specified program areas or provide other significant presentations of budget data that place the budget in perspective.

It includes economic and accounting analyses, such as a balance sheet-type presentation; information on Federal receipts and collections, including user fees and tax expenditures; analyses of Federal spending; detailed information on Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates; and other technical presentation, such as the national income and product accounts.

It also includes information on management improvements; the budget system and concepts; a listing of the Federal programs by agency and account; and a glossary of budget terms.

Historical Tables, Budget of the United States Government, Fiscal Year 1995 provides data on budget receipts, outlays, surpluses or deficits, and Federal debt covering an extended time period—in many cases beginning in fiscal year 1940 and ending in fiscal year 1999. These are much longer time periods than those covered by similar tables in other budget documents. The data in this volume and all other historical data in the budget documents are consistent with the concepts and presentation used in the 1995 Budget, so the data series are comparable over time.

Budget of the United States Government, Fiscal Year 1995—Appendix contains detailed information on the various appropriations and funds that constitute the budget. The Appendix contains more detailed information than any of the other budget documents. It includes for each agency: the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Supplemental and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget totals.

Automated Sources of Budget Information. Copies of the budget number data in electronic form may be obtained from the U.S. Department of Commerce, National Technical Information Service, Springfield, VA 22161, telephone (703) 487–4650. Refer to stock number PB94–500030. Historical budget information is available on compact disk (CD) from the U.S. Department of Commerce, Office of Business Analysis, HCHB Room 4885, Washington, D.C. 20230, telephone (202) 482–1986. Refer to the National Economic, Social, and Environmental Data Bank (NESE-DB). There is a charge for both of these items.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON 1994

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402

ISBN 0-16-043031-3

TABLE OF CONTENTS

The Budget Message of the President

THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The Fiscal Year 1995 budget, which I transmit to you with this message, builds on the strong foundation of deficit reduction, economic growth, and jobs that we established together last year. By encouraging private investment—and undertaking public investment to produce more and higher-paying jobs, and to prepare today's workers and our children to hold these jobs—we are renewing the American dream.

The budget continues to reverse the priorities of the past, carrying on in the new direction we embraced last year:

- It keeps deficits on a downward path;
- It continues our program of investment in long-term economic growth, in fighting crime, and in the skills of our children and our workers; and
- It sets the stage for health care reform, which is critical to our economic and fiscal future.

When I took office a year ago, the budget and economic outlook for our country was bleak. Twelve years of borrow-and-spend budget policies and trickle-down economics had put deficits on a rapid upward trajectory, left the economy struggling to emerge from recession, and given middle class taxpayers the sense that their government had abandoned them.

Perhaps most seriously, the enduring American dream—that each generation passes on a better life to its children—was under siege, threatened by policies and attitudes that stressed today at the expense of tomorrow, speculative profits at the expense of long-term growth, and wasteful spending at the expense of our children's future.

A year later, the picture is brighter. The enactment of my budget plan in 1993, embodying the commitment we have made to invest in our future, has contributed to a strengthening economic recovery, a clear downward trend in budget deficits, and the beginnings of a renewed confidence among our people. We have ended drift and broken the gridlock of the past. A Congress and a President are finally working together to confront our country's problems.

Serious challenges remain. Not all of our people are participating in the recovery; some regions are lagging behind the rest of the country. Layoffs continue as a result of the restructuring taking place in American business and the end of the Cold War.

Rising health care costs remain a major threat to our families and businesses, to the economy, and to our progress on budget deficits. Our welfare system must be transformed to encourage work and responsibility. And our Nation, communities, and families face the ever-increasing threat of crime and violence in our streets, a threat which degrades the quality of life for Americans regardless of their income, regardless of their race, regardless of where they live.

We will confront these challenges this year, by acting on health care reform, welfare reform, and the crime bill now under consideration in the Congress, and by continuing to build on our economic plan, with further progress on deficits, and investments in our people as well as in research, technology, and infrastructure.

WHAT WE INHERITED

When our Administration took office, the budget deficit was high and headed higher—to $302 billion in 1995 and well over $400 billion by the end of the decade.

When our Administration took office, the middle class was feeling the effects of the tax changes of the 1980s, which had radically shifted the Federal tax burden from the wealthy to those less well off. From the late 1970s to 1990, tax rates for the wealthiest Americans had declined, while rates for most other Americans had increased.

When our Administration took office, the economy was still struggling to break out of recession, with few new jobs and continuing high interest rates. In 1992, mortgage rates averaged well over eight percent. Unemployment at the end of 1992 stood at 7.3 percent, and barely a million jobs had been added to the economy in the previous four years. The outlook for the future was slow productivity growth, stagnant wages, and rising inequality—as sagging consumer confidence demonstrated.

A NEW DIRECTION

Today, whether it is the deficit, fairness, or the status of the economy, the situation is much improved.

The budget I am submitting today projects a deficit of $176 billion, a drop of $126 billion from where it would have been without our plan. If the declines we project in the deficits for 1994 and 1995 take place, it will be the first time deficits have declined three years running *since Harry Truman occupied the Oval Office.*

The disciplines we have put into place are working.

We have frozen discretionary spending. Except in emergencies, we cannot spend an additional dime on any program unless we cut it from another part of the budget. We are reducing low-priority spending to fulfill the promise of deficit reduction as well as to fund limited, targeted investments in our future. Some 340 discretionary programs were cut in 1994, and our new budget cuts a similar number of programs. These are not the kind of cuts where you end up spending more money. These are true cuts, where you actually spend less. Total discretionary spending is lower than the previous year—again, in straight dollar terms, with no allowance for inflation.

As for entitlement spending, the Omnibus Budget Reconciliation Act of 1993 achieved nearly $100 billion in savings from nearly every major entitlement program. Pay-as-you-go rules prevent new entitlement spending that is not paid for, and I have issued an executive order which imposes the first real discipline on unanticipated increases in these programs. For the future, health care reform will address the fastest growing entitlement programs—Medicare and Medicaid—which make up the bulk of spending growth in future budgets, and the Bipartisan Commission on Entitlement Reform, which I have established by executive order, will examine the possibility of additional entitlement savings.

While we have imposed tough disciplines, there is one more needed tool. The modified line-item veto, which would provide Presidents with enhanced rescission authority, has already been adopted by the House as H.R. 1578. If enacted, it will enable Presidents to single out questionable items in appropriations bills and require that they be subject to an up-or-down majority vote in the Congress. I think that makes sense, and it preserves the ability of a majority in Congress to make appropriations decisions.

In addition to budget discipline, we made dramatic changes that restored fairness to the tax code. We made the distribution of the income tax burden far more equitable by raising income tax rates on only the richest 1.2 percent of our people—couples with income over $180,000—and by substantially increasing the Earned Income Tax Credit for 15 million low-income working families. Thus, nearly 99 percent of taxpayers will find out this year that their income tax rates have not been increased.

Results

Finally, the most significant result of our commitment to changing how Washington does business is growing economic confidence. Investment is up—in businesses, in residences, and in consumer durables; real investment in equipment grew seven times as fast in 1993 as over the preceding four years. Mortgage rates are at their lowest level in decades. Nearly two million more Americans are working than were working a year ago, twice as great an increase in one year as was achieved in the previous four years combined; and the rate of unemployment at the end of 1993 was down to 6.4 percent, a drop of nearly a full percentage point.

The fundamentals are solid and strong, and we are building for the future with a steady and sustainable expansion.

THE ECONOMIC PLAN

How did all this happen? Our economic plan had three fundamental components:

Deficit Reduction

First, the introduction and eventual enactment of our $500 billion deficit-reduction plan—the largest in history—brought the deficit down from 4.9 percent of GDP, where it was in 1992, to a projected 2.5 percent of GDP in 1995 and 2.3 percent of GDP in 1999. This substantially eased pressure on interest rates by reducing the Federal Government's demand for credit and by convincing the markets of our resolve in reducing deficits. Those lower interest rates encouraged businesses to invest, and convinced families to buy new homes and automobiles, along with other durable goods.

Investment

Second, we proposed, and Congress largely provided, a set of fully paid-for measures to encourage private investment (beyond the inducement provided by deficit reduction) and commit public investment to our country's future. The first component was making nine out of ten businesses eligible for tax incentives to invest in future growth—including a major expansion of the expensing allowance for small businesses and a new capital gains incentive for long-term investments in new businesses.

The second component was public investment in the future: in infrastructure, technology, skills, and security. These investments are directed toward preparing today's workers and our children for the new, higher-paying jobs of the modern economy; repairing and expanding our transportation and environmental infrastructure; fighting crime; expanding our Nation's technological base; and increasing our health and scientific research.

Among other things, we greatly expanded the very successful Head Start program and WIC nutrition program for pregnant women, infants, and young children; provided a major increase to fulfill the mandate of the Intermodal Surface Transportation Efficiency Act (ISTEA) authorization; provided initial funding for the National Service Act and new funding for educational reforms and other education and training initiatives; began the process of fulfilling my goal of putting another 100,000 police officers on the streets of our cities and towns; and provided additional resources for urban and rural development.

Trade

Finally, our long-term economic strategy depends on the expansion of our international trade markets. In 1993, we did more than at any time in the past two generations to open world markets for American products. The ratification of the North American Free Trade Agreement (NAFTA) establishes the largest market in the world. By lowering tariffs on our exports to Mexico, the agreement is going to increase jobs in this country—and, if previous experience is a guide, they will mostly be high-paying jobs.

We also completed work on the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), a worldwide agreement to reduce tariffs and other trade barriers that will also create high-paying jobs and spur economic growth in this country.

In addition, we established the U.S.-Japan Framework for a New Economic Partnership so that we can work to increase Japanese imports of U.S. goods and services and promote international competitiveness. And to relieve unnecessary burdens on U.S. businesses, we eliminated unneeded export controls on certain technology to encourage exports of U.S. high-technology products.

THE YEAR AHEAD

In 1994, we will build on the strong foundation we laid in 1993.

Fiscal Discipline

We continue to implement the $500 billion in deficit reduction from last year's reconciliation bill. To achieve the required hard freeze in discretionary spending and make needed investments, we propose new cuts in some 300 specific non-defense programs. That includes the termination of more than 100 programs. Many of these savings will be controversial, but we have little choice if we are going to meet our budget goals.

On the other side of the ledger, this budget contains no new tax increases.

New Investment

The investments in this budget continue to target jobs, education, research, technology, infrastructure, health, and crime.

Investing in people. First and foremost, the goal of our economic strategy is to provide more and better paying jobs for our people—both today and in the future—and to educate and train them so that they are prepared to do those jobs.

The budget contains a major workforce security initiative to promote job training and reemployment. In the past, government has provided workers who lost their jobs with temporary unemployment benefits to tide them over, and little else. But in this new era, when the fundamental restructuring of our economy is causing permanent layoffs and the virtual shutdown of entire industries, we need to create a *reemployment* system.

This budget begins the process of establishing that system, which ultimately will give dislocated workers easier access to retraining, job-search, and other services designed not only to help them through a difficult period but also to prepare them to thrive in productive, new jobs.

We also continue to invest in our most precious resource—our children—with proven, effective programs, as well as with new initiatives to confront the problems of a changing society.

We propose to expand funding for the school-to-work program, which will provide apprenticeship training for high school students who do not plan to attend college. And our budget expands the national service program, which gives our young people an opportunity to serve their communities and earn money towards college.

We provide strong support for the Goals 2000 program, which I hope Congress will enact early this year, to help local school systems reform themselves to educate our children for the 21st century. We must set high standards for all of our children, while providing them with the opportunity they deserve to learn.

We also provide major increases for WIC and for Head Start, which we will seek to improve as well. And we significantly expand and better target the Title I program, which focuses on needy children to make sure they can take full advantage of our educational system.

Investing in know-how. America has always sought to be the world's leader in science and technology. In some arenas in recent years, we have lost that status. But in the remainder of this decade and in the 21st century, we must be sure that the United States is on the cutting edge of research and technological advances.

To that end, the 1995 budget proposes critical investments in the National Institute of Standards and Technology's Advanced Technology Program; NASA's research, space, and technology programs; the National Science Foundation; the information superhighway, on which the Vice President has worked so hard; and energy research and development.

In addition, I am determined to continue assisting the industries and communities which have supported our Nation's defense as we continue the defense downsizing that began in the mid-1980's and accelerated in the early 1990's with the end of the Cold War.

I am proposing significant investments in the Technology Reinvestment Project, which will work with the private sector to encourage the development and application of dual-use technologies. And the budget also includes additional resources for the Office of Economic Adjustment, which provides planning grants to communities as they convert their local economies to profitable peacetime endeavors.

Investing in physical capital. The Nation's capital infrastructure and the economies of too many urban and rural communities have suffered too long from neglect. Last year, we began to address these shortfalls, and in 1995, we propose to continue these initiatives.

We propose, first, to continue full funding of core highway programs within the ISTEA transportation authorization act, as well as a substantial increase in Mass Transit Capital Grants. To help provide this level of funding, the budget proposes rescission of many highway demonstration projects, which frequently are an inefficient allocation of taxpayers' dollars.

In addition, we propose to continue the restoration of our environmental infrastructure with investments in the technologies of the future under the Clean Water Act and other environmental programs.

Last year, we enacted legislation to establish urban and rural Empowerment Zones. This year, we will designate those zones, as well as enterprise communities, to attract investment to neglected communities and provide the kinds of services needed to support economic development.

In this budget, HUD outlays for housing assistance, services to the homeless, and development aid to distressed communities will increase substantially, with aid to the homeless nearly doubling from the previous year. Both housing aid to families and aid to the homeless will be restructured to support transitions to economic independence.

I also propose to continue our rural development initiative, with grants and loans that represent a 35-percent increase over the previous year. This assistance will provide for improved rural infrastructure and services, such as water treatment facilities and rural health clinics, increase rural employment, further diversify rural economies, and provide rural housing opportunities by expanding assistance to allow low- and moderate-income residents to become homeowners.

Investing in quality of life. This budget continues our efforts to enhance environmental protection and preserve our natural resources.

We propose both to strengthen the stewardship of these resources and improve environmental regulatory and management programs. We increase state revolving funds for clean water and drinking water, and we propose the establishment of four ecosystem management pilot projects. In addition, we are proposing significant improvements and reforms in the Superfund program, as well as important international environmental initiatives.

Health Care Reform

Enactment of health care reform, with its focus on controlling health care costs, is the key to making even greater progress on deficits. Indeed, if the Congress adopts the Health Security Act in 1994, we believe that deficits will fall to 2.1 percent of GDP in fiscal year 1999, the lowest since 1979.

Of course, deficit reduction is only one reason for health care reform. Providing health security to every American, with a package of comprehensive benefits through private health insurance that can never be taken away, is critical not only to long-term budget restraint but also to long-term economic growth, to the productivity of our workers and businesses, and to the health and peace of mind of all Americans.

With some 58 million Americans lacking insurance at some time during the year;

with the estimated 81 million Americans with preexisting conditions paying more, unable to get insurance, or not changing jobs for fear of losing their insurance; with the small businesses that cover their workers—and a majority do—burdened by the skyrocketing cost of insurance, which is 35 percent higher for them than it is for big business and government; and with 76 percent of Americans carrying policies that contain lifetime limits, which can leave them without coverage when they need it most—this country is facing a health care crisis. And we must confront it now.

In addition to our health care reform effort, the 1995 budget contains key investments in health care and research. We propose the largest increase ever requested in research funds for the National Institutes of Health. This national treasure not only keeps our Nation in the forefront of health research but has demonstrably saved millions of lives and improved the quality of millions more. The additional investment we propose will help NIH with its research in many areas, from AIDS to heart problems, from mental health to breast cancer.

Welfare Reform

A major initiative for my Administration has been and will continue to be overhauling our welfare system. We must reward work, we must give people the wherewithal to work, and we must demand responsibility.

Welfare reform has already begun. The first step was the expansion of the Earned Income Tax Credit last year. That expansion rewards work by ensuring that families with a full-time worker will not live in poverty.

The second stage of welfare reform is health care reform. Our current health care system often encourages those on welfare to stay there in order to receive health insurance through Medicaid. When we require that every worker be insured, that disincentive to work will disappear.

The next element of welfare reform is personal responsibility. Our welfare reform plan will include initiatives to prevent teen pregnancy, ensure that parents fulfill their child support obligations, and try to keep people from going on welfare in the first place. We must remember this: governments do not raise children, parents do.

The ultimate goal of our reforms is to have our people rely on work, not on welfare. Our plan will build on the Family Support Act by providing education, training, and job search and placement for those who need it; it will require people who can work to do so within two years, either in the private sector or community service; it will restore the basic social contract of providing opportunity and demanding responsibility in return.

Crime

Enactment of the crime bill now being considered in the Congress is also essential, and it should happen quickly. We simply cannot tolerate what is happening in the streets of our cities and towns today. Crime and violence, the proliferation of handguns and assault weapons, the fear that millions of Americans feel when they emerge from their homes at night—and even in the daytime—must be confronted head-on.

We need to toughen enforcement, and we need to provide our local governments with the resources they need to take on the epidemic of violent crime. The crime bill will provide substantial resources, enough to fulfill my commitment to put 100,000 additional police on our streets. This budget funds major pieces of the crime bill, and I urge the Congress not only to approve the authorizing legislation but to provide the financial resources to back it up.

Defense and International Affairs

Profound shifts are taking place in America's foreign relations and defense requirements. When we came into office, we faced dramatically changed international conditions and problems, but we inherited foreign and defense policies and institutions still geared, in many ways, to the conditions and needs of the Cold War.

This budget reflects the major changes we are carrying out in the content, direction, and institutions which ensure that our interests are defended abroad. We are committed to remaining engaged in a world inextricably linked by trade and global communications. The nature of that engagement is changing, however.

We remain committed to maintaining the best trained, best equipped and best prepared fighting force in the world. Thanks to our 1993 Bottom-Up Review of defense, this force is being reshaped to meet the new challenges of the post-Cold War era. We can maintain our national security with the forces approved in the Bottom-Up Review, but we must hold the line against further defense cuts, in order to protect fully the readiness and quality of our forces.

We have put our economic competitiveness at the heart of our foreign policy, as we must in a global economy. We are following the success of NAFTA and GATT with further market-opening negotiations and intensified focus on the promotion of U.S. exports. We are paying particular attention to the Asian and Pacific markets, which have the most dynamic growth of any region in the world.

We are dedicated to the enlargement of the community of free market democracies, both as a way of ensuring greater security and as a way of expanding economic opportunity. Our programs for the New Independent States of Europe and Central Asia are the centerpiece of this effort.

We are responding aggressively to the new international security challenges that face us: regional conflicts, the proliferation of weapons of mass destruction, the movement of refugees, and the international flow of illegal narcotics. And we are addressing threats to the global environment and rapid population growth with a program to promote sustainable development.

Finally, we are fundamentally reforming and restructuring our international cooperation programs, giving an entirely new post-Cold War structure to our efforts by rewriting the basic legislation that has guided such programs for more than thirty years.

National Performance Review

The Vice President's National Performance Review (NPR) has paved the way for major reforms of how our government works, which are essential to making government more efficient and responsive. Last year, we began implementing its recommendations. With this budget, that effort shifts into high gear.

First, this budget implements the reduction by 100,000 of Federal positions required by my Executive Order of last year. Indeed, because of discretionary spending constraints, our proposals actually exceed that total by 18,000. In addition, planning has begun on the further downsizing that will be required to implement the remaining portion of the 252,000-position personnel reduction recommended by the NPR. With this downsizing, we will bring the number of Federal employees to the lowest level in thirty years.

To reach these goals, we need to be able to offer incentive packages to those whose positions will be eliminated. This is one of our highest legislative priorities, and it requires attention now. These "buy-out" packages will minimize the need for more costly reductions in force, are less disruptive since they are voluntary, and save the government money in the long run.

The time also has come for swift passage of procurement reform, another of our highest priorities. Streamlining procurement is essential to meeting our personnel downsizing targets. And overhaul of the current, wasteful system can give us significant savings, as well as improved performance by government suppliers.

Further, this budget contains many of the specific programmatic savings proposed by the NPR. These savings have been used in large part to help us meet the discretionary spending freeze.

With my executive order last year, we also began the process of reforming one of the basic functions of government—the regulatory process. Regulations are often necessary to improve the health, safety, environment, and well-being of the American people. Our goal is a more open, more fair, and more honest process that produces smart regulation: rules that impose the least burden and provide the most cost-effective solutions possible.

Finally, all of our departments and agencies have begun to reform their basic operations, including their financial and other administrative practices.

The goal of the NPR is to make government work better and cost less—and to make it more convenient and responsive to those it serves. That is not something that can be completed in one year, in four, or even eight. But we have a responsibility to begin, and that we have done.

Conclusion

These are the priorities I seek to pursue in the coming year. Last year, we succeeded in breaking the gridlock that had gripped Washington for far too long. In contrast to past budgets, which lacked credibility, we made sure to use cautious estimates, and we shot straight with the American people.

The results are evident.

We said we would bring the deficit down, and we did. We said we would revitalize the economy, and we did. We said that we would help the private sector to create jobs, and we did. We said that we would reduce the size of the bureaucracy, and we did.

Last year, my Administration and the Congress worked side by side to move our country forward. Let us extend that record of achievement in 1994.

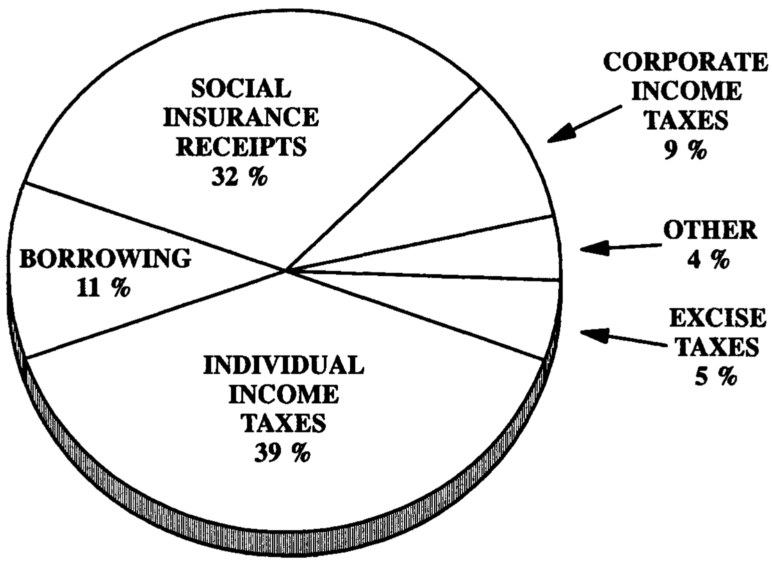
WILLIAM J. CLINTON

February 7, 1994

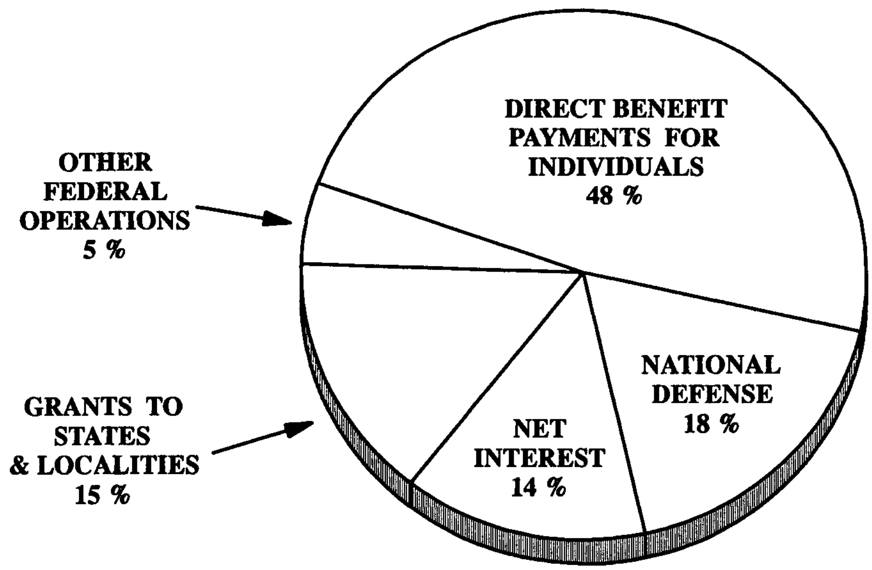
Introduction:
An Overview of the 1995 Budget

THE FEDERAL GOVERNMENT DOLLAR
FISCAL YEAR 1995 ESTIMATES

WHERE IT COMES FROM...



WHERE IT GOES...



INTRODUCTION: AN OVERVIEW OF THE 1995 BUDGET

The 1995 budget proposes outlays of $1,518.3 billion, receipts of $1,342.2 billion, and a deficit of $176.1 billion (Table I–1). If this outcome is realized, and the deficit for 1994 (already four months old) is as expected, it will mark the third consecutive year the deficit will have decreased (1992, $290.4 billion; 1993, $254.7 billion; 1994, an estimated $234.8 billion)—the first such sequence since the Administration of President Harry S Truman. If the President's health care reform bill is enacted, the 1995 deficit will be even lower: $165.1 billion. (Furthermore, these estimates were made on the basis of economic assumptions as of December 1993. If subsequent developments could have been incorporated into the economic assumptions, the projected deficits over the forecast period—with or without health reform—would have been about $5 billion to $6 billion per year lower.)

The deficit is cut more than 40 percent from the level projected one year ago. As a percentage of GDP, it is projected to be cut in half—from the 5.2 percent that was projected one year ago for 1993 under the policies of the previous Administration, to 2.5 percent in 1995. It is projected to fall to 2.3 percent and remain there for 1996–99, unless the President's health care reform is enacted. With health reform, the deficit is projected to fall to 2.1 percent of GDP in 1999. As the President made clear last year, the difference between a deficit that is falling as a percentage of

Table I–1. **OUTLAYS, RECEIPTS AND DEFICIT SUMMARY**
(Dollar amounts in billions)

	1993	1994	1995	1996	1997	1998	1999
Outlays:							
Discretionary	542.5	550.1	542.4	543.9	544.3	548.1	554.4
Mandatory:							
Deposit insurance	–28.0	–3.3	–11.1	–11.3	–6.1	–4.9	–3.3
Other mandatory	694.9	733.7	774.0	826.1	887.5	949.9	1,023.8
Subtotal, mandatory	666.9	730.4	762.9	814.9	881.4	945.0	1,020.5
Net interest	198.8	203.4	213.1	224.8	234.6	245.0	255.2
Total outlays	1,408.2	1,484.0	1,518.3	1,583.5	1,660.3	1,738.2	1,830.2
Receipts	1,153.5	1,249.2	1,342.2	1,410.4	1,479.5	1,550.8	1,629.0
Deficit	254.7	234.8	176.1	173.1	180.8	187.4	201.2
Totals as a percent of GDP:							
Outlays	22.4%	22.3%	21.6%	21.3%	21.2%	21.0%	20.9%
Receipts	18.3%	18.8%	19.1%	19.0%	18.9%	18.7%	18.6%
Deficit	4.0%	3.5%	2.5%	2.3%	2.3%	2.3%	2.3%
Memorandum—Totals with health reform:							
Deficit	254.7	234.8	165.1	169.6	186.4	190.5	181.1
Deficit as a percent of GDP	4.0%	3.5%	2.4%	2.3%	2.4%	2.3%	2.1%

GDP and one that is merely stable is fundamental health reform.

This budget achieves sustained deficit reduction by breaking the bad fiscal habits of the 1980s.

- After years of budgets based on borrow and spend economics, this budget maintains fiscal discipline—the discipline established in the President's economic program last year. The tight discretionary spending caps negotiated by the Administration and the Congress—which impose a five-year freeze at about the fiscal year 1993 level, with no allowance for inflation—are obeyed. There are no deficit-increasing changes in entitlement spending or revenues. This budget discipline has already paid enormous dividends: interest rates have declined; business investment in equipment, and household investment in new homes, automobiles, and other consumer durables have increased; and employment growth has returned to the United States. The economy produced almost twice as many jobs in the last year than under the entire preceding Administration.
- Where past budgets have practiced trickle-down economics, in the vain hope that tax relief for the most well-off would cause economic growth for the rest, this budget maintains tax fairness. The economic record of the past year demonstrates that growth and fairness need not conflict. The Administration's increases in the Earned Income Tax Credit (EITC) to reward work—a first step toward welfare reform—provide sorely needed tax relief for low-income working families with children. At the same time, the necessary additional taxes to reduce the deficit are being borne by those most able to pay: households with incomes over $200,000 will pay 80 percent of the tax increases enacted in the President's budget package last year. Only the best-off 1.2 percent of households face higher income tax rates.
- Where past budgets lacked a long-term view, this budget invests for the future—in the physical infrastructure, scientific and technological knowledge, and worker skills that the private sector needs to be an engine of job creation and productivity growth. The budget also encourages private business investment—through continued deficit reduction and the resulting low interest rates, and through the investment incentives (especially for small business) enacted in the President's economic program last year. These incentives help business to play its role as the ultimate source of long-term prosperity.
- In contrast to past budgets, which lacked credibility and were routinely characterized as dead on arrival, this budget dispenses with smoke and mirrors. Its economic assumptions are prudent, and its budget projections are solid. It will be a sound basis for the Congressional budget process and the public debate as well.

This introduction identifies and describes the major components of the 1995 budget. It identifies the ways in which budget discipline is attained, and the initiatives that are proposed. The remainder of the budget describes in more detail the economic backdrop for the President's economic plan, the success that the plan has met thus far, and the President's agenda for the future.

ECONOMIC ASSUMPTIONS

A year ago, the recovery from the 1990–91 recession was still very fragile; now it is more secure. This transformation was the result of corrective actions taken by the private and public sectors. Households and businesses improved their balance sheets by reducing debt. But most importantly, the Federal Government seriously addressed its own deficit problem. Congress enacted the Administration's deficit reduction plan and refocused spending priorities on productivity-enhancing investment.

The return to fiscal responsibility contributed to a fall of one percentage point in long-term interest rates between the election in November 1992 and the end of 1993. Falling rates stimulated key interest-sensitive sectors, pushed the stock market to record highs and reduced the debt servicing costs of governments, households and businesses. By the second half of 1993, households and businesses were willing and able to undertake the investment spending that produces self-sustaining growth. Business and consumer confidence improved as sales picked up, orders increased, payrolls expanded and incomes rose. And even though the economy accelerated during 1993 and the unemployment rate declined, inflation remained well under control. Thus, as 1994 begins, the essential elements for sustained, noninflationary growth are in place.

The Administration's economic assumptions through 1999 project a continuation of the trends evident in 1993: real economic growth sufficiently strong to lower unemployment gradually without reigniting inflation (Table I–2).

- Between the fourth quarter of 1993 and the fourth quarter of 1994, real GDP is projected to increase 3.0 percent. From 1995 through 1999, the growth rate slows progressively to 2.5 percent.
- The unemployment rate is projected to decline 0.3 percentage point in 1994. (The current employment outlook is even more favorable than when these economic assumptions were finalized in December of 1993.) Further decreases of about this magnitude are projected each year through 1998.
- Inflation, as measured by the Consumer Price Index, is projected to be 3.0 percent during 1994, compared with 2.8 percent during 1993. As the economy grows further, the inflation rate is assumed to edge up slightly, leveling off at 3.4 percent per year during 1997–1999.
- Short-term interest rates are projected to rise moderately from their exceptionally low current levels as the economy expands, while long-term rates are projected to remain unchanged at their levels at the end of 1993—in keeping with sustained

Table I–2. **ECONOMIC ASSUMPTIONS**[1]

(Calendar years)

	1992 Actual	Projections						
		1993	1994	1995	1996	1997	1998	1999
Gross Domestic Product (GDP):								
Percent change, fourth quarter over fourth quarter:								
Current dollars	6.7	5.0	5.8	5.6	5.7	5.7	5.7	5.6
Constant (1987) dollars	3.9	2.3	3.0	2.7	2.7	2.6	2.6	2.5
Implicit price deflator (1987 = 100)	2.8	2.6	2.7	2.8	2.9	3.0	3.0	3.0
Consumer Price Index (all urban):[2]								
Percent change, fourth quarter over fourth quarter	3.1	2.8	3.0	3.2	3.3	3.4	3.4	3.4
Unemployment rate, civilian, percent:[3]								
Fourth quarter level	7.3	6.7	6.4	6.0	5.8	5.6	5.5	5.5
Interest rates, percent:								
91-day Treasury bills[4]	3.5	3.0	3.4	3.8	4.1	4.4	4.4	4.4
10-year Treasury notes	7.0	5.9	5.8	5.8	5.8	5.8	5.8	5.8

[1] Based on information available as of December 1993.

[2] CPI for all urban consumers.

[3] Pre-1994 basis. A February 1994 change in survey methodology is expected to add about 0.5 percentage points to the measured unemployment rate.

[4] Average rate (bank discount basis) on new issues within period.

low inflation and continued budget discipline.

The economic assumptions presume enactment of the Administration's budget proposals.

OUTLAYS

1995 outlays are projected at $1,518.3 billion without the Administration's health reform proposal, an increase of $34.3 billion, or 2.3 percent, from 1994 estimates. Later years show continued slow outlay growth. Between 1993 and 1999, total outlays are projected to grow by an average of only 4.5 percent per year, or about one percent in real terms. In contrast, between 1981 and 1993, total outlays grew by an average of 6.3 percent per year. In 1999, projected outlays equal 20.9 percent of the gross domestic product (GDP); in 1993, outlays equaled 22.4 percent of GDP. The Administration's health reform would add a projected $0.6 billion to 1995 outlays.

Discretionary Spending

Total discretionary outlays decline in 1995, from $550.1 billion in 1994 to $542.4 billion. Defense discretionary outlays decline from an estimated $280.6 billion in 1994 to $271.1 billion in 1995. Non-defense discretionary outlays decrease by almost three percent in real terms—increasing slightly in nominal terms, from an estimated $269.5 billion to $271.3 billion, a rise of $1.8 billion, or 0.7 percent.

The reduction in discretionary spending is not a mindless across-the-board cut. Every department and agency was examined to find potential savings that would have the least possible adverse effect on the economy and on delivery of public services. In addition, the President maintained his commitment to investment in physical capital, ideas, and people to strengthen the economy, increase living standards, and create jobs.

As a result, although total discretionary spending declines from 1994 to 1995, the change varies from department to department. Seven of the 14 major departments face a budget cut in nominal terms (ten in real terms); and the increases in the others, which implement most of the President's investment, still leave total outlays on the decline in 1995 (Table I–3).

Spending cuts. Not surprisingly, given that total discretionary spending is cut, the 1995 budget reduces budget authority in dollar terms—without any increase for inflation—in at least 300 programs, including at least 115 terminations (some listed in Table I–4), and in 228 of 636 programmatic budget accounts. Another 51 of the 636 budget accounts are frozen at the 1994 level, with no increase for inflation; and another 100 receive dollar increases that are less than would be needed to keep up with inflation. Thus, 379 of 636 budget accounts are cut in real terms.

The reductions are spread throughout the Government. Low-priority and less-efficient programs are cut or eliminated, to reduce the deficit and to finance investments that strengthen the economy, safeguard the environment, and fight crime. However, even some programs in the President's general investment areas are cut—to free funds for more-efficient programs that pursue the same high-priority objectives better. These include 33 separate program terminations in the Department of Education; some low-income housing reductions in the Department of Housing and Urban Development; the youth training grants under the Job Training Partnership Act in the Department of Labor; mass transit operating subsidies; and three program terminations and numerous reductions in the National Aeronautics and Space Administration.

Budget savings are also obtained through the President's Executive Order requiring Federal personnel reductions of 100,000 by 1995, and the National Performance Review recommendation for an additional 152,000 reduction by 1999; and the President's Executive Order requiring administrative expense reductions of 3 percent in 1994, increasing to 14 percent in 1997.

Table I–3. DISCRETIONARY SPENDING BY AGENCY

(In billions of dollars)

Agency		1993 Actual	Estimate 1994	1995	1996	1997	1998	1999
Cabinet Agencies:								
Agriculture	BA	15.6	16.4	15.4	15.5	15.7	15.7	15.8
	OL	14.6	16.2	15.7	15.5	15.6	15.7	15.9
Commerce	BA	3.2	3.6	4.2	4.5	4.7	5.0	6.0
	OL	2.9	3.4	3.6	4.3	4.7	4.9	5.5
Defense	BA	262.6	250.0	252.9	244.2	241.0	247.5	253.8
	OL	280.1	268.4	259.9	249.9	245.4	245.5	246.3
Education	BA	23.7	24.4	26.1	26.3	26.5	23.7	26.9
	OL	23.0	24.5	24.0	25.8	26.3	26.5	26.7
Energy	BA	19.3	18.6	18.0	18.3	18.3	18.6	19.0
	OL	18.0	19.0	17.9	18.6	18.4	18.6	18.9
Health and Human Services	BA	31.6	34.3	35.4	36.2	38.0	39.3	41.2
	OL	32.0	36.6	36.8	38.8	40.4	42.3	44.0
Housing and Urban Development	BA	25.5	25.1	26.1	33.5	35.2	37.5	38.8
	OL	25.0	27.5	29.5	30.5	31.2	31.2	31.9
Interior	BA	7.1	7.5	7.2	7.3	7.4	7.4	7.5
	OL	7.1	7.3	7.4	7.4	7.5	7.5	7.5
Justice	BA	9.3	9.4	12.1	14.3	15.2	16.0	17.3
	OL	9.2	9.7	10.6	12.9	14.3	15.5	17.1
Labor	BA	9.9	10.6	11.7	12.0	12.5	12.5	12.6
	OL	9.5	10.0	10.4	11.3	11.8	12.3	12.4
State	BA	4.9	5.3	4.9	4.7	4.8	4.8	5.0
	OL	4.9	5.4	5.0	4.8	4.9	4.9	5.0
Transportation	BA	13.5	11.2	13.5	13.2	12.4	13.2	13.2
	OL	34.1	36.2	36.8	38.0	38.2	38.4	38.6
Treasury	BA	10.1	10.3	10.4	10.8	10.6	10.4	10.1
	OL	9.9	10.4	10.3	10.7	10.6	10.3	10.2
Veterans Affairs	BA	16.7	17.6	17.8	18.3	18.9	18.9	18.9
	OL	16.3	17.4	18.0	18.4	18.8	18.9	18.9
Major Agencies:								
Environmental Protection Agency	BA	6.9	6.7	7.2	7.4	7.7	7.9	8.2
	OL	6.1	6.8	6.9	7.1	7.4	7.6	7.8
National Aeronautics and Space Administration	BA	14.3	14.5	14.3	14.4	14.5	14.6	14.6
	OL	14.3	14.2	14.4	14.4	14.4	14.5	14.6
National Science Foundation	BA	2.7	3.0	3.2	3.2	3.3	3.4	3.5
	OL	2.4	2.8	2.9	3.0	3.2	3.3	3.4
All Other Agencies	BA	27.9	25.5	26.5	27.9	28.0	23.7	17.6
	OL	28.2	29.4	26.9	29.1	29.1	20.9	17.9
Judicial Branch	BA	2.4	2.6	2.9	2.9	2.9	2.9	2.9
	OL	2.4	2.6	2.8	2.8	2.8	2.8	2.8
Legislative Branch	BA	2.3	2.3	2.5	2.7	2.8	2.9	3.0
	OL	2.3	2.4	2.5	2.7	2.8	2.9	3.0
Total, Discretionary	BA	509.6	498.8	512.2	517.7	520.3	526.0	535.8
	OL	542.5	550.1	542.4	546.1	547.8	544.4	548.3

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
PROGRAMMATIC TERMINATIONS									
Non-Defense Discretionary Programs	2,947.8	3,024.4	1,777.0	1,962.5	12.5	1,055.8	–1,764.5	–906.7	106
Defense Discretionary Programs	2,099.0	371.8	1,736.1	973.8	259.1	1,205.6	–1,477.0	231.8	9
Total Programmatic Terminations	5,046.8	3,396.2	3,513.1	2,936.3	271.6	2,261.4	–3,241.5	–674.9	115
PROGRAMMATIC REDUCTIONS									
Non-Defense Discretionary Programs	38,343.1	30,977.2	39,081.7	35,978.5	30,510.9	33,330.1	–8,570.8	–2,648.4	71
Defense Discretionary Programs	122,386.4	108,346.8	118,404.8	112,664.1	107,987.0	110,490.6	–10,417.8	–2,173.5	35
Total Programmatic Reductions	160,729.5	139,324.0	157,486.5	148,642.6	138,497.9	143,820.7	–18,988.6	–4,821.9	106
Total	165,776.3	142,720.1	160,999.7	151,578.9	138,769.5	146,082.1	–22,230.2	–5,496.8	221
PROGRAMMATIC TERMINATIONS									
Department of Agriculture:									
Section 32—oilseed export subsidies	50.0	50.0	50.0	50.0			–50.0	–50.0	
Cooperative State Research Service, Earmarked Buildings and Facilities	52.0	45.0	23.0	51.0		54.0	–23.0	3.0	
Rural Development Administration (RDA)/ Emergency Community Water Assistance Grants	30.0	7.0	10.0	11.0		18.0	–10.0	7.0	
Farmers Home Administration (FmHA): State Mediation Grants	3.0	3.0	3.0	3.0		2.0	–3.0	–1.0	
Agriculture Total	135.0	105.0	86.0	115.0		74.0	–86.0	–41.0	4
Department of Commerce:									
National Oceanic and Atmospheric Administration (NOAA):									
Operations, Research and Facilities:									
Cooperative Geodetic Survey	0.6	0.6	0.6	0.6		0.2	–0.6	–0.3	
Land Information System	1.7	1.7	1.2	1.4		0.6	–1.2	–0.8	
Marine Observation Buoys	0.1	0.1	0.1	0.1		0.1	–0.1	–0.1	
Chesapeake Bay Observation Buoys	0.4	0.2	0.4	0.3		0.1	–0.4	–0.2	
Wetlands Management Demonstration	1.8	1.0	0.5	0.8		0.3	–0.5	–0.5	
Algal Bloom Crisis	0.5	0.3	0.4	0.4		0.1	–0.4	–0.2	
Stuttgart Aquaculture	0.6	0.6	0.6	0.6		0.2	–0.6	–0.3	
Stock Management Plan	0.5	0.6	0.5	0.5		0.2	–0.5	–0.3	
Atlantic Bluefin Tuna Research	0.3	0.3	0.3	0.3		0.1	–0.3	–0.2	
U.S./Canada Lobster Study			0.3	0.2		0.1	–0.3	–0.1	
Center for Shark Research	0.1	0.1	0.1	0.1		0.1	–0.1	–0.1	
Columbia River Hatcheries	10.3	11.7	10.3	10.9		4.5	–10.3	–6.4	
Columbia River Smolt	0.1	0.1	0.1	0.1			–0.1	–0.1	
Beluga Whale Committee	0.2	0.2	0.2	0.2		0.1	–0.2	–0.1	
Fishery Observer Training	0.1	0.1	0.2	0.1		0.1	–0.2	–0.1	
Export Strategies/Mahi-Mahi	0.8	0.7	0.8	0.7		0.3	–0.8	–0.4	
National Acid Precipitation Assessment	1.4	1.4	1.4	1.4		0.6	–1.4	–0.8	
Wind Profiler Demonstration Network	4.4	4.4	4.4	4.4		1.9	–4.4	–2.5	
Fed/State Weather Mod. Grants	2.6	2.6	3.0	2.8		1.2	–3.0	–1.6	
Southeastern Storm Research	0.4	0.3	0.4	0.3		0.2	–0.4	–0.2	
VENTS	2.5	2.5	2.5	2.5		1.1	–2.5	–1.4	
SE US/Caribbean FOCI Program	1.0	1.0	0.5	0.7		0.3	–0.5	–0.4	
GLERL Zebra Mussel	0.9	0.9	0.9	0.9		0.4	–0.9	–0.5	
Lake Champlain Study	0.2	0.2	0.3	0.2		0.1	–0.3	–0.1	
Pacific Island Technical Assistance	0.2	0.2	0.2	0.2		0.1	–0.2	–0.1	
Sea Grant—Zebra Mussel	2.8	2.6	2.8	2.7		1.2	–2.8	–1.5	
National Coastal R&D Institute	1.3	1.2	1.1	1.1		0.5	–1.1	–0.7	
National Undersea Research Program	16.0	15.6	18.1	17.1		7.3	–18.1	–9.8	
Samoa Weather Office	0.2	0.2	0.2	0.2		0.1	–0.2	–0.1	
Regional Climate Centers	3.0	3.0	3.0	3.0		1.3	–3.0	–1.7	
Construction:									
Charleston Fisheries Lab Repairs	0.7	0.5	0.7	0.7		0.6	–0.7	–0.1	
Boston Biotechnology Innovation Center	1.0	0.2	1.0	0.8		0.8	–1.0	0.1	

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
Mystic Maritime Education and Research Center	1.0	0.2	1.0	0.8		0.8	–1.0	0.1	
Alaska Fisheries Center	0.1	0.6	0.5	0.4		0.3	–0.5	–0.0	
Beaufort Laboratory	0.2	0.2	0.2	0.2		0.1	–0.2	–0.0	
Columbia River Facilities	7.9	6.1	8.2	7.9		6.8	–8.2	–1.1	
Multispecies Aquaculture Center	0.4	0.1	1.0	0.4		0.7	–1.0	0.3	
Oxford Fisheries Lab			0.8	0.1		0.5	–0.8	0.3	
Lafayette Fisheries Lab		0.8	2.0	0.6		1.2	–2.0	0.6	
National Estuarine Research Reserves			5.0	0.8		3.1	–5.0	2.3	
Monitor Marine Sanctuary Museum			0.8	0.1		0.5	–0.8	0.4	
Indiana State University			1.4	0.2		0.9	–1.4	0.6	
Ruth Patrick Science Center			1.0	0.2		0.6	–1.0	0.5	
Newport Marine Science Center	1.7	0.3	1.8	1.4		1.5	–1.8	0.1	
Fishing Vessel Obligation Guarantees	0.5	0.3	0.5	0.9			–0.5	–0.9	
Aircraft Procurement and Modernization			43.0	6.0		13.8	–43.0	7.7	
Commerce Total	68.2	63.5	124.0	76.3		55.5	–124.0	–20.8	46
Department of Defense:									
Begin closure of Uniformed Services University of Health Sciences	84.0	69.0	86.0	82.0	70.0	73.0	–16.0	–9.0	
Navy CH-53 Heavy Cargo Helicopter Procurement	494.6	65.8	291.1	194.1	41.1	254.1	–250.0	60.0	
Navy SH-60B Ship-Based Anti-Submarine Warfare Helicopter	234.5	31.2	188.0	98.5		133.7	–188.0	35.2	
Navy SH-60F Carrier-Based Anti-Submarine Warfare Helicopter	172.2	22.9	42.0	59.9	7.6	68.8	–34.4	8.9	
Navy HH-60H Combat Search and Rescue Helicopter	116.5	15.5	256.3	70.1	39.9	123.1	–216.4	53.0	
Air Force F-16 Fighter Aircraft	676.5	29.1	400.0	175.7	100.5	349.4	–299.5	173.7	
LANDSAT 7 Satellite Acquisition	84.1	18.6	204.0	75.9		88.3	–204.0	12.4	
Follow On Early Warning System Development	236.6	119.7	214.8	190.3		96.6	–214.8	–93.7	
Spacelifter Launch System Development			53.9	27.3		18.6	–53.9	–8.7	
Defense Total	2,099.0	371.8	1,736.1	973.8	259.1	1,205.6	–1,477.0	231.8	9
Department of Education:									
Elementary and Secondary Education:									
Impact Aid 3(b): payments for military dependents	123.6	100.1	123.1	145.6		31.8	–123.1	–113.8	
Impact Aid Section 2: payments for Federal property	16.3	13.2	16.3	19.2		4.2	–16.3	–15.0	
Education for Native Hawaiians	6.4	6.1	8.2	7.7		7.1	–8.2	–0.6	
Foreign Languages Assistance (school improvement)	10.9	15.1	10.9	11.5		9.6	–10.9	–1.9	
Territorial Teacher Training	1.7	1.8	1.7	1.7		1.4	–1.7	–0.2	
Ellender Fellowships (Close-up Foundation)	4.2	6.0	4.2	4.5		3.7	–4.2	–0.8	
Fund for the Improvement and Reform of schools	9.1	9.9	9.1	9.6		7.9	–9.1	–1.7	
Civic Education	4.3	4.2	4.5	4.2		3.9	–4.5	–0.3	
Follow-through	8.5	8.0	8.5	9.9		7.7	–8.5	–2.2	
Dropout Prevention Demonstrations	37.5	35.5	37.7	43.8		34.4	–37.7	–9.4	
Law-related Education (Educational Improvement)	6.0	5.6	6.0	6.9		5.4	–6.0	–1.5	
Immigrant Education formula grant	29.5	16.3	39.0	34.5		33.7	–39.0	–0.8	
General Assistance to the Virgin Islands	2.5	2.3	1.2	2.7		1.4	–1.2	–1.3	
National writing project (U.C. Berkeley grant)	3.2	2.8	3.2	3.1		2.8	–3.2	–0.2	
National Board for Professional Teaching Standards	4.8	5.1	4.8	8.1		3.2	–4.8	–4.9	

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
Library Programs:									
Library Demonstration	2.8	3.5	2.8	3.1		1.7	–2.8	–1.4	
Library Literacy	8.1	10.3	8.1	8.9		4.8	–8.1	–4.1	
Public Library Construction	16.6	16.9	17.8	23.4		24.9	–17.8	1.5	
College Library Technology	3.9	4.9	3.9	4.3		2.3	–3.9	–2.0	
Research Libraries	5.8	7.4	5.8	6.4		3.5	–5.8	–3.0	
Library Education and Training	5.0	6.3	5.0	5.5		2.9	–5.0	–2.5	
Higher Education/Student Financial Aid:									
Assistance to Guam									
State Student Incentive grants (student aid)	72.0	89.0	72.0	72.0		36.0	–72.0	–36.0	
Cooperative Education	14.0	16.0	14.0	14.0		12.0	–14.0	–2.0	
Eisenhower Leadership program	3.0		4.0	3.0		3.0	–4.0		
Law school clinical experience	10.0	12.0	15.0	11.0		12.0	–15.0	1.0	
Federal Perkins Loans Capital contributions	166.0	158.0	158.0	183.0		142.0	–158.0	–41.0	
National Early Intervention Scholarships			2.0			1.0	–2.0	1.0	
Teacher corps			2.0			1.0	–2.0	1.0	
Gallaudet University construction	2.0	3.0	1.0	1.0		1.0	–1.0		
Vocational Education:									
Bilingual Vocational Training	3.0	2.0	3.0	3.0		2.0	–3.0	–1.0	
Vocational Education Community based organizations	12.0	9.0	12.0	10.0		9.0	–12.0	–1.0	
Consumer and Homemaking Education	35.0	26.0	35.0	30.0		28.0	–35.0	–2.0	
Education Total	627.7	596.2	639.8	691.8		445.5	–639.8	–246.3	34
Department of Energy:									
Oil shale, fossil energy research and development	6.0	6.0		3.0		1.0		–2.0	
Magnetohydrodynamics, fossil energy research and development	30.0	36.0	5.0	22.0	5.0	14.0		–8.0	
Atomic vapor laser isotope separation program, uranium supply and enrichment	1,243.0	1,400.0	177.0	246.0			–177.0	–246.0	
Energy Total	1,279.0	1,442.0	182.0	271.0	5.0	15.0	–177.0	–256.0	3
Environmental Protection Agency:									
Clean Lakes Demonstration Program	4.0	4.0	5.0	5.0		3.0	–5.0	–2.0	
Rural Water Assistance	5.0	5.0	8.0	6.0		3.0	–8.0	–3.0	
EPA Total	9.0	9.0	13.0	11.0		6.0	–13.0	–5.0	2
Department of Interior:									
USGS Water Resources Research Institutes	6.0	6.0	6.0	6.0		0.6	–6.0	–5.4	
BOM Minerals Institutes	11.6	11.6	8.1	8.2	6.5	7.3	–1.6	–0.9	
BIA Community Development—Business Enterprise Development Program (Grants)	5.2	5.2	4.0	4.3		1.2	–4.0	–3.1	
BIA Direct Loan Program	2.5	2.5	2.5	2.5			–2.5	–2.5	
BIA Technical Assistance Grants	4.3	4.3	4.3	4.3		1.3	–4.3	–3.0	
Office of Surface Mining Rural Abandoned Mine Program	13.4	13.4	13.3	13.3		5.6	–13.3	–7.7	
Interior Total	43.0	43.0	38.2	38.6	6.5	16.0	–31.7	–22.6	6
Department of Justice:									
Office of Justice Programs—Byrne Anti-Drug Abuse Formual Grant Program	423.0	413.7	358.0	408.7		307.2	–358.0	–101.5	1

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
National Aeronautics and Space Administration (NASA):									
Long Duration Orbiter	7.0	4.0	43.0	27.0		17.0	–43.0	–10.0	
Commercial Experiment Transporter	23.0	23.0	15.0	18.0		6.0	–15.0	–12.0	
Advanced Solid Rocket Motor	195.0	206.0	178.0	186.0		77.0	–178.0	–109.0	
NASA Total	225.0	233.0	236.0	231.0		100.0	–236.0	–131.0	3
Small Business Administration:									
SBA grants for tree planting	30.0	30.0	18.0	18.0			–18.0	–18.0	
SBA earmarked grants	19.8	19.8	13.1	13.1			–13.1	–13.1	
SBA Total	49.8	49.8	31.1	31.1			–31.1	–31.1	2
Department of State:									
Bilateral Science and Technology	4.5	4.5	4.3	4.3		0.6	–4.3	–3.7	1
State Justice Institute	14.0	14.0	7.0	7.0	1.0	1.0	–6.0	–6.0	1
Department of Transportation:									
Coast Guard: Boating Safety Grants	32.0	35.0	32.0	33.0		18.0	–32.0	–15.0	
FRA: Local Rail Freight Assistance	29.0	7.0	17.0	35.0		17.0	–17.0	–18.0	
Transportation Total	61.0	42.0	49.0	68.0		35.0	–49.0	–33.0	2
United States Information Agency:									
North South Center	8.7	8.7	8.7	8.7			–8.7	–8.7	1
Total Programmatic Terminations	5,046.8	3,396.2	3,513.1	2,936.3	271.6	2,261.4	–3,241.5	–674.9	115
PROGRAM REDUCTIONS									
Department of Agriculture:									
Cooperative State Research Service, Earmarked Special Research Grants	430.0	397.0	424.0	446.0	419.0	432.0	–5.0	–14.0	
Soil Conservation Service:									
Resource Conservation and Development	33.0	35.0	33.0	32.0	26.0	28.0	–7.0	–4.0	
Watershed & Flood Prevention Operations	279.0	236.0	267.0	301.0	25.0	105.0	–242.0	–196.0	
Great Plains Conservation Program	25.0	23.0	26.0	26.0	11.0	21.0	–15.0	–5.0	
Agriculture Stabilization & Conservation Service:									
Agricultural Conservation Program	194.0	182.0	195.0	216.0	100.0	164.0	–95.0	–52.0	
Colorado River Basin Salinity Control Program	14.0	16.0	14.0	15.0	8.0	12.0	–6.0	–3.0	
Forestry Incentive Program	12.0	13.0	13.0	14.0	7.0	10.0	–6.0	–4.0	
Commodity Credit Corporation:									
Market Promotion Program	147.0	147.0	100.0	100.0	75.0	75.0	–25.0	–25.0	
Rural Electrification Administration:									
Electric and Telephone Loan Subsidies	210.0	87.0	70.0	135.0	19.0	110.0	–51.0	–25.0	
Farmers Home Administration:									
Multi-family Housing Loans	288.0	179.0	298.0	273.0	116.0	290.0	–182.0	17.0	
Food and Nutrition Service:									
The Emergency Food Assistance Program	165.0	163.4	120.2	123.7	40.2	40.0	–80.0	–83.7	
Commodity Supplemental Food Program	94.5	77.3	104.5	106.9	94.5	94.9	–10.0	–12.0	
PL 480 (Titles I, II, III)	1,533.4	1,444.5	1,412.0	1,683.7	1,245.4	1,341.2	–166.6	–342.5	
Agriculture Total	3,424.9	3,000.2	3,076.7	3,472.3	2,186.1	2,723.1	–890.6	–749.2	14
Appalachian Regional Commission	190.0	145.0	249.0	149.0	187.0	180.0	–62.0	31.0	1
Army Corps of Engineers:									
Construction, General	1,358.0	1,074.0	1,304.0	1,448.0	959.0	1,100.0	–345.0	–348.0	
Flood Control and Coastal Emergencies	130.0	53.1	80.0	139.9	15.0	82.5	–65.0	–57.4	
General Investigations	172.0	168.0	183.0	205.0	148.0	162.0	–35.0	–43.0	
Corps of Engineers Total	1,660.0	1,295.1	1,567.0	1,792.9	1,122.0	1,344.5	–445.0	–448.4	3

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
Department of Commerce:									
National Oceanic and Atmospheric Administration (NOAA):									
Operations, Research and Facilities:									
NEXRAD Doppler Weather Radars	84.5	81.6	120.0	103.6	79.6	90.0	–40.4	–13.6	
Construction: NEXRAD WFO Construction	48.4	22.4	62.8	45.2	18.3	52.5	–44.5	7.3	
Fleet Modernization, Shipbuilding and Conversion	28.5	20.6	77.1	18.1	23.0	27.1	–54.0	9.0	
National Telecommunications and Information Administration (NTIA):									
Public Broadcasting Facilities, Planning and Construction	20.3	19.0	24.0	20.2	10.7	26.2	–13.3	6.0	
Commerce Total	181.7	143.6	283.8	187.2	131.7	195.8	–152.1	8.6	4
Consumer Product Safety Commission	48.0	42.0	42.0	44.0	40.0	41.0	–2.0	–3.0	1
Department of Defense:									
Personnel:									
Reduce Active Military Personnel to 1.526 Million and Reserve Military Personnel to 0.979 Million in 1995	65,215.0	61,954.0	62,614.0	62,418.0	60,199.0	60,007.0	–2,415.0	–2,411.0	
Reduce Civilian Personnel to 873,000 in 1995	44,360	43,340.0	43,325.0	43,349.0	41,736.0	41,773.0	–1,589.0	–1,576.0	
Procurement:									
Army AH-64 Apache Attack Helicopter	139.6	20.9	167.6	68.3	5.6	100.6	–162.0	32.3	
Army Guardrail Electronic Intelligence Aircraft Modifications	92.5	13.9	111.3	45.3	26.9	70.1	–84.4	24.8	
Army Kiowa Warrior Armed Reconnaissance Helicopter	319.2	47.9	226.2	133.2	111.8	195.4	–114.4	62.2	
Army Avenger Air Defense Missile/Gun system	146.9	13.7	135.2	53.6	13.8	103.9	–121.4	50.3	
Army Javelin Anti-Armor Missile System	18.3	1.7	207.3	23.8	131.1	78.3	–76.2	54.5	
Army Multiple-Launch Rocket System	253.4	23.6	253.6	94.3	60.1	188.2	–193.5	93.9	
Bradley Fighting Vehicle Family	93.5	1.9	71.1	40.2	14.1	64.4	–57.0	24.2	
Army High Mobility Multi-Purpose Wheeled Vehicle	218.4	35.6	242.9	113.1	108.1	154.5	–134.8	41.4	
Army Family of Heavy Tactical Vehicle	309.5	50.4	403.0	169.7	16.5	217.0	–386.5	47.3	
Army Reserve Component Computer Automation System	187.7	30.6	162.0	89.7	101.5	118.2	–60.5	28.5	
Navy F/A-18C/D Fighter Aircraft	1,134.8	150.9	1,520.4	556.2	1,032.4	974.4	–488.0	418.2	
Navy Trident II Submarine Launched Ballistic Missile	980.3	150.0	1,098.6	458.9	696.0	786.9	–402.6	328.0	
LHD-1 Amphibious Assault Ship Conversion			888.6	45.3		118.2	–888.6	72.9	
Mine Warfare Command Ship Conversion			123.6	6.3		16.4	–123.6	10.1	
Oceanographic Ship			109.5	5.6		14.6	–109.5	9.0	
Air Force B-2 Bomber	3,831.3	164.7	1,543.4	965.9	800.1	1,817.7	–743.3	851.8	
Air Force Advanced Medium-Range Air-to-Air Missile	605.8	180.1	487.2	310.6	309.5	357.0	–177.7	46.4	
Air Force Space Boosters	380.0	112.5	463.2	241.5	381.8	322.7	–81.4	81.2	
Air Force Military Satellite Communications Equipment	48.6	23.1	70.8	47.6	3.8	26.6	–67.0	–21.0	
Defense Support Project Office Major Equipment	183.3	37.2	331.4	121.3	11.7	156.8	–319.7	35.5	
Research and Development:									
Army Medical Advanced Technology	248.4	136.6	115.0	147.7	41.0	79.8	–74.0	–67.9	
Army Apache Longbow Anti-Armor Missile	290.9	160.0	277.8	251.7	191.3	220.9	–86.5	–30.8	

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
Navy Advanced Submarine Systems	128.1	70.5	140.4	120.0	86.0	104.2	–54.4	–15.8	
Navy Ship Self-Defense	216.4	119.0	285.8	229.5	192.3	218.1	–93.5	–11.4	
Navy Standard Anti-Air Warfare Missile	50.1	27.6	62.3	51.0	11.8	31.2	–50.5	–19.8	
Air Force B-2 Bomber	1,189.3	601.8	785.8	807.9	408.5	590.8	–377.3	–217.1	
Air Force Milstar Satellite	1,107.3	560.3	918.4	846.7	625.4	738.5	–293.0	–108.2	
Air Force Joint Surveillance Target Attack Radar System	313.5	158.6	283.1	251.4	190.4	223.8	–92.7	–27.6	
Air Force Tri-Service Stand-off Attack Missile	....	....	265.4	134.3	81.1	132.6	–184.3	–1.7	
Air Force Medium Launch Vehicle	46.6	23.6	71.2	52.1	21.0	39.6	–50.2	–12.5	
Air Force Titan Space Launch Vehicles	147.2	74.5	270.1	187.5	161.1	188.7	–109.0	1.2	
Special Operations Tactical Systems	121.0	57.1	218.0	149.8	167.4	175.6	–50.6	25.8	
Foreign Material Acquisition and Exploitation	9.5	4.5	155.6	77.1	49.9	84.9	–105.7	7.8	
Defense Total	122,386.4	108,346.8	118,404.8	112,664.1	107,987.0	110,490.6	–10,417.8	–2,173.5	35
Department of Energy:									
Lease Elk Hills, Naval Petroleum Reserves	–220.0	–255.0	–211.0	–199.0	–412.0	–398.0	–201.0	–199.0	
Nuclear reactor programs, energy supply research and development	319.0	341.0	245.0	365.0	261.0	268.0	16.0	–97.0	
Nuclear weapons stockpile support	2,186.0	2,088.0	2,121.0	2,140.0	1,616.0	1,768.0	–505.0	–372.0	
Nuclear weapons materials support	1,300.0	1,180.0	1,024.0	1,162.0	878.0	922.0	–146.0	–240.0	
Energy Total	3,585.0	3,354.0	3,179.0	3,468.0	2,343.0	2,560.0	–836.0	–908.0	4
Environmental Protection Agency:									
Targeted Wastewater Assistance	556.0	117.0	558.0	283.0	250.0	397.0	–308.0	114.0	1
Funds Appropriated to the President:									
Assistance to Central and Eastern Europe	400.0	277.6	390.0	346.5	380.0	384.7	–10.0	38.2	1
Department of Health And Human Services:									
Health Care Financing Administration:									
Research and Demonstrations	68.3	69.5	86.0	69.6	68.6	74.0	–17.4	4.4	
Medicare Contractors	1,555.6	1,502.8	1,615.3	1,549.6	1,610.3	1,566.0	–5.0	16.4	
Health Professions Curriculum Assistance Program	265.0	245.0	281.0	265.0	266.0	279.0	–15.0	14.0	
Maternal and Child Health Block Grant	665.0	622.0	687.0	653.0	679.0	665.0	–8.0	12.0	
Indian Health Services	1,863.0	1,742.0	1,947.0	1,949.0	1,700.0	1,804.0	–247.0	–145.0	
Low Income Home Energy Assistance Program	1,346.0	1,067.9	1,437.4	2,075.7	730.0	790.9	–707.4	–1,284.8	
Community Services Block Grant	440.9	422.8	464.2	474.9	434.6	465.0	–29.6	–9.9	
Health and Human Services Total	6,203.8	5,672.0	6,517.9	7,036.8	5,488.5	5,643.9	–1,029.4	–1,392.9	7
Department of Housing and Urban Development:									
Public Housing Development	402.0	537.0	598.0	552.0	150.0	529.0	–448.0	–23.0	
Public Housing Modernization	3,193.0	1,647.0	3,230.0	2,164.0	2,786.0	2,501.0	–444.0	337.0	
Severely Distressed Public Housing	300.0	....	778.0	30.0	500.0	146.0	–278.0	116.0	
Elderly Housing New Construction	1,132.0	372.0	1,158.0	381.0	150.0	667.0	–1,008.0	286.0	
Low Income Housing Preservation	600.0	3.0	541.0	44.0	....	94.0	–541.0	50.0	
Congregate Services	21.0	5.0	25.0	11.0	6.0	16.0	–19.0	5.0	
Lead-Based Paint Grant Program	100.0	1.0	150.0	45.0	100.0	75.0	–50.0	30.0	
HOME	1,173.0	212.0	1,275.0	876.0	1,000.0	1,196.0	–275.0	320.0	
HUD Total	6,921.0	2,777.0	7,755.0	4,103.0	4,692.0	5,224.0	–3,063.0	1,121.0	8
Department of Interior:									
Bureau of Reclamation—Construction	501.0	470.0	448.0	640.0	381.0	392.0	–67.0	–248.0	
Fish and Wildlife Service Construction	110.0	73.0	74.0	113.0	35.0	73.0	–39.0	–40.0	
National Park Service Construction	225.0	257.0	202.0	272.0	149.0	235.0	–53.0	–37.0	
Bureau of Indian Affairs Construction	150.0	124.0	167.0	138.0	114.0	114.0	–53.0	–24.0	
Bureau of Reclamation Loan Program	4.0	4.0	14.0	9.0	4.0	7.0	–10.0	–2.0	
Interior Total	990.0	928.0	905.0	1,172.0	683.0	821.0	–222.0	–351.0	5

Table I–4. ILLUSTRATIVE LISTING OF PROGRAMMATIC TERMINATIONS AND REDUCTIONS—Continued

(In millions of dollars)

	1993 Enacted		1994 Estimate		1995 Estimate		Change: 1994 to 1995		Number Change
	BA	O	BA	O	BA	O	BA	O	
Department of Labor:									
Job Training Partnership Act:									
Training grants for low-income youth	676.7	699.0	658.7	547.5	598.7	609.8	–60.0	62.3	
Migrant and seasonal farm workers	78.3	78.0	85.6	74.5	78.3	81.7	–7.3	7.2	
Job Training for the homeless demonstration	12.5	9.2	12.5	10.0	5.1	11.7	–7.4	1.7	
Community Service Employment for Older Americans	396.1	389.0	410.5	386.0	396.1	406.3	–14.4	20.3	
Unemployment Trust Fund: State UI Administrative costs	2,380.1	2,318.6	2,485.3	2,450.9	2,459.7	2,391.8	–25.6	–59.1	
Labor Total	3,543.7	3,493.8	3,652.6	3,468.9	3,537.9	3,501.3	–114.7	32.4	5
National Aeronautics and Space Administration (NASA):									
Space Shuttle & related	4,430.0	4,025.0	3,961.0	4,144.0	3,680.0	4,095.0	–281.0	–49.0	
Spacelab	112.0	133.0	126.0	125.0	92.0	106.0	–34.0	–19.0	
Facilities Construction (Mission Support)	189.0	202.0	222.0	198.0	135.0	201.0	–87.0	3.0	
Near Earth Asteroid Rendezvous			66.0	39.0	52.0	50.0	–14.0	11.0	
Life & Microgravity Sciences	408.0	399.0	515.0	459.0	471.0	481.0	–44.0	22.0	
Aeronautical Research & Technology	769.0	713.0	1,102.0	960.0	899.0	957.0	–203.0	–3.0	
Space Transportation Technology	115.0	124.0	122.0	120.0	103.0	110.0	–19.0	–10.0	
Spacecraft & Remote Sensing Technology	141.0	152.0	156.0	151.0	143.0	147.0	–13.0	–4.0	
Mission Communication Services	547.0	549.0	589.0	575.0	481.0	516.0	–108.0	–59.0	
NASA Total	6,711.0	6,297.0	6,859.0	6,771.0	6,056.0	6,663.0	–803.0	–108.0	9
National Science Foundation:									
Academic research infrastructure	50.0	18.0	100.0	94.0	55.0	84.0	–45.0	–10.0	1
Department of State:									
Migration and Refugee Affairs	620.7	628.0	670.7	592.6	632.9	639.8	–37.8	47.2	1
Department of Transportation:									
Coast Guard: Alteration of Bridges	13.0	7.0	13.0	24.0		13.0	–13.0	–11.0	
Transit Discretionary Grants	1,725.0	1,298.0	1,734.0	1,450.0	1,517.0	1,608.1	–217.0	158.1	
Transit Operating Subsidies	802.0	802.0	802.0	802.0	600.0	681.0	–202.0	–121.0	
Transportation Total	2,540.0	2,107.0	2,549.0	2,276.0	2,117.0	2,302.1	–432.0	26.1	3
Department of the Treasury:									
United States Customs Service:									
Air and Marine Interdiction Program	243.0	238.0	233.0	232.0	176.0	182.0	–57.0	–50.0	1
United States Information Agency:									
Educational and Cultural Exchange Programs	242.3	211.9	242.0	237.3	221.8	231.9	–20.2	–5.4	1
Department of Veterans Affairs:									
Medical and Prosthetic Research	232.0	232.0	252.0	252.0	211.0	211.0	–41.0	–41.0	1
Total Programmatic Reductions	160,729.5	139,324.0	157,486.5	148,642.6	138,497.9	143,820.7	–18,988.6	–4,821.9	106

* Less than $500 thousand.

Table I–5. PROPOSED INVESTMENTS

(Budget authority; dollar amounts in millions)

	1993 Enacted	1994 Estimate[2]	1995 Proposed	Dollar Change: 1993 to 1995	Percent Change: 1993 to 1995	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
ECONOMIC SECURITY							
Infrastructure:							
Department of Agriculture:							
Rural Development Initiative:							
Grant levels	878	1,039	1,148	270	31	109	10
(Loan levels)	(3,119)	(4,046)	(5,728)	(2,609)	84	(1,682)	42
Department of Transportation:							
Highways (obligations)[2]	(18,043)	(19,978)	(20,301)	(2,258)	13	(323)	2
Intelligent vehicle highway system (obligations)[2]	(30)	(90)	(165)	(135)	450	(75)	83
Mass transit formula capital grants	54	659	1,115	1,061	#	456	69
(limitation on obligations)[2]	(844)	(954)	(1,150)	(306)	36	(196)	21
(total budgetary resources)	(898)	(1,613)	(2,265)	(1,367)	152	(652)	40
Next generation high speed rail	—	—	28	28	N/A	28	N/A
Penn Station redevelopment	—	10	90	90	N/A	80	800
Subtotal, Infrastructure	**19,849**	**22,730**	**23,997**	**4,148**	**21**	**1,267**	**6**
Loan levels	**(3,119)**	**(4,046)**	**(5,728)**	**(2,609)**	**84**	**(1,682)**	**42**
Education and Training:							
Department of Education:							
School-to-work (Education Department share)	—	50	150	150	N/A	100	200
Goals 2000	—	105	700	700	N/A	595	567
Title I, education for the disadvantaged	6,696	6,912	7,579	883	13	667	10
Safe and drug-free schools	582	472	660	78	13	188	40
Department of Health and Human Services:							
Head Start	2,776	3,326	4,026	1,250	45	700	21
Department of Labor:							
Dislocated Worker Assistance Act	602	1,118	1,465	863	143	347	31
School-to-work (DOL share)	—	50	150	150	N/A	100	200
One-stop career shopping	—	50	250	250	N/A	200	400
Worker profiling	—	9	9	9	N/A	—	—
Job Corps	966	1,040	1,157	191	20	117	11
National Service:							
National Service Initiative[3]	279	575	850	571	205	275	48
Subtotal, Education and Training	**11,901**	**13,707**	**16,996**	**5,095**	**43**	**3,289**	**24**
Technology:							
Department of Agriculture:							
USDA-National Science and Technology Council (NSTC)	161	171	189	28	17	18	11
Department of Commerce:							
Economic Development Administration, defense conversion	—	80	140	140	N/A	60	75
National Institute of Standards and Technology (NIST) growth, NIST high performance computing, and NIST NSTC	381	520	935	554	145	415	80
Information highways	—	26	100	100	N/A	74	285
NOAA NSTC	47	64	106	59	126	42	66
Department of Defense:							
ARPA technology reinvestment project	472	554	625	153	32	71	13
Department of Energy:							
Conservation R&D/EPAct	349	436	654	305	87	218	50
Cooperative R&D agreements	151	262	275	124	82	13	5
Advanced neutron source	12	17	40	28	233	23	135
Linear accelerator "B-Factory"	—	36	44	44	N/A	8	22
Department of Health and Human Services:							
High performance computing	47	58	82	35	74	24	41

Table I–5. PROPOSED INVESTMENTS—Continued

(Budget authority; dollar amounts in millions)

	1993 Enacted	1994 Estimate 2	1995 Proposed	Dollar Change: 1993 to 1995	Percent Change: 1993 to 1995	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
National Aeronautics and Space Administration:							
Mission to Planet Earth	932	1,023	1,236	304	33	213	21
Aeronautics initiatives	129	289	347	218	169	58	20
High performance computing	30	66	76	46	153	10	15
New technology investments	—	60	67	67	N/A	7	12
National Science Foundation:							
NSF research and education	2,619	2,891	3,060	441	17	169	6
Subtotal, Technology	**5,330**	**6,553**	**7,976**	**2,646**	**50**	**1,423**	**22**
Environment:							
Department of Agriculture:							
Natural resource protection and environmental infrastructure	749	735	782	33	4	47	6
National research initiative	98	112	130	32	33	18	16
Climate change action plan	—	2	12	12	N/A	10	500
Pacific Northwest Forest Plan implementation	—	60	97	97	N/A	37	62
Department of Commerce:							
NOAA: rebuild U.S. fisheries	232	231	280	48	21	49	21
Department of Energy:							
Alternative fuels vehicles	28	44	69	41	146	25	57
Federal Facility Energy Efficiency (FFEE)	5	16	37	32	640	21	131
Renewable energy programs	251	341	393	142	57	52	15
Climate change action plan	—	17	208	208	N/A	191	#
Department of the Interior:							
Natural resource protection and environmental infrastructure (includes NAFTA environmental activities)	1,783	1,813	1,964	181	10	151	8
Pacific Northwest Forest Plan	—	27	71	71	N/A	44	163
South Florida ecosystem restoration	26	17	45	19	73	28	165
National Biological Survey	—	167	177	177	N/A	10	6
National Spatial Data Infrastructure Initiative	—	1	7	7	N/A	6	600
BuRec wastewater reclamation and reuse pilot program (So. Cal.)	—	10	10	10	N/A	—	—
Climate change action plan	—	—	—	—	N/A	—	—
Corps of Engineers:							
President's August 1993 wetlands plan	86	92	110	24	28	18	20
Climate change action plan	—	1	1	1	N/A	—	—
Environmental Protection Agency:							
Clean water and safe drinking water State revolving funds	1,944	1,839	2,300	356	18	461	25
Watershed restoration grants	50	80	100	50	100	20	25
Environmental Technology	92	128	172	80	87	44	34
Green Programs	8	26	35	27	338	9	35
Climate change action plan 4	—	26	76	76	N/A	50	192
Montreal protocol	10	10	24	14	140	14	140
NAFTA environmental support	154	74	179	25	16	105	142
Needy cities 5	100	100	100	—	—	—	—
Wetlands initiative	—	31	36	36	N/A	5	16
Subtotal, Environment	**5,616**	**6,000**	**7,415**	**1,799**	**32**	**1,415**	**24**
Other Economic Security:							
Department of Agriculture:							
WIC (Special supplemental food program for women, infants and children)	2,860	3,210	3,564	704	25	354	11
Food safety 6	494	517	534	40	8	17	3

Table I–5. PROPOSED INVESTMENTS—Continued

(Budget authority; dollar amounts in millions)

	1993 Enacted	1994 Estimate[2]	1995 Proposed	Dollar Change: 1993 to 1995	Percent Change: 1993 to 1995	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Food safety research	16	16	41	25	156	25	156
Department of Defense:							
Office of Economic Adjustment	30	39	39	9	30	—	—
Department of Energy:							
Conservation: weatherization assistance grants	185	207	250	65	35	43	21
Department of Health and Human Services:							
Social Security: disability processing and automation investments (budget authority and limitations on obligations)[2]	4,823	5,498	5,825	1,002	21	327	6
Department of Housing and Urban Development:							
Multifamily property disposition[7]	93	555	733	640	688	178	32
Incremental housing vouchers	1,307	1,404	2,743	1,436	110	1,339	95
Homeless programs: homeless assistance grants and innovative homeless initiatives program[8]	572	823	1,250	678	119	427	52
Moving to independence	—	—	149	149	N/A	149	N/A
Department of the Treasury:							
IRS: Tax system modernization	572	694	989	417	73	295	43
Community Development Financial Institutions:							
Community development financial institutions	—	—	144	144	N/A	144	N/A
Small Business Administration:							
Section 7(a) loan guarantees (loan levels)	(6,410)	(7,000)	(8,995)	(2,585)	40	(1,995)	29
Empowerment zones	—	—	27	27	N/A	27	N/A
(Loan levels)	—	—	(375)	(375)	N/A	(375)	N/A
Small Business Investment Company guarantees	13	40	91	78	600	51	128
(Loan levels)	(74)	(326)	(730)	(656)	886	(404)	124
Legal Services Corporation:							
Payment to the Legal Services Corporation	357	400	500	143	40	100	25
Subtotal, Other Economic Security	**11,322**	**13,403**	**16,879**	**5,557**	**49**	**3,476**	**26**
(Loan levels)	**(6,484)**	**(7,326)**	**(10,100)**	**(3,616)**	**56**	**(2,774)**	**38**
Total, Economic Security	**54,018**	**62,393**	**73,263**	**19,245**	**36**	**10,870**	**17**
(Loan levels)	**(9,603)**	**(11,372)**	**(15,828)**	**(6,225)**	**65**	**(4,456)**	**39**
HEALTH SECURITY							
Department of Health and Human Services:							
Public Health Service:							
NIH	10,326	10,956	11,473	1,147	11	517	5
Ryan White Act AIDS treatment	348	579	672	324	93	93	16
Immunizations[9]	341	528	888	547	160	360	68
Drug Treatment	717	755	1,040	323	45	285	38
Total, Health Security	**11,732**	**12,818**	**14,073**	**2,341**	**20**	**1,255**	**10**
PERSONAL SECURITY							
Department of Housing and Urban Development:							
Community partnerships against crime	—	—	265	265	N/A	265	N/A
Department of Justice:							
Community policing	150	25	1,720	1,570	#	1,695	#
Brady Bill/Criminal records upgrade	—	—	100	100	N/A	100	N/A
Border security and illegal immigration initiative	—	—	300	300	N/A	300	N/A

Table I–5. **PROPOSED INVESTMENTS—Continued**

(Budget authority; dollar amounts in millions)

	1993 Enacted	1994 Estimate[2]	1995 Proposed	Dollar Change: 1993 to 1995	Percent Change: 1993 to 1995	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Other Crime bill (miscellaneous bureaus)	—	—	303	303	N/A	303	N/A
Employer sanctions and naturalization initiatives	—	—	68	68	N/A	68	N/A
Total, Personal Security	**150**	**25**	**2,756**	**2,606**	**#**	**2,731**	**#**
Total, Proposed Investments	**65,900**	**75,236**	**90,092**	**24,192**	**37**	**14,856**	**20**
(Loan levels)	**(9,603)**	**(11,372)**	**(15,828)**	**(6,225)**	**65**	**(4,456)**	**39**
Memorandum:							
Discretionary investments	65,900	75,236	88,935	23,035	35	13,699	18
Mandatory investments	—	—	1,157	1,157	N/A	1,157	N/A

* $500 thousand or less.

N/A = Not applicable.

= Percentage change of greater than 1,000 percent.

1 Estimates for 1994 include proposed supplementals and rescissions.

2 Budget authority totals include obligation limitations in the Departments of Health and Human Services and Transportation.

3 The 1993 enacted column includes funding for ACTION and the Commission on National and Community Service. All other columns include funding for ACTION and the Corporation for National and Community Service.

4 EPA Climate change action plan estimates are incremental investment estimates.

5 EPA Needy Cities funding for 1994 is a contingent appropriation subject to Congressional authorization.

6 The investment proposal for food safety is the total program level. The 1995 budget proposes to partially offset this program level by a new user fee of $103 million to cover the cost of overtime meat and poultry inspection.

7 Proposal assumes passage of property disposition (PD) reform legislation. Budget authority for 1995 represents a new mandatory spending program whose costs are offset by proposed mandatory program reforms.

8 Estimates for HUD homeless programs for 1995 include funds for the Homeless food and shelter program formerly in the Federal Emergency Management Agency.

9 Immunizations includes $424 million in budget authority in 1995 for mandatory vaccine purchase.

Investments. While total discretionary spending declines, budget discipline and spending cuts in every department and agency make room for targeted increases in programs important to the economy and the society. The President requests a total increase of $13.7 billion in budgetary resources, or 18 percent ($7.7 billion in outlays, or 11 percent), in the discretionary spending that embodies much of his investment program (Table I–5). Over the past two budget years, these programs have been increased by a total of $23.0 billion in budgetary resources, or 35 percent ($15.3 billion of outlays, or 23 percent), while total discretionary outlays have *decreased* by $0.1 billion.

These figures demonstrate clearly that this Administration has been making tough choices—maintaining budget discipline and reducing spending, but shifting the limited budget dollars into investment programs that invest in people and contribute to a strong economy.

The discretionary investment programs in the 1995 budget include:

- *Economic growth: investing in people.* Substantial investments are proposed in education, ranging from Head Start through title I for disadvantaged elementary students and GOALS 2000 for elementary and secondary school reform, through school-to-work transition assistance for non-college-bound secondary-school students. Training investments include the Workforce Security initiative to provide a new reemployment system, and a significant expansion of the Job Corps. The national service program is expanded, allowing more young people to serve their communities and earn money towards college. Other investments for people include WIC, to nourish pregnant and post-partum women, infants, and children; new resources for dealing with the backlog of Social Security Disability Insurance claims; increases in grants for assistance to the homeless; and food safety inspections and research. Overall investments increase by over 8 percent next year and 23 percent over the next five years. Investments for children increase 10 percent in 1995 and 25 percent in the next five years.

- *Economic growth: investing in science and technology.* The budget strengthens programs that promote growth, job creation, and environmental quality in U.S. businesses through cost-shared, applied research. It provides major increases for the Advanced Technology Program in the National Institute of Standards and Technology of the Department of Commerce; the Technology Reinvestment Project and other dual-use programs in the Department of Defense; and development of the National Information Infrastructure. Support for fundamental science is bolstered through increases in funding for the National Science Foundation and the National Institutes of Health.

- *Economic growth: investing in infrastructure.* The largest investments include full funding of the Intermodal Surface Transportation Efficiency Act (ISTEA) core highways program; a substantial increase of the mass transit formula capital grants; and the Department of Agriculture's rural development initiative.

- *Economic growth: investing in the environment.* Natural resource and environment initiatives in the Departments of Agriculture, Commerce, Energy, Interior, the Corps of Engineers, and the Environmental Protection Agency focus on international issues, such as global climate change; particular U.S. ecosystems, such as the Pacific Northwest Forest; cleanup of Defense, Energy, and Superfund sites; energy conservation; stewardship for safe and clean water and land management; and enforcement of the nation's environmental protection laws. Overall, these investments increase by 4 percent in 1995—and 7 percent over the next five years from spending levels in the previous Administration.

- *Health investments.* Substantial funding increases are provided to the National Institutes of Health, Ryan White Act AIDS treatment program, the President's immunization program, and for drug treatment. Still further investments are included in the President's comprehensive health reform. The increases come to 40 percent over the next five years.

- *Crime and drug abuse.* The Crime Bill currently in the Congress provides a substantial increase for a broad range of activities within the Department of Justice. The President's initiative to put an additional 100,000 police on the streets is one part of the budget plan. Drug treatment—especially for hard-core users—is another important part of the Administration's new strategy. It concentrates resources at the local level and shifts international resources from transit interdiction to in-country efforts against drug production. The increases reach 18 percent in 1995, and 45 percent over the next five years.

- *National security.* The Administration funds—and the President supports as an irreducible minimum—a military that is ready, technologically superior, and oriented to the new threats in our changing world, in keeping with the Bottom-Up Review undertaken last year by the Department of Defense.

All of these investments are undertaken within a declining overall level of discretionary spending—made possible through the President's Executive Orders reducing Federal personnel and overhead expenses, and through hard choices among competing priorities.

Mandatory Spending

Mandatory, or entitlement, spending is projected to increase from $730.4 billion in 1994 to $762.9 billion in 1995, an increase of $32.5 billion, or 4.4 percent, in the absence of the President's health reform.

Though projected mandatory outlays grow more rapidly in 1995 than discretionary spending (outlays other than debt service grow by 4.4 percent from 1994, and debt service costs grow by 4.8 percent), mandatory spending growth is significantly below its recent pace. For example, from 1981 to 1993, mandatory outlays other than debt service and deposit insurance grew by 7.2 percent per year; debt service grew by 9.2 percent per year. The slower projected growth for this budget year is due in part to the improving economy, which reduces the Federal Govern-

150-001 O-94-2 (QL 3)

ment's unemployment and income-support costs, as well as the costs of deposit insurance; and in part to strict compliance with the pay-as-you-go restrictions on mandatory spending increases in the Budget Enforcement Act.

Projected outlay growth in 1995 is distributed unevenly across entitlement categories. Medicare and Medicaid grow 8.9 and 10.6 percent, respectively—much faster than any other category of spending (Table I–6). Other entitlements—Social Security, the other non-means tested entitlements (including Federal employee civilian and military retirement programs, veterans programs, unemployment compensation, and other programs), and the other means-tested entitlements for low-income persons (food stamps, family support assistance, and other programs)—all grow at below or very little more than the average rate of growth of spending, and below the rate of growth of revenues.

This pattern demonstrates again the crucial role of health care costs in the Federal budget. Of all the categories of spending, discretionary or mandatory, health care is far and away the fastest growing. As the President has pointed out on numerous occasions, we will not control our deficit until we achieve fundamental health reform. The President's proposal would reach both of these objectives—as the alternative deficit paths in this budget, with and without health care reform, illustrate.

Initiatives. The Administration contemplates several major initiatives in the mandatory spending arena:

- Health reform, as discussed above, is essential to long-term control of the Federal budget deficit—and to the health security of all Americans. The President's proposal, presented last year, will provide guaranteed private insurance with a comprehen-

Table I–6. **MANDATORY SPENDING**

(Dollar amounts in billions)

	1994	1995	1996	1997	1998	1999
Social security benefits	317.7	334.5	353.7	369.5	389.6	410.8
Federal retirement benefits [1]	63.0	65.2	67.9	71.3	74.6	78.9
Medicare (pre-reform)	141.0	155.4	174.2	192.7	211.8	234.7
Medicaid (pre-reform)	87.2	96.4	108.2	121.5	136.3	152.2
Unemployment benefits	26.7	23.0	23.5	23.9	24.0	25.1
Means-tested benefits [2]	89.4	96.7	102.4	109.9	116.6	124.0
Deposit insurance	–3.3	–11.1	–11.3	–6.1	–4.9	–3.3
Other, including undistributed offsetting receipts	8.8	2.7	–3.7	–1.3	–3.1	–1.8
Mandatory, excluding health reform	730.4	762.9	814.9	881.4	945.0	1020.5
Mandatory without health care reform as a percent of GDP	11.0%	10.9%	11.0%	11.2%	11.4%	11.7%
Memorandum:						
Effects on mandatory outlays of the health care reform proposal:.						
Net effect	–0.2	0.9	11.7	28.3	43.3	30.8
Total mandatory with health reform	730.3	763.7	826.6	909.7	988.3	1051.3
Total mandatory with health care reform as a percent of GDP	11.0%	10.9%	11.1%	11.6%	11.9%	12.0%

[1] Civil service and military retirement.

[2] Food stamps and food aid to Puerto Rico, family support payments, SSI, child nutrition, EITC and veterans pensions.

sive package of benefits, and enhance competition among providers and insurers to keep costs down.

- Welfare reform will fundamentally revamp a system that encourages dependency rather than independence, and fails to reward work. It will provide the training and services that parents need to support their families—including health coverage—but require responsibility in return. It will simplify what is now an excessively complex system, and give States greater flexibility.
- Workforce security—a *re*employment system, rather than our outmoded *un*employment system—will focus resources on workers who must make the inevitable adjustments in a changing economy. It will screen new job-losers to provide the needed combination of counseling, training, and job-search assistance, in a more accessible, unified system to replace the current patchwork of categorical programs.
- The recently negotiated Uruguay Round agreements under the General Agreement on Tariffs and Trade (GATT) will open foreign markets to a broader range of competitive U.S. producers of goods and services than ever before, and thereby increase U.S. incomes and contribute to long-term deficit control.

All of these initiatives will be deficit-neutral, in keeping with the pay-as-you-go requirements of the Budget Enforcement Act.

RECEIPTS

1995 receipts are projected at $1,342.2 billion, an increase of $93.0 billion, or 7.4 percent, in the absence of the proposed health reform. All new receipts raised by OBRA-93 are deposited in the Deficit Reduction Fund created by an Executive Order of the President. The health reform proposal would add $11.6 billion in receipts, all to pay for health care.

Receipts increases in 1995—as did those in 1994—reflect the President's deficit-reduction plan of last year, and the affected receipts sources grow the most rapidly as a result (Table I–7). The budget contains no tax increase proposals.

DEFICIT

As a result of this budget discipline, the deficit is projected to decline in 1995 to

Table I–7. **RECEIPTS**
(Dollar amount in billions)

	1994	1995	1996	1997	1998	1999
Individual income taxes	550.0	597.2	630.6	663.9	698.6	739.4
Corporation income taxes	130.7	141.0	146.3	150.3	152.9	157.5
Social insurance taxes and contributions	461.9	492.1	518.5	546.1	576.0	604.7
Excise taxes	54.6	55.8	56.7	57.8	58.9	60.3
Other receipts	52.0	56.0	58.2	61.3	64.4	67.2
Total receipts	1,249.2	1,342.2	1,410.4	1,479.5	1,550.8	1,629.0
Total receipts without health care reform as a percent of GDP	18.8%	19.1%	19.0%	18.9%	18.7%	18.6%
Memorandum:						
Effect of health care reform proposal on receipts	–0.1	11.6	16.9	25.6	36.2	44.0
Total receipts with health care reform	1,249.1	1,353.8	1,427.3	1,505.1	1,586.9	1,672.9
Total receipts with health care reform as a percent of GDP	18.8%	19.3%	19.2%	19.2%	19.2%	19.1%

$176.1 billion, from the 1994 level of $234.8 billion. If this projection is realized, it will be the first sub-$200 billion deficit since 1989.

More reflective of the impact of the deficit, however, is its size relative to the economy. The 1995 deficit is a projected 2.5 percent of the GDP, down from an estimated 3.5 percent for 1994, and an actual 4.9 percent for 1992. At 2.5 percent of GDP, the 1995 deficit is the lowest since 1979. Thus end the economic policies of the 1980s.

Without health reform, the deficit is projected to fall to 2.3 percent of GDP for the remainder of the decade. With health reform, the deficit as a percentage of GDP fluctuates in a narrow range as costs and savings from the plan phase in; but by 1999, the deficit falls to 2.1 percent of GDP.

This much-improved deficit outlook is confirmed by the projections of the Congressional Budget Office (CBO). On average over the history of five-year budget projections under the two preceding Administrations, CBO projected deficits that were higher by $47 billion per year. In this budget, CBO projects deficits that are *lower* by an average of $3 billion per year.

These figures reflect the major impacts of the President's economic plan—both the first installment enacted last year, and the agenda remaining. The economic plan thus far has contained the deficit, and thereby restored the economy to healthy growth—with rising investment, productivity, and employment. The next stage of the economic plan—centered around health reform, continued budget discipline, and the President's investment program—will put the deficit on a continuing downward path, provide health security to all Americans, and remove further barriers to competitiveness and economic growth. The President is committed to this program of continued deficit reduction and higher investment to achieve long-term economic growth and prosperity for all Americans.

This budget begins the second stage of President Clinton's program of economic renewal.

THE PRESIDENT'S 1995 BUDGET: THE "NEW DIRECTION" INDEX

Economic Growth

- Unemployment rate, December 1993 .... 6.4%
- Unemployment rate, December 1992 .... 7.3%
- Number of private sector jobs created, February 1993-December 1993 .... 1.6 million
- Number of private sector jobs created, January 1989-January 1993 .... 1.0 million
- Mortgage rate, January 1994 .... 7.09%
- Mortgage rate, January 1993 .... 8.22%
- Number of Americans who saved money by refinancing their mortgages, 1993 .... 5.4 million
- Rate of business investment growth, first three quarters 1993 .... 16.5%
- Rate of business investment growth, 4th quarter 1988-4th quarter 1992 .... 2.2%

Fiscal Responsibility

- Number of programs terminated in 1995 budget proposal .... More than 115
- Number of programs cut below last year's dollar level .... More than 300
- Annual spending growth (nominal), 1994 to 1999 .... 4.6%
- Annual spending growth (nominal), 1981 to 1993 .... 6.3%
- Annual spending growth (real), 1994 to 1999 .... 1.4%
- Annual spending growth (real), 1981 to 1993 .... 2.2%
- Federal spending as share of GDP, average 1994 to 1999 .... 21.6%
- Federal spending as share of GDP, average 1981 to 1993 .... 23.1%
- Deficit as share of GDP, 1997 .... 2.4%
- Deficit as share of GDP, 1992 .... 4.9%
- Annual discretionary spending growth (nominal), 1994 to 1999 .... –0.1%
- Annual discretionary spending growth (nominal), 1981 to 1993 .... 4.8%
- Annual discretionary spending growth (real), 1994 to 1999 .... –2.9%
- Annual discretionary spending growth (real), 1981 to 1993 .... 1.0%
- Annual non-defense domestic discretionary spending growth (nominal), 1994 to 1999 .... 1.7%
- Annual non-defense domestic discretionary spending growth (nominal), 1981 to 1993 .... 4.4%
- Annual non-defense domestic discretionary spending growth (real), 1994 to 1999 .... –1.2%
- Annual non-defense domestic discretionary spending growth (real), 1981 to 1993 .... 0.6%
- Change in public debt as share of GDP, 1994 to 1999 .... 52.3% to 50.7%
- Change in public debt as share of GDP, 1981 to 1993 .... 26.5% to 51.6%
- Number of years of projected consecutive deficit declines, 1993 to 1995 3
- Last President with 3 years of consecutive deficit declines .... Truman
- Number of Federal employees added, 1981 to 1993 44,000
- Number of Federal employees cut, 1993 to 1995 .... –118,000
- Number of Federal employees cut, 1993 to 1999 .... –252,000
- Number of new police officers on the street by 1998 100,000
- Projected number of Federal employees, 1999 .... 1.9 million
- Last year Federal employment was below 2 million 1966

Investing in People

- Increase in Head Start funding by 1995 (over 1993) 45%
- Additional children enrolled in Head Start by 1995 (over 1993) 126,000
- Percent of students able to make income-contingent college loan repayments, 1993 .... Less than 1%
- Percent of students able to make income-contingent college loan repayments, 1995 .... 100%
- Typical student's savings from lower fees and interest under phased-in loan reforms $1,250
- Number of young Americans providing community service for partial loan repayment, 1995 ... 33,000
- Increase in Chapter 1 education dollars going to schools in poorest districts by 1998 .... 40%
- Number of working families getting tax cut to reward work, 1994 .... 15 million
- Number of dislocated workers receiving help finding a new job, 1993 350,000
- Number of dislocated workers receiving help under Workforce Security program .... 1.3 million
- Number of small businesses getting SBA-backed loan guarantees in 1995 35,000
- Average number of small businesses getting such loans yearly in the late 1980s 15,000

Keeping America Strong

- Average defense budget, Eisenhower Administration (1995 dollars) .... $243.3 billion
- Average defense budget, Ford Administration (1995 dollars) .... $249.8 billion
- Average defense budget, Nixon Administration (1995 dollars) .... $254.8 billion
- Proposed defense budget, 1995 .... $252.2 billion

Note: Projected fiscal estimates include health care reform.

THE RECORD THUS FAR

THE RECORD THUS FAR

This Administration inherited an economy faced with past-due bills, both literally and figuratively:

- A rising budget deficit, piling debt upon debt, with interest costs mounting faster than the economy's ability to pay them;
- Business and household debt burdens, aggravated by high interest rates, that discouraged investment in equipment, homes, autos, and other durable goods;
- The largest international debt and trade deficit in the world;
- Stubbornly high unemployment, and stagnant employment growth;
- Neglect of public investment in physical infrastructure, in scientific and technical knowledge, and in our people themselves—necessary tools for the private sector to lead the way to growth, productivity, job creation, and prosperity; and
- A corrosive unfairness in the Nation's tax laws, weakening the incentive of many typical American families, and contributing to mounting Federal budget deficits.

The ill effect of these failures of economic policy was feeding upon itself. A rising national debt eroded public confidence, which bridled economic activity, which shrank the tax base and raised the debt. The growing budget deficit inflamed financial-market fears and raised interest rates, which inhibited investment and job creation, which slowed the economy and raised the deficit.

The challenge accepted by the President in the election of 1992 was to break this destructive cycle.

In its first year, this Administration proposed, and the Congress passed, the largest deficit reduction package in the Nation's history. In response to that package, long-term interest rates have declined by about a full percentage point; business investment and purchases of housing, autos and other consumer durable goods have strengthened; private-sector employment has grown by 50 percent more than in the preceding four years combined; and confidence in the economy has returned.

In short, the President challenged the Nation to discipline itself and get back on the right track. The results are clear. The key now is to stay on that track; and the 1995 budget does so. It continues to implement the $504.8 billion of deficit reduction enacted in last year's budget reconciliation bill. Further spending cuts and freezes in hundreds of programs continue a discretionary spending freeze. Low-priority programs are cut to finance needed investments in jobs, health, law enforcement, education, infrastructure, science and technology. And the President's health care reform will achieve additional deficit reduction, while providing health security to all Americans.

When this Administration took office, the budget deficit for 1995 was projected at $302 billion. This budget expects a 1995 deficit of $176 billion—$126 billion less.

This budget reports on the substantial progress thus far, and presents our continuing program for National economic renewal.

1. Where We Started

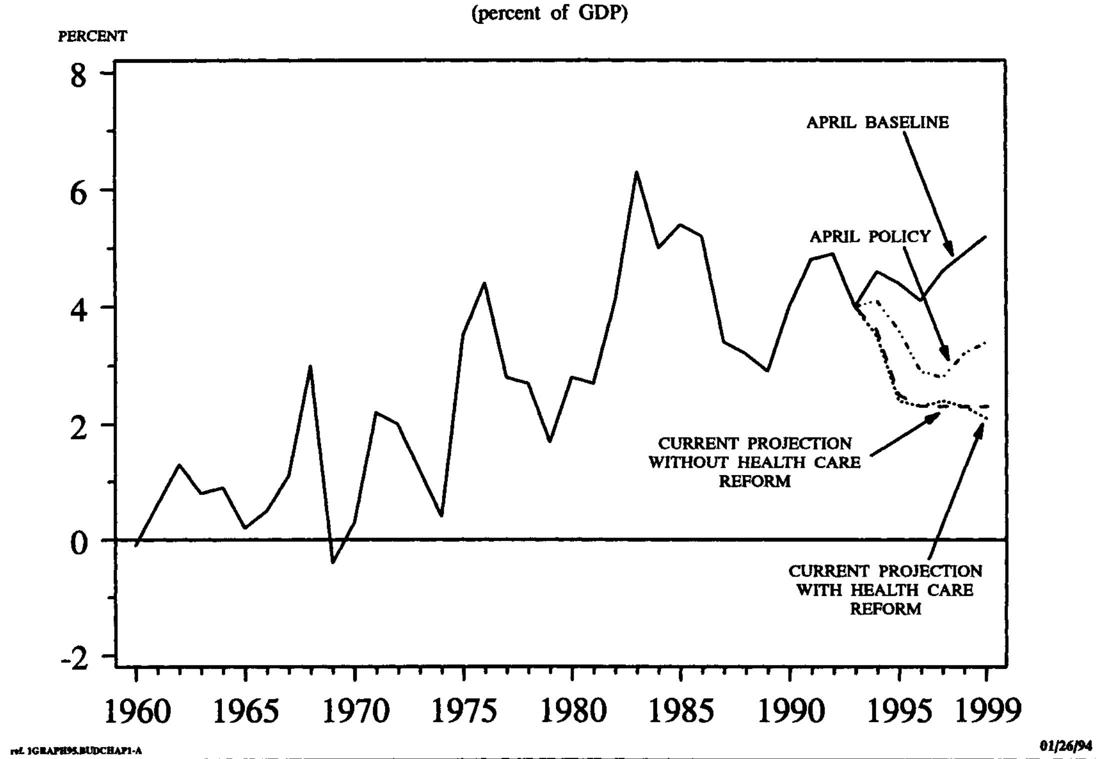
1. WHERE WE STARTED

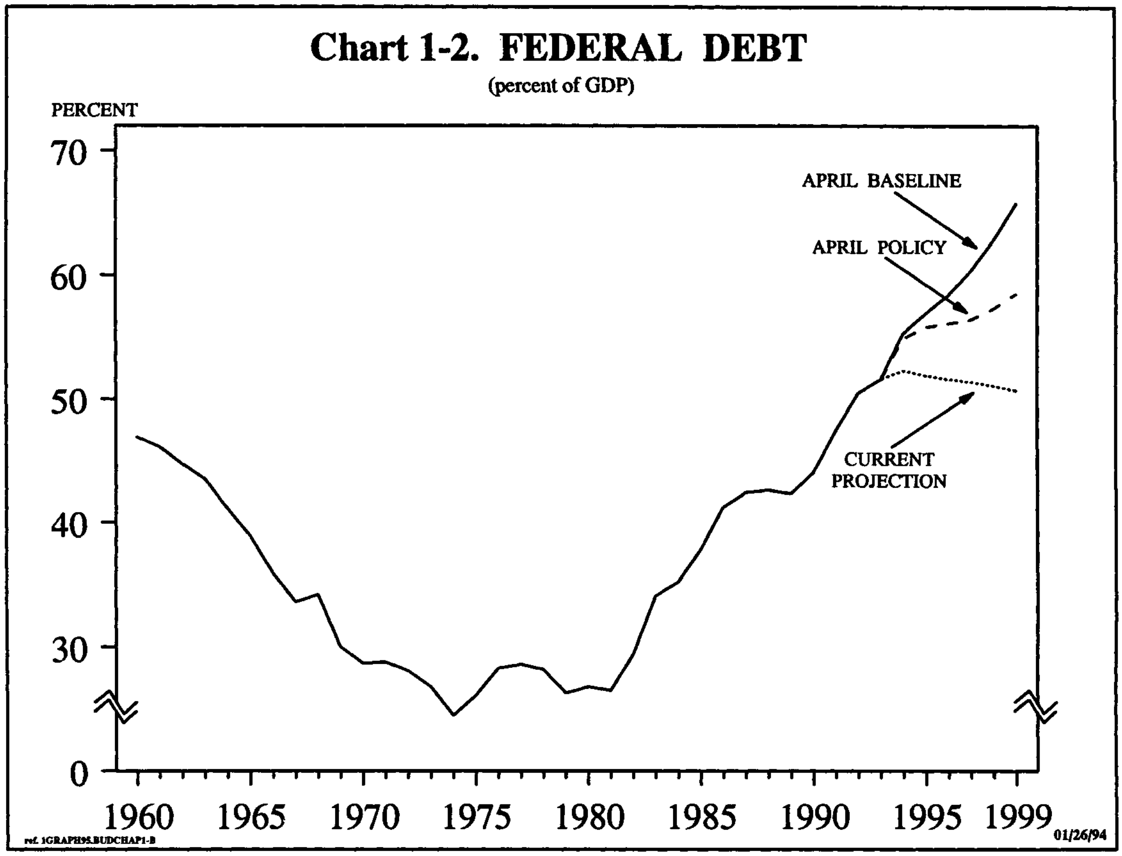
Rising Budget Deficits.—For years, the Federal Government has spent more than it collected in taxes, and borrowed the difference—"borrow and spend" economics. The rise of the deficit was especially pronounced during the 1980s: from 2.8 percent of the Nation's annual production—its gross domestic product (GDP)—in 1980 to 4.9 percent in 1992. (See Chart 1–1.) (Comparisons in this section end with 1992, the last year of the previous Administration.) While the deficit has been swollen by the 1990–91 recession and the subsequent weak recovery, it remains high even after adjustment for cyclical factors. In 1992, this "structural" budget deficit was 3.3 percent of potential ("full-employment") GDP, compared with 1.7 percent in 1980.

Mounting budget deficits escalated the Federal debt and drove real interest rates well above historical norms. (See Chart 1–2.) The Federal Government's annual credit needs so drained the savings of the private sector of the economy that the Nation was forced to rely on foreign capital to finance its own investment.

Chart 1-1. FEDERAL BUDGET DEFICIT

(percent of GDP)





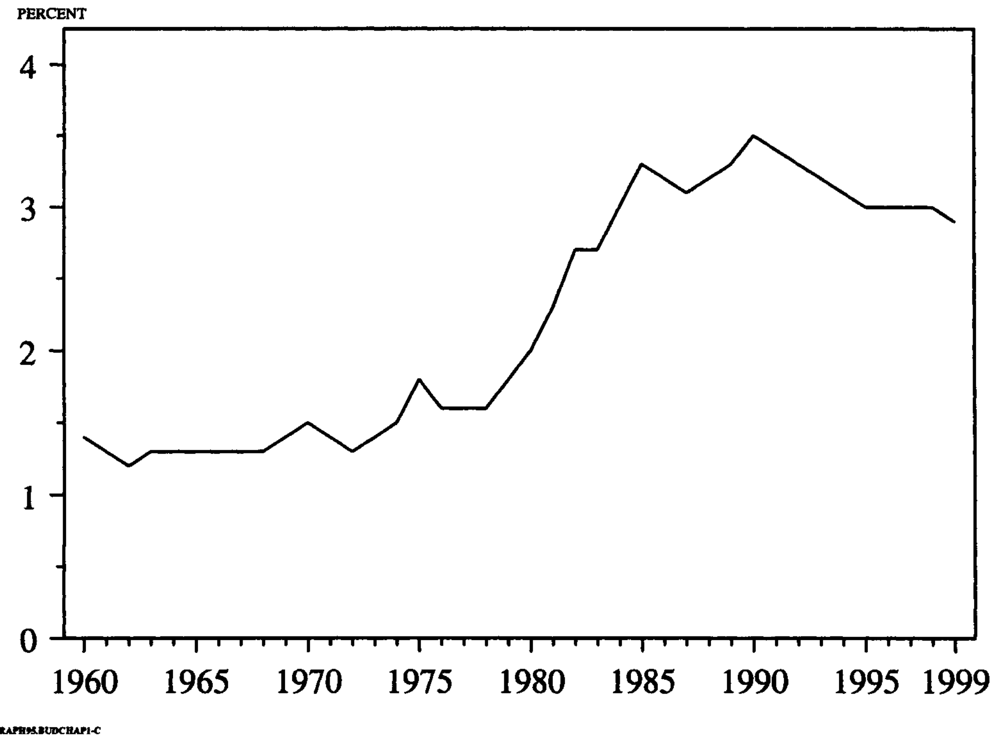
- Federal debt held by the public rose from 26.8 percent of the GDP at the end of 1980 to 50.5 percent at the end of 1992. The Nation could not continue indefinitely to pile up debt more rapidly than its capacity to service that debt would grow; the economic and budget path of the 1980s was literally unsustainable.

- This growing debt, in turn, increased the debt service burden in the Federal budget. Net interest payments on the debt reached $199 billion in 1992, absorbing 14.4 percent of total Federal outlays, and 3.4 percent of the GDP—sharply higher than the $53 billion, 8.9 percent of Federal spending and 2.0 percent of the GDP in 1980. (See Chart 1–3.)

- The excess of the interest rate over the rate of inflation—the "real" interest rate—on 10-year Treasury notes averaged 4.3 percent during 1980–1992. This compares with 0.8 percent in the 1970s and 2.6 percent in the 1960s.

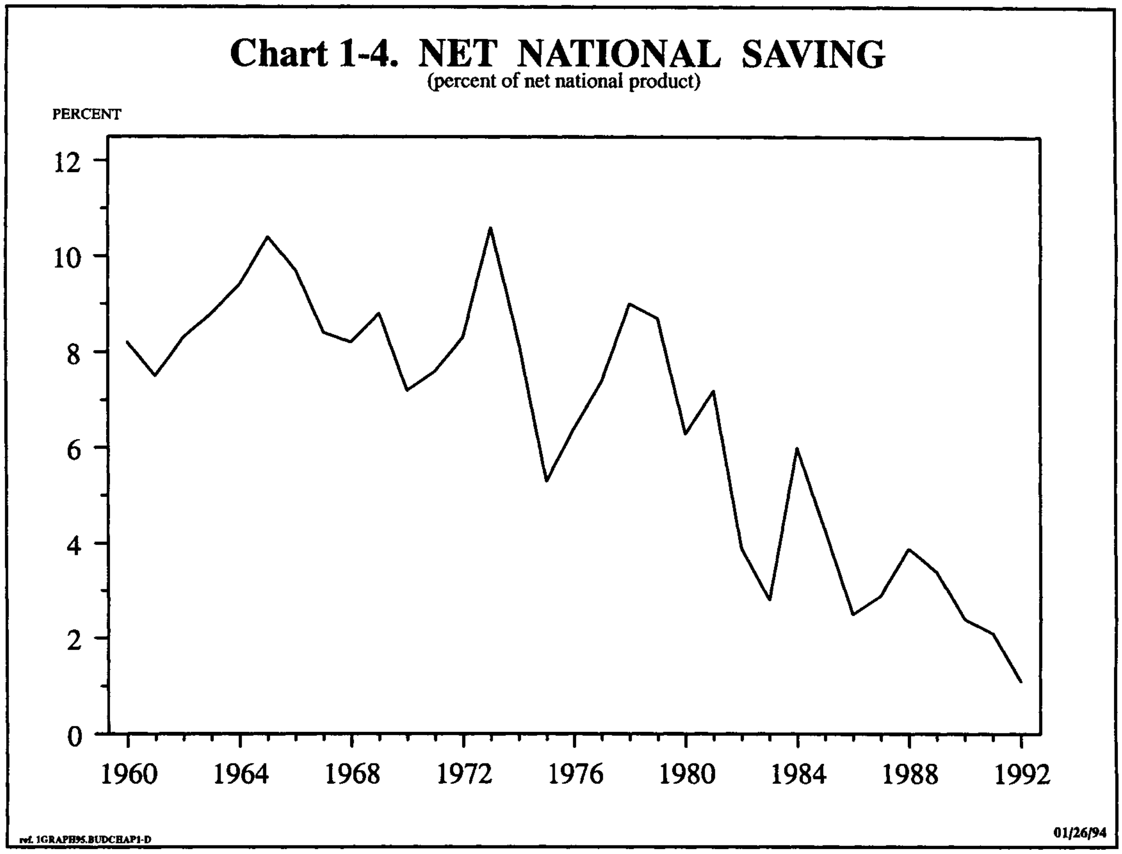
- Real interest rates might have been even higher and domestic investment even less had it not been for a massive inflow of foreign capital; other nations proved surprisingly willing to lend us funds to finance our burgeoning deficit. The United States, as it were, depended upon the kindness of strangers. However, that kindness bore a price. While foreigners extended us credit, we bought their goods, and thereby expand their markets here in the United States. The result was a widening trade deficit. Our foreign borrowing and trade deficit turned the United States into the world's leading debtor country.

Chart 1-3. NET INTEREST ON THE FEDERAL DEBT
(percent of GDP)



- Our current account balance shifted from a small surplus of $2 billion in 1980 to a peak deficit of $167 billion (3.7 percent of GDP) in 1987. The current account deficit narrowed in the subsequent five years, but still stood at 1.1 percent of GDP in 1992.
- Our net international investment position (the difference between U.S.-owned assets abroad and foreign-owned assets in the United States) shifted from a surplus of $393 billion in 1980 to a deficit of $521 billion in 1992—a swing of almost $1 trillion of wealth. U.S. citizens will pay interest to foreign creditors for decades because of the borrowing binge of the 1980s.

Inadequate Capital Formation and Subnormal Economic Growth.—The Reagan-Bush Administration's economic program of the early 1980s was intended to stimulate saving and investment and spur economic growth. Key elements of the program were reductions in personal income tax rates and accelerated depreciation allowances for business investment in plant and equipment. Despite a significant recovery in output and employment in 1983–84, achievements fell far short of expectations; in fact, this program sowed the seeds of the economic decline of the end of the decade.



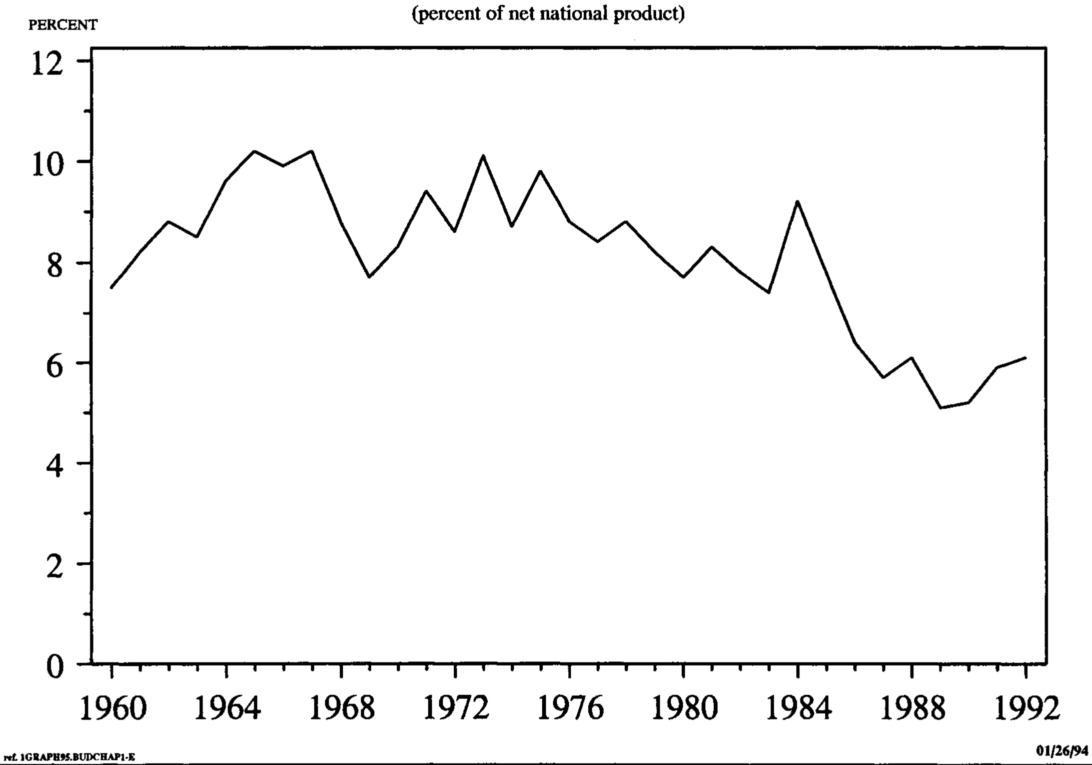
Slow Growth: On average, over the 12 years of the last two Administrations, growth was low by historical standards. Real GDP grew at an average annual rate of only 2.3 percent from 1980 to 1992, lower than the 2.8 percent rate of the 1970s and well below the 3.8 percent rate of the 1960s. The pace of growth was particularly slow during the four years of the Bush Administration, when real GDP grew a mere 1.4 percent a year.

Low Saving: Less of the national output was devoted to domestic saving than in previous decades. The net national saving rate, which for two decades hovered around eight percent, dropped sharply in the 1980s and remained depressed through 1992. (See Chart 1–4.) The decline in saving is partly due to the large increase in the Federal budget deficit, which began in 1981–82. It was also partly due to a decline in private saving—which coincided, ironically, with generous tax cuts intended to stimulate saving. (See Chart 1–5.)

- Through most of the 1980s, total nonfinancial domestic debt surged at double-digit rates, much faster than the growth of the economy. The ratio of debt to GDP rose from 145 percent in 1980 to 195 percent in 1992, an increase of more than one-third. The ratio of Federal debt to GDP almost doubled (up 88 percent); the private debt-to-GDP ratio rose only 22 percent.

Chart 1-5. NET PRIVATE SAVING

(percent of net national product)



Low Investment: Inadequate national saving contributed to a subnormal investment performance. Even with the support of heavy foreign borrowing, the United States devoted a smaller proportion of its gross domestic product to fixed private investment in 1980–1992 than other industrialized countries. (See Chart 1–6.)

The investment record of the United States in the 1980s was poor not only when compared with those of its major trading partners, but also relative to the norm of our experience. This was especially true for investment measured on a net basis—after adjustment for the depreciation of worn out or obsolescent plant and equipment. (See Chart 1–7.)

- Net private fixed investment averaged 5.4 percent of net national product during the 12-year period ending in 1992—well below the average rate of 8.0 percent from 1959 to 1979.

At the same time, Government was also underinvesting in public infrastructure, education, training, research and development (R&D), and other growth-promoting investment. The best measures of the size and effectiveness of public investment demonstrate this "investment deficit."

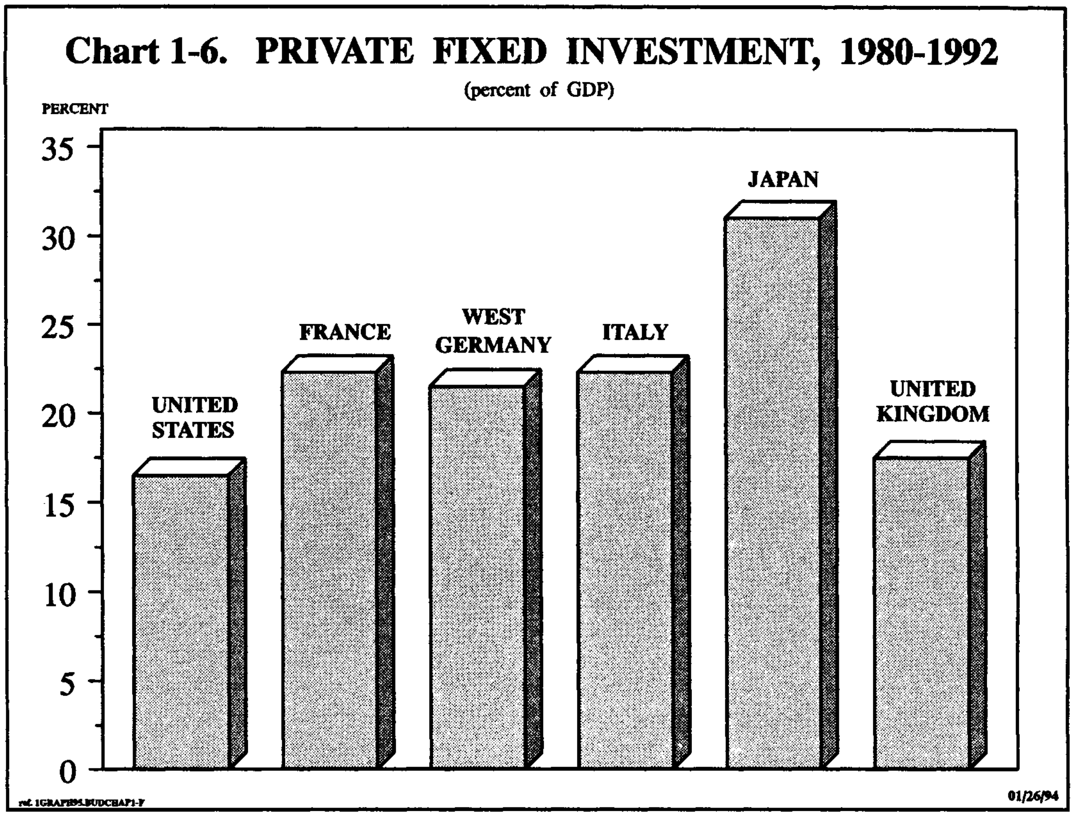


Chart 1-6. PRIVATE FIXED INVESTMENT, 1980-1992
(percent of GDP)
PERCENT
35
30
25
20
15
10
5
0
UNITED STATES
FRANCE
WEST GERMANY
ITALY
JAPAN
UNITED KINGDOM
01/26/94

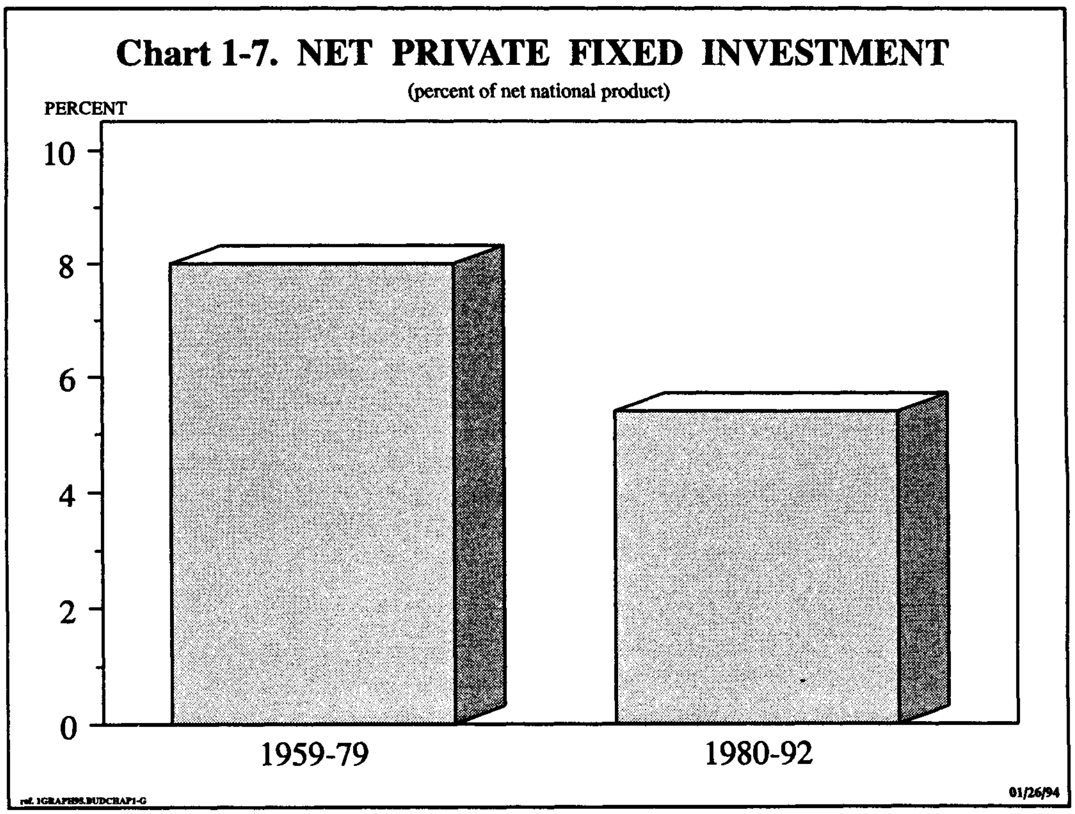


Chart 1-7. NET PRIVATE FIXED INVESTMENT
(percent of net national product)
PERCENT
10
8
6
4
2
0
1959-79
1980-92
01/26/94

A prime example is the Nation's educational performance.

- Fewer than two in five students in Grade 12 can move beyond surface understanding of a text, make inferences or draw conclusions from what they have read. These skills are essential for success today and into the next century.
- Fewer than one in five students in Grade 12 demonstrate an understanding of algebraic, statistical, geometric and spatial reasoning. These are kinds of mathematical skills needed by our work force to compete successfully in the global economy.

The capabilities of adults further exemplify this poor educational performance. According to a recent study funded by the National Center for Education Statistics:

- Almost half of Americans aged 16 years and older have verbal and quantitative skills that are inadequate for tasks required in the competitive work place, such as use of written information, tables, charts and maps, and performing arithmetic computations using numbers found in printed materials.

Our Nation's investment in research and development (R&D) was also weak. In 1992, Federal Government R&D spending adjusted for inflation was below that of 1986. Moreover, most of that R&D was for defense purposes. As a result, the gap between our Nation's nondefense R&D effort and that of our major trading partners widened. By 1991, the United States devoted 1.8 percent of GDP to nondefense R&D, well below Germany's 2.7 percent and Japan's 3.0 percent.

Government's investment in physical capital has also proved inadequate to the increasingly competitive pressures of the world economy:

- Congestion on urban interstate highways—measured by peak-hour vehicle-miles traveled at more than 80 percent of the capacity of the road—rose to an all-time high of 70 percent in 1991. In 1980, only 52 percent of travel was congested by the same definition. (See Chart 1–8.)

Structural Imbalances, Speculative Bubble.—The poor saving and investment performance of the past decade was aggravated by structural imbalances and speculative behavior within the business sector.

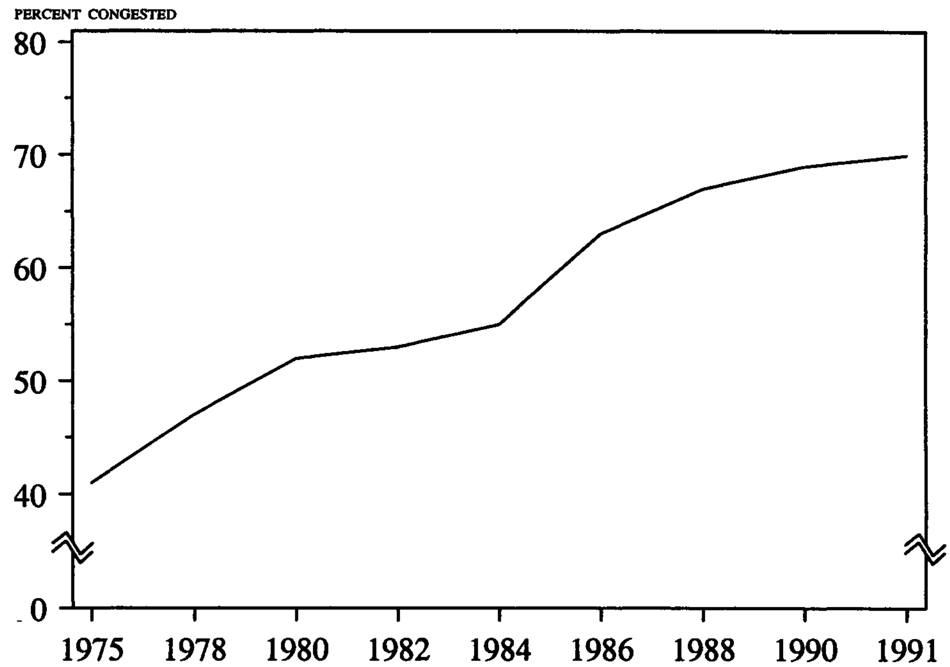
The over-generous tax provisions for business depreciation in the early 1980s made otherwise unprofitable investments in commercial buildings attractive; the tax savings actually outweighed the losses in the marketplace. With apparently risk-free profits to be reaped from the tax law, financial institutions were more than willing to lend funds for construction. The result was a speculative building boom that wasted the economy's scarce resources on commercial buildings that the marketplace would not support. By the mid-1980s, office vacancy rates in major cities approached 20 percent, and real estate values plummeted. (See Chart 1–9.)

The resulting defaults contributed to loan losses and bankruptcies of banks as well as savings and loan institutions. For banks, the defaults on real estate and construction lending added to others, notably loans to less-developed countries—doubling loan loss rates over the decade. Furthermore, high interest rates squeezed profit margins. Although the financial condition of some institutions improved, delay in closing many insolvent thrifts permitted them to gamble for resurrection, increasing speculation—and losses, for the Federal insurance funds and (ultimately) the taxpayers. As a result, over 1,100 thrifts and 1,419 banks failed between 1982 and 1992. (See Chart 1–10.)

The high interest rates of the 1980s also encouraged investors to look for speculative short-term profits rather than more solid long-term rates of return. This speculative drive was manifested in the leveraged-buyout mania, in which firms took on heavy loads of debt, financed with sub-investment-grade "junk" bonds, to buy other firms. There was less appeal to investing in new plant and equipment that would earn uncertain profits in the future than there was to buying some other firm's existing plant and equipment to earn apparently certain profits today.

- Between 1984 and 1990, new issues of corporate bonds averaged $80 billion a year. During that period, there was a *drawdown*

Chart 1-8. TRAVEL CONGESTION ON URBAN INTERSTATES

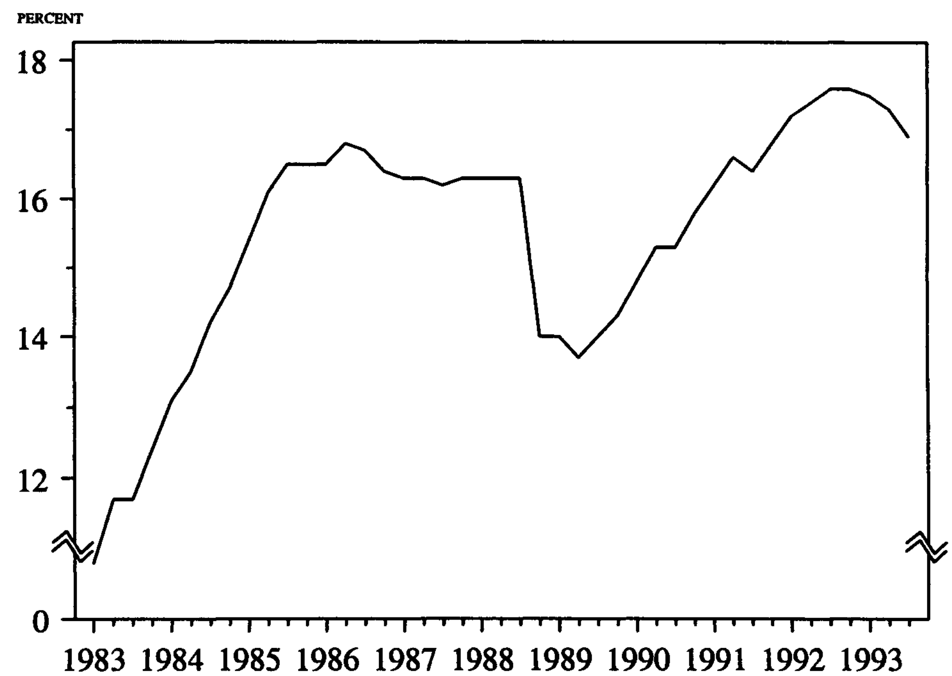


NOTE: Congestion measured as the percentage of vehicle-miles during peak hours for which volume is greater than 80 percent of capacity.

01/26/94

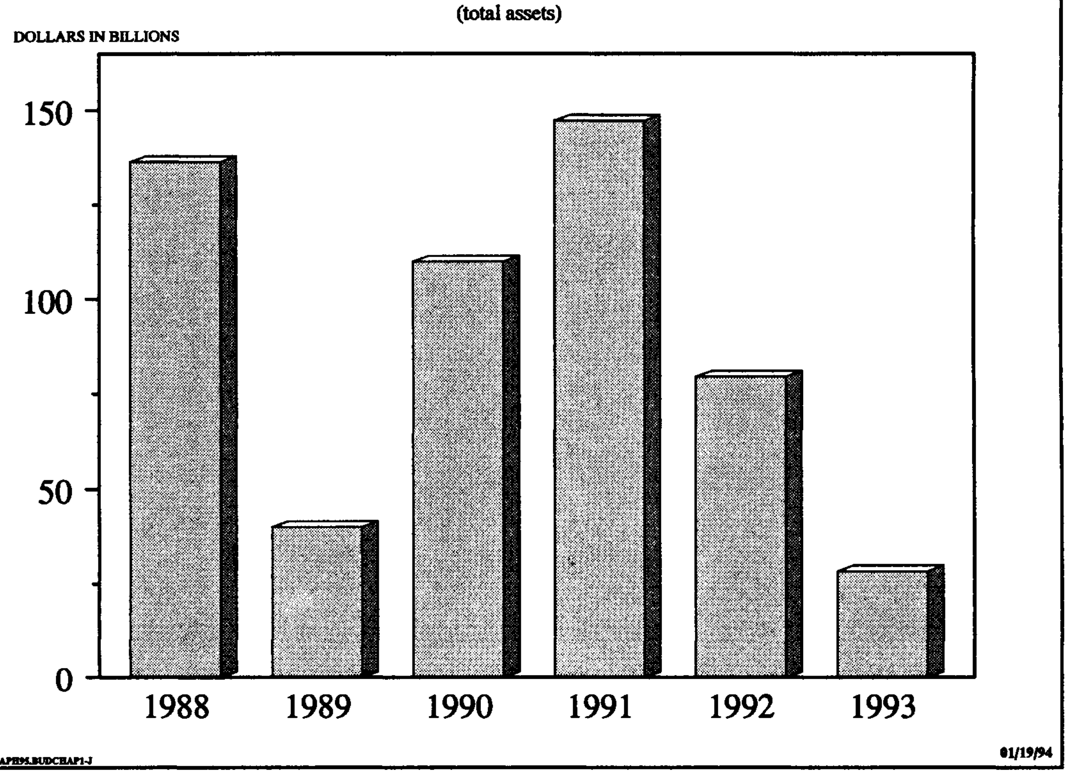
Chart 1-9. COMMERCIAL OFFICE VACANCY RATE

(in downtown areas)



01/26/94

Chart 1-10. BANK AND THRIFT FAILURES
(total assets)



of corporate equity averaging $91 billion a year. (See Chart 1–11.)

It is acceptable for a firm to borrow to finance investment—so long as the firm does not borrow so much that it cannot service its debt in bad times. In the mentality of the 1980s, however, bad times were inconceivable, and so firms borrowed excessively. When the policy errors of the 1980s brought on the inevitable crunch at the end of the decade, many large corporations were left with debt-service obligations they could not meet. The results were bankruptcies, plant closings, and lost jobs.

- Net interest payments as a share of nonfinancial corporate cash flow rose from an average of about 19 percent in the 1970s to a peak of 27 percent in 1989. (See Chart 1–12.)
- Households took on more debt and were similarly cash-squeezed; total debt service of households increased from an average of 15.4 percent of disposable personal income in the 1970s to 18.0 percent in 1989. (See Chart 1–13.)

Health Care Costs.—In 1960, health care expenditures consumed five percent of GDP. By 1980, that share had reached nine percent. From 1980 to 1992, health expenditures almost doubled in constant dollars, and reached 14 percent of GDP.

Rising health expenditures have squeezed both public and private budgets. Currently, about 45 percent of health expenditures are financed publicly; Medicare and Medicaid alone account for about 32 percent. The ever-rising share of public health expenditures contributed to the surge in the federal deficit in the 1980s. In fact, since 1980, just three budget categories—Medicare, Medicaid, and interest on the National debt—more than account for all of the growth of Federal spending as a percentage of the GDP. Because the interest on the debt cannot be controlled directly—only indirectly by reducing other spending or raising taxes—health care spend-

Chart 1-11. NEW ISSUES OF CORPORATE STOCKS AND BONDS

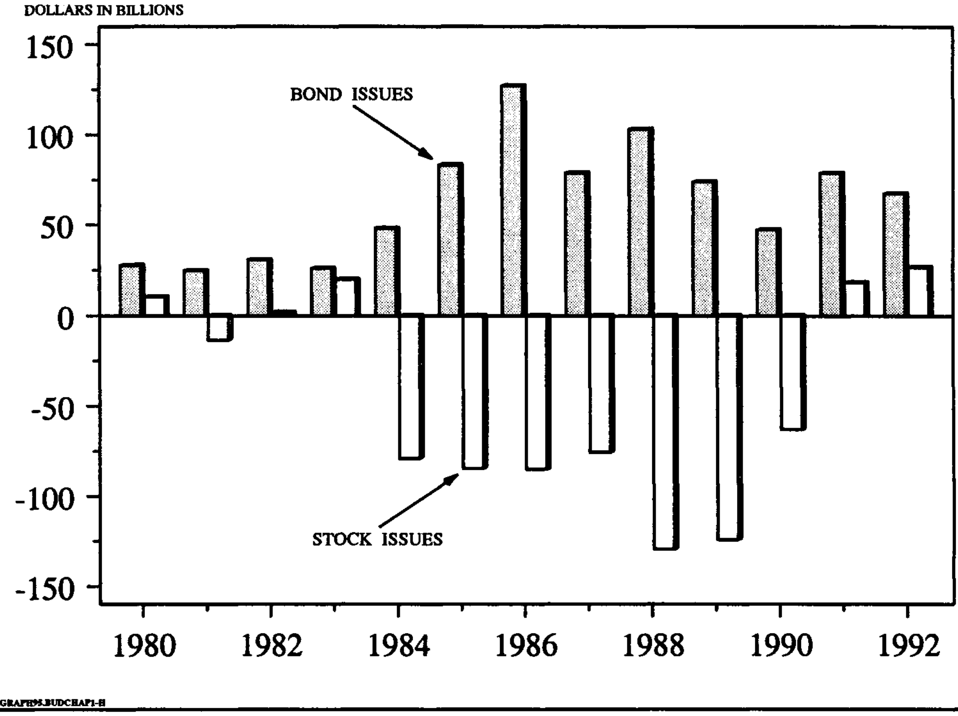


Chart 1-12. INTEREST BURDEN OF NONFINANCIAL CORPORATE BUSINESS
(percent of cash flow)

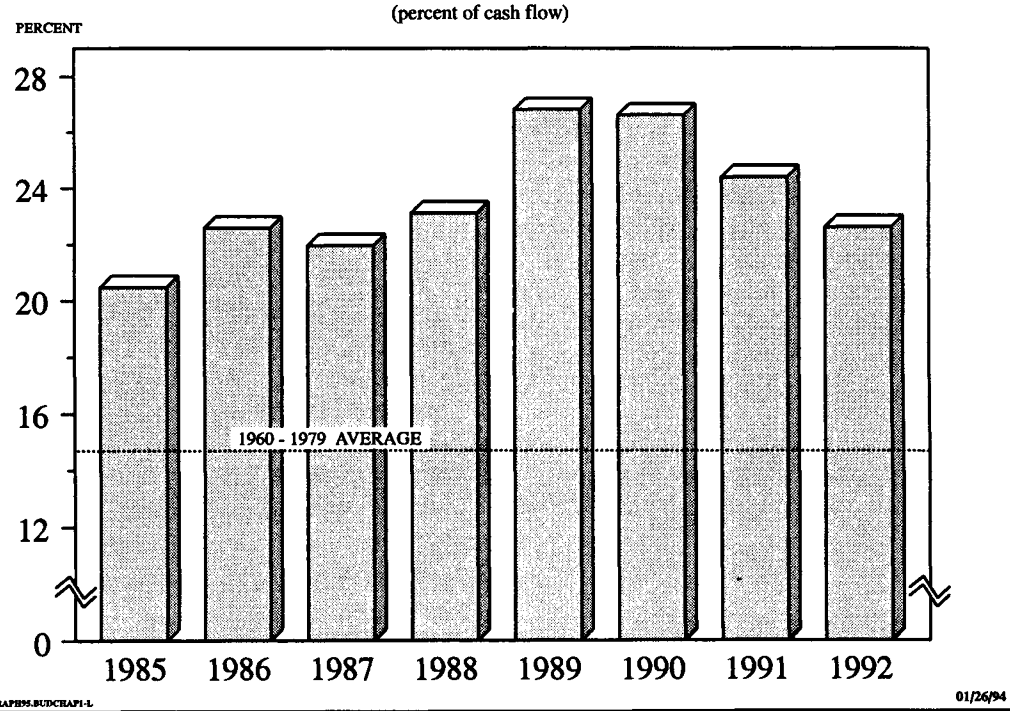
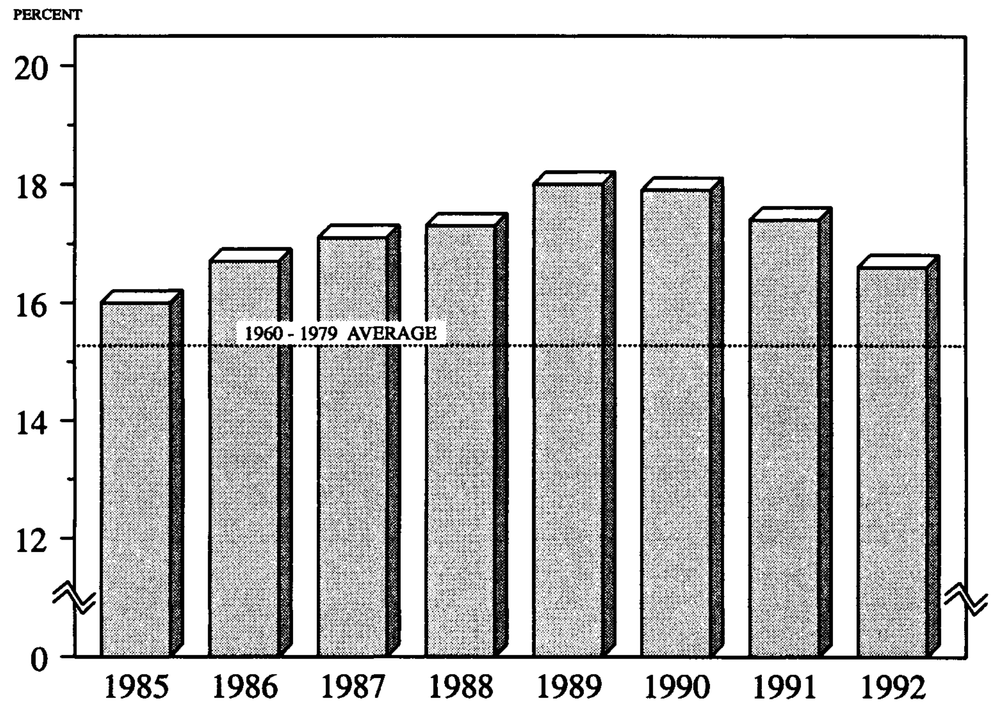


Chart 1-13. HOUSEHOLD DEBT PAYMENTS
(percent of disposable personal income)



ing is clearly the most important driving force behind the deficit.

In the private sector, much of health care is paid for through insurance, although 38 million Americans lack health insurance coverage. For those who are covered, rising insurance premiums must be absorbed in employee compensation costs—forcing employers to cut take-home pay for employees. If health insurance premiums had remained fixed at their 1975 share of total compensation, workers today could have an extra $1,000 a year in cash income.

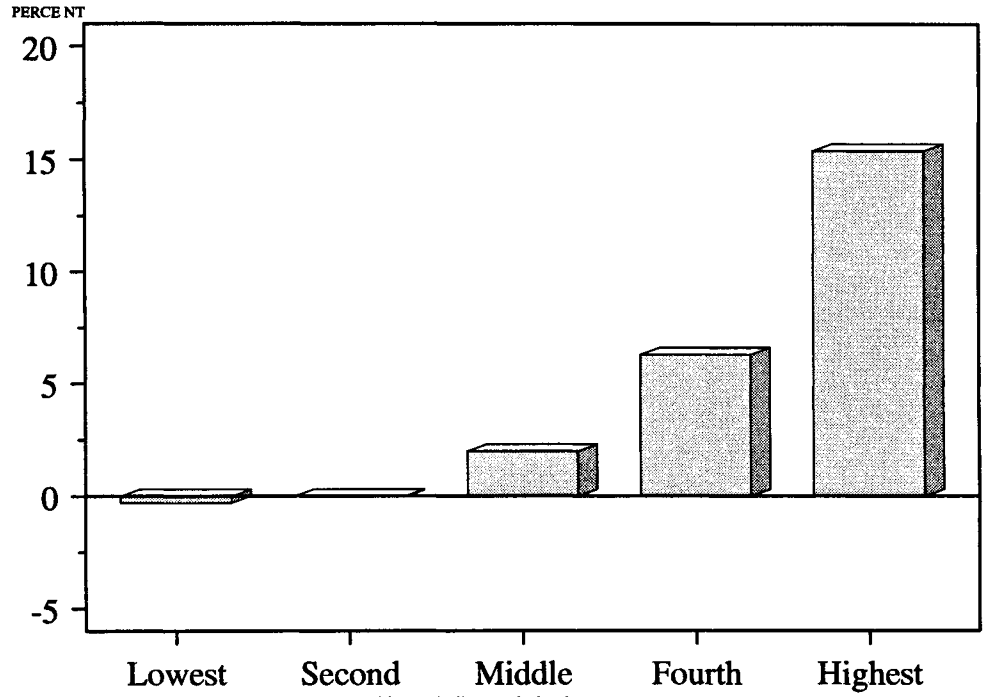
These trends are likely to continue unless there is systemic health care reform, as proposed by this Administration. (For further details about the health care issue and the President's proposal, see Chapter 4.)

Rising Income Inequality.—Not only was household income growth weak on average during the Reagan-Bush years, but what growth there was occurred almost entirely at the upper end of the income distribution. While the incomes of the top 20 percent of households rose 15 percent after adjustment for inflation between 1980 and 1992, the real incomes of the lowest 40 percent of households actually shrank during these dozen years. These trends made the income distribution even more unequal. (See Chart 1–14.)

- The share of total money income received by the upper 20 percent of households rose from 44.1 percent in 1980 to 46.9 percent in 1992, while the share of those at the lowest 20 percent declined from 4.2 percent to 3.8 percent.
- The income distribution shifted in favor of the most well-off even counting government cash and noncash transfers as part of income, and subtracting taxes. In part driven by President Reagan's 1981 tax bill, the share of after-tax, after-transfer income of the upper 20 percent of households rose from 40.8 percent to 43.3 percent between 1980 and 1992, while the share of the lowest 20 percent declined from 5.4 percent to 4.9 percent.

Chart 1-14. REAL INCOME BY QUINTILE

(percent change, 1980 - 1992)



NOTE: Before-tax money income of households, excluding capital gains.

01/19/94

The increase in income inequality can be traced to a more skewed distribution of wages, which account for the lion's share of total income. Wage and employment opportunities shifted in favor of more educated and skilled workers in the 1980s. For example, male college graduates earned 35 percent more than those with only high school diplomas in 1980, but 70 percent more by 1992. Workers with more years of schooling are paid increasingly higher incomes because of the growing need for skilled labor. No one can begrudge the rewards of those who school themselves and work hard; but the bonds of our community are strained when other deserving families actually lose ground—and public policies do not cushion, or even aggravate, their loss.

The income distribution became less equal, and family incomes stagnated, in large part because wage growth was poor. Wage growth slowed in the early 1970s, and the economic policies of the 1980s did not reverse that trend. Real total compensation per worker grew on average by only 0.6 percent per year from 1980 through 1992, less than half the 1.5 percent annual gain from 1960 through 1980.

The slow growth of wages was at least in part determined by the sluggish investment of the 1980s. Workers equipped with more and better capital are more productive; but on average, workers were not well served by business investment in the 1980s. Our society as a whole suffers when standards of living are so constrained.

2. What We Have Accomplished: The Clinton Economic Plan

2. WHAT WE HAVE ACCOMPLISHED: THE CLINTON ECONOMIC PLAN

The Clinton Administration rejected the legacy of the past and moved toward a new vision of the future. Its economic agenda called for shrinking the budget deficit, thus reducing Federal borrowing to free resources for private investment; increasing public investment in skills, technology and infrastructure to enhance productivity, spur long-term economic growth, and prepare current and future workers for higher-wage jobs and greater opportunities; reversing the trend toward rising income inequality; and expanding world trade and opening foreign markets for U.S. exports.

Genuine Deficit Reduction for Private Investment.—On August 10, 1993, 202 days after taking office, the President signed into law the Omnibus Budget Reconciliation Act of 1993 (OBRA-93). The Act reduces budget deficits in 1994 through 1998 by a total of $504.8 billion through a balance of $254.7 billion from net cuts in Federal spending and $250.1 billion from net revenue increases.

The spending cuts were aimed at low-priority, outdated programs in virtually every part of the budget, achieving savings to finance both deficit reduction and cost-effective public investment. Savings were achieved through specific cuts in discretionary programs; reform of entitlements (including Medicare and Medicaid); and extension and improvement of the process disciplines in the 1990 Budget Enforcement Act (BEA), including discretionary spending caps, and "pay-as-you-go" rules for taxes and entitlement policies.

Entitlements.—OBRA-93 contained $71 billion in five-year net entitlement savings, which included:

- $49.1 billion from Medicare, largely from reducing payments to hospitals, physicians, and other providers.
- $7.2 billion from Medicaid, mainly from repealing the mandatory provision of non-medical personal care services and imposing needed controls on supplemental payments to hospitals that serve large numbers of poor or uninsured patients.
- $11.5 billion from Federal retirement programs, primarily from delaying retirees' cost-of-living adjustments, eliminating the lump-sum payment option, and restraining retirement and health benefits.
- $1.7 billion from agriculture programs.
- $3.5 billion from veterans programs.
- $3.6 billion from replacing the costly guaranteed student loan program with a direct loan program.

Discretionary.—OBRA-93 extended the BEA through 1998, which otherwise would have expired after 1995. With its discretionary caps, OBRA-93 imposes a real, enforceable five-year hard freeze on discretionary outlays that produces $107.7 billion in savings, and reduces spending in inflation-adjusted terms over the five years by about 12 percent.

These mandated savings for 1994 were achieved through the appropriations process. Discretionary outlays were estimated in the OMB *Final Sequestration Report* at $542.6 billion—1.4 percent below the 1993 level of $550.1 billion. Hundreds of budget accounts were cut without any allowance for inflation. The 1995 budget is limited to $541.7 billion—another 0.4 percent year-over-year cut, without reference to inflation.

Entitlement Targets and Deficit Reduction Fund.—The President implemented other budget enforcement measures to restrain Federal spending. Last August, he signed an Executive Order (No. 12857) setting a separate entitlement budget, with numerical targets for 1994 through 1997. The President must specifically inform the Congress if spending exceeds or is projected to exceed these targets, and propose whether and how to address the overage. This Executive Order took the place of an identical legislative proposal, which passed the House but was procedurally blocked by a minority in the Senate.

A second Executive Order (No. 12858) established a Deficit Reduction Fund, which will help ensure that the deficit reduction intended under OBRA-93 becomes a reality. This Fund contains the savings achieved year by year under OBRA-93, and may be used only to retire maturing public debt instruments owned by foreign governments.

Tax Fairness.—On the revenue side, the President's plan reversed past policy by requiring those most able to pay to make the greatest contribution to deficit reduction. OBRA-93's tax increases fall almost exclusively on higher-income taxpayers. The major provisions include (revenue figures over five years):

- $124 billion from a new 36-percent marginal tax bracket on taxable income exceeding $140,000 for joint returns and $115,000 for single taxpayers (generally equivalent to almost $200,000 of gross income for joint returns, and $150,000 for single persons); a 10-percent surtax on taxable income over $250,000; an increase in the alternative minimum tax; and permanent extension of the limitation on itemized deductions and the phaseout of personal exemptions.
- $29 billion from repeal of the $135,000 limit on income subject to the Medicare wage tax.
- $16 billion from reducing the deductible portion of business meals and entertainment from 80 percent to 50 percent.
- $14 billion from increasing the top marginal corporate income tax rate from 34 percent to 35 percent.
- $32 billion from extending the 1990 tax increase of 2.5 cents per gallon on transportation fuels and adding a permanent increase of 4.3 cents per gallon on motor fuels.
- $18 billion from increasing from 50 percent to 85 percent the taxable portion of Social Security benefits for the 13 percent of beneficiaries with the highest total incomes.

Tax Incentives.—In addition to these and some smaller tax increases, OBRA-93 also contained a number of tax incentives.

- Expansion of the earned income tax credit (EITC) is one of the most important anti-poverty actions in recent history; when fully phased in, the increased EITC plus food stamps will lift from poverty families with children where at least one parent works full time. The EITC expansion is also a major step toward welfare reform—by making work pay.
- Small businesses received important tax incentives. The expensing allowance for investment, especially important for small business, was substantially increased. A targeted capital gains provision for new small businesses was enacted. The deduction for health insurance premiums of the self-employed was extended.
- Extension of the credit for research and experimentation encourages technological advancement. Alternative minimum tax relief was provided for business investment depreciation.
- Empowerment Zones were enacted for the first time, to help in the renewal of targeted urban and rural areas. The low-income housing credit, mortgage revenue bonds, and small-issue industrial development bonds were made permanent.

Deficits Decline.—By 1998, the last year of the President's program, the budget deficit was expected to be $145.8 billion below what it otherwise would have been—a cut of about 1.8 percent of projected 1998 GDP.

Public Investment: Human, Physical, Technological.—The President's economic plan contained more than just deficit reduction. It also called for increased public investment in people, jobs and infrastructure to promote faster growth of productivity and living standards—financed by budget savings above and beyond the mandated deficit reduction.

- A world of rapidly changing technology, where workers change jobs several times in a lifetime, calls for skills and adaptability. The President proposed a program of lifelong learning through better schools and job training to meet these challenges. This included expansion of Head Start (including child care feeding and Medicaid), youth apprenticeship for non-college-bound secondary school students and national service to help others to afford college, a dislocated worker program, and other initiatives.

- Rebuilding America requires public investment in transportation, the environment, community development and defense conversion. Initiatives were proposed to:
  - —Expand the Federal-aid highway program to the level contained in the Intermodal Surface Transportation Efficiency Act (ISTEA); accelerate "smart cars/smart highways" programs to improve traffic control and provide congestion information; increase funding for mass transit capital improvements; and modernize air traffic control.
  - —Develop advanced systems to recycle materials, treat toxic waste, and clean up air and water pollution.
  - —Explore new science and technology to create high-wage jobs and push America toward the cutting edge of manufacturing; apply defense technology to business; and promote cooperative efforts by business, Government and universities to advance research.

Public Investment.—$11.5 billion—69 percent of the budget authority requested by the President—was reallocated from defense and low-priority non-defense programs to public investment in 1994 legislative action.

Infrastructure: The 1994 budget included a $1.0 billion increase for mass transportation grants, other transportation programs, and Corps of Engineers water projects. Congress provided $773 million, or 77 percent of the requested increase. In addition, the Administration requested an increase of $2.6 billion in the obligation level for construction and repair of interstate highways and bridges under ISTEA. Congress provided $1.8 billion, or 69 percent of that amount. This is a 15 percent increase over 1993.

Health and Nutrition: The Administration requested a $2.4 billion increase for public health, nutrition, and food safety programs, with a particular focus on AIDS, women's health, veterans' health care, and the Women, Infants and Children feeding program (WIC). Congress provided $1.8 billion, or 75 percent of the requested increase. This includes $232 million of the $310 million requested increase for the Ryan White Act and $273 million of the $350 million requested investment increase for the WIC program. The Ryan White funding represents an increase of 66 percent over the 1993 level. The WIC funding is a 23 percent increase from 1993.

Head Start: The 1994 budget included a $1.3 billion investment increase for Head Start. Congress approved 36 percent of the proposed increase, nearly a 20 percent increase over the 1993 enacted level.

Education and National Service: The 1994 budget included a $1.4 billion increase for education programs. Congress appropriated $659 million, or 47 percent of the requested increase. This includes funds for three new programs: (a) $105 million for Goals 2000 education reforms; (b) $370 million for national service; and (c) $50 million for the Education Department share of the school-to-work program.

Employment and Training: The Administration requested a $2.9 billion increase for employment and training programs. Congress appropriated $962 million, or 34 percent of the requested increase. This included a $587 million increase for dislocated worker assistance, which was a 116 percent increase—more than doubling—for that program from 1993. Also, the Labor Department received $50 million for its share of the school-to-work program.

Science, Technology and Energy: The 1994 budget included $1.3 billion in new funding for NOAA weather technology, National Institute of Standards and Technology (NIST) programs, information highways, energy research, NASA research and development, the National Science Foundation, the Federal Coordinating Council on Science, Engineering and Technology (FCCSET), and related programs. Congress provided $1.1 billion of new funding, or 82 percent of the requested increase. This included $26 million for the new information highways program. Also, the increase for NIST—to fund such activities as high-performance computing—represented a 36 percent increase over the 1993 level.

Crime: The President requested a $390 million increase for the Justice Department for salaries and expenses for the FBI, INS, Federal prisons, and the Community Relations Service; prisoner support; and Federal/State partnerships. Congress appropriated $164 million, or 42 percent of the requested increase. This includes $25 million out of $100 million requested to hire police through Federal/State partnerships.

Housing and Community Development: The 1994 budget included a $1.8 billion increase for a number of low-income and other housing programs, Community Development Block Grants, and Community Development Financial Institutions. Congress exceeded the President's request, appropriating $2.1 billion in new funds for these programs.

Environmental Protection and Enhancement: The 1994 budget included $2.0 billion in investment funding for the Forest Service, the Interior Department, the Energy Department and the Environmental Protection Agency for infrastructure projects to implement the Clean Water and Safe Drinking Water Acts; infrastructure improvements in national forests and parks; and energy conservation programs. Congress approved $1.9 billion, or 97 percent of the request.

Rural Development: The President requested $560 million in new funding for rural development, housing and wastewater treatment (supporting $1.6 billion in new loans and loan guarantees). Congress appropriated $374 million (supporting $1.2 billion in loans and loan guarantees), or 67 percent of the requested increase.

Fairness in OBRA-93.—OBRA-93 achieved the Administration's objective of placing the heaviest tax burden on those most able to carry it, while lightening the load on those least able to pay. As a result, the tax system is more progressive than at any time since 1977, according to the Congressional Budget Office (CBO).

OBRA-93 provisions affecting taxes are outlined above. The distributional impact of these and other provisions is shown in Table 2–1. Whether measured by the change in average taxes, the share of total new taxes raised, or the change in effective tax rates, the message is the same: The tax system has been made fairer.

- At the top of the income distribution, families with $200,000 or more in annual income (1.3 percent of all families) will pay on average about $23,500 in additional taxes per family, according to CBO estimates. In total, they will pay 80 percent of the taxes raised by OBRA-93 ($33 billion out of $41 billion). The effective tax rate for the average family in this upper income bracket is likely to increase from about 28 percent to almost 33 percent.
- Families with $100,000 to $200,000 in income (5.2 percent of all families) will pay on average about $650 more in taxes, raising their effective tax rates by one-half of one percentage point. In aggregate, they will pay about $3.6 billion more in taxes.

  Thus, families with incomes over $100,000 will shoulder about 90 percent of the taxes raised by OBRA-93.
- Families with $30,000 to $100,000 in annual income will pay only slightly more in taxes, ranging on average from $50 for families at the low end of this range, to $312 for those nearer the top. The effective tax rates for families in this range will be increased by only a few tenths of a percentage point.
- Families with incomes below $30,000 will have their tax payments *lowered* on average $41 to $86 per year for a total decrease of $3.3 billion—due largely to the historic increase in the earned income tax credit.

  The effective tax rates for families with incomes below $20,000 will be lowered by about one-half to one percentage point. In other words, those at the low end of the income distribution will be better off because of OBRA-93. (See Chart 2–1.) Low- and middle-income families are still protected by inflation indexing of the income tax rate brackets.

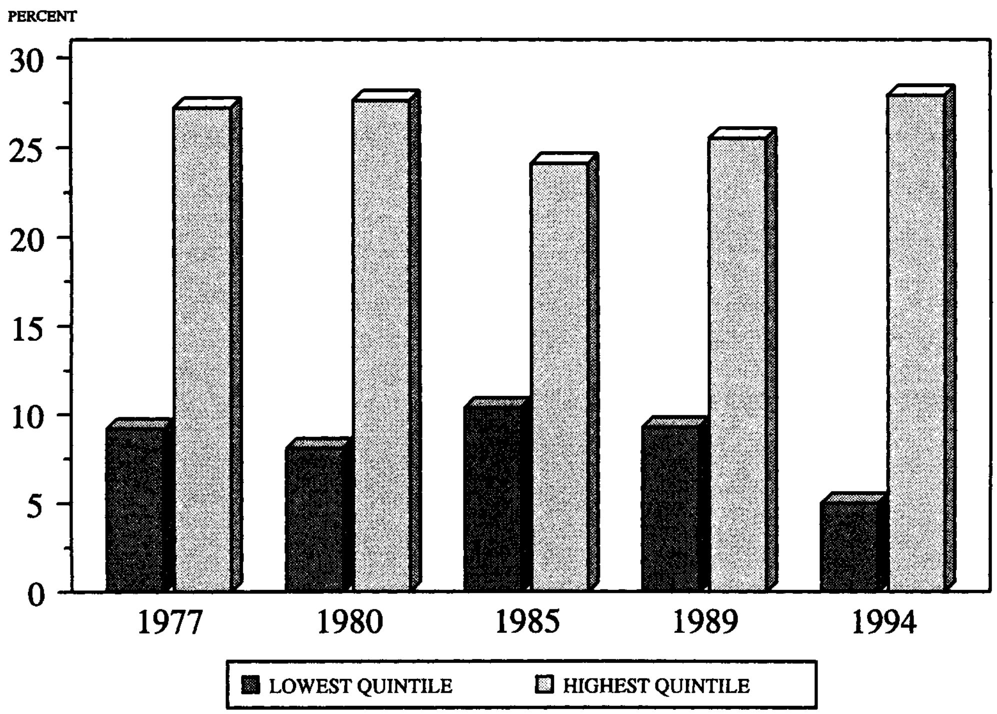
Opening Foreign Markets.—The President's plan also called for free and fair trade, to maintain our place in the increasingly integrated international economy—to be achieved through ratification of the North American Free Trade Agreement (NAFTA), after completion of key side agreements, and negotiation of the Uruguay Round of trade liberalizations

Table 2–1. DISTRIBUTIONAL EFFECTS OF OBRA-93

Family Income (dollars)	Number of Families (millions)	Average Change in Taxes (dollars)	Total Change (billions)	Effective Tax Rate	
				Before OBRA-93	After OBRA-93
$1–$10,000	15.1	–68	–1.0	7.5	6.4
$10,000–$20,000	18.8	–86	–1.6	11.5	10.9
$20,000–$30,000	16.9	–41	–0.7	16.9	16.8
$30,000–$40,000	13.6	50	0.7	19.8	19.9
$40,000–$50,000	10.7	105	1.1	21.6	21.8
$50,000–$75,000	16.8	192	3.2	23.4	23.7
$75,000–$100,000	7.3	312	2.3	25.2	25.5
$100,000–$200,000	5.6	649	3.6	26.1	26.6
$200,000 or more	1.4	23,521	32.9	27.9	32.7
All incomes	108.1	382	41.3	22.8	23.7

Source: Congressional Budget Office. Family income is before-tax money income including realized capital gains and cash transfers. It also includes an allocation of the employer share of Social Security and federal unemployment insurance payroll taxes and corporate income tax. Thus, family income includes all federal income, social insurance and corporate income taxes. Effective tax rates include these taxes as well as federal excise taxes. Changes in corporate income taxes due to OBRA-93 are distributed according to families income from capital. The all-incomes line includes families with negative incomes.

Chart 2-1. FEDERAL TAX RATES BY QUINTILE



SOURCE: Congressional Budget Office. See notes to Table 2-1.

01/26/94

under the General Agreement on Trade and Tariffs (GATT).

When the Administration took office, the prospects for market opening were cloudy. NAFTA had been signed by the United States, Canada and Mexico, but opposition in the Congress was strong. The Uruguay Round negotiations, which had started in 1986, were foundering; the United States and some of its major trading partners were at odds over seemingly intractable issues. The Federal Government seemed poorly prepared; opening markets simply had no priority.

This Administration reversed that dismal course, making completion of the agreements a high priority and undertaking a review of trade promotion activities. The most urgent issue was NAFTA. The President directed that the agreement be improved through negotiation of side agreements to assure that no NAFTA partner used lax enforcement of its domestic environmental or labor laws to attract trade or investment. The side agreements were concluded on August 13, 1993, and legislation for Congressional "fast track" action was transmitted on November 1. The assurances in the side agreements and an extraordinary Administration effort to explain the long-term benefits to the the country brought passage by the Congress on November 20, 1993.

NAFTA creates a free trade area of more than 360 million consumers and over $6 trillion annual output, linking the United States to our first and third largest trading partners (Canada and Mexico). NAFTA will stimulate growth, create job opportunities, enhance the ability of North American producers to compete, and raise the standards of living of all three countries. Approximately 60 percent of U.S. exports to Mexico will be eligible for duty-free treatment within five years. NAFTA also includes agreements providing fair treatment for services, investment, intellectual property rights, and agriculture; strengthening trade rules; and creating a regional development bank.

The President also directed the U.S. Trade Representative to assure the successful completion of the Uruguay Round negotiations, achieving the fullest possible market opening. To facilitate this effort, the Congress passed an extension of its fast track authority that was signed by the President on July 2, 1993. In December, the United States reached agreement with the members of the General Agreement on Trade and Tariffs (GATT) to reduce tariff barriers and remove other nontariff barriers to trade. The recent agreement also extends GATT coverage to areas of trade and investment that up to now have not been subject to GATT discipline, including agriculture, textiles, services, and intellectual property rights.

The Uruguay Round will increase U.S. incomes and jobs because open markets promote specialization that raises productivity and creates new employment opportunities. Studies suggest that these gains could add approximately one percent to the level of U.S. GDP after the tariff cuts are fully phased in. Additional benefits from trade liberalization in services, enhanced protection of intellectual property rights, and other improvements could add another 0.5 percent to GDP. The combined gain would add $100 billion to $150 billion to U.S. GDP ten years after implementation of the agreement.

In 1993, the President also hosted the first-ever meeting of the Asia-Pacific Economic Cooperation (APEC), which is working toward greater trade liberalization in that important region.

THE AGENDA REMAINING

150-601 O - 94 - 3 (QL 3)

3A. Prosperity and Jobs

3A. PROSPERITY AND JOBS

THE ECONOMIC PROGRAM

At the time of the 1992 election, the U.S. economy was caught in a destructive cycle of weak investment in household durables (with unsatisfactory growth in business plant and equipment as well), adverse consumer sentiment, and stagnant employment. To break out of that cycle, the economy needed jobs—to add to household incomes, and to give families the confidence to make commitments for housing and other big-ticket consumer goods that, in turn, stimulate investment in the business sector and build momentum for the economy as a whole.

The jobs picture was not encouraging. The unemployment rate had risen, predictably, with the recession that began in mid-1990. Surprisingly, however, employment remained stagnant—and the unemployment rate continued rising—for a year after the recession technically ended. Breaking this pattern of sluggish employment growth would be essential to energize the recovery.

The same prescription would help toward the ultimate goal of the President's vision for economic renewal: increasing prosperity for all Americans. In the long run, even if every qualified job seeker can find work with just a limited search, living standards depend upon the factories, machines, and technology available to make our workers productive (as well as the skills of the workers themselves). Increased demand for big-ticket items, and hence investment goods, would begin the process of building for the future.

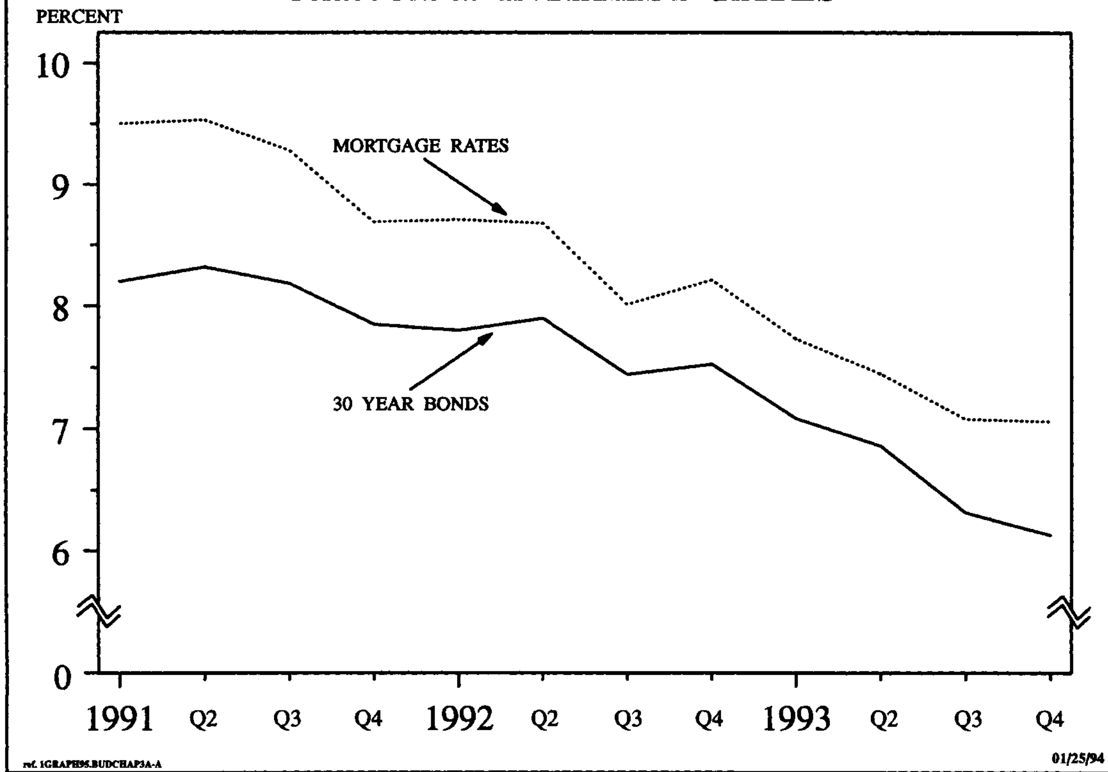
The greatest resistance to this economic takeoff—the major source of inertia—was the burden of debt service in all sectors of the economy. With interest rates stubbornly high, much of current income was absorbed in meeting past commitments; and future commitments for major purchases appeared dauntingly expensive. This Administration recognized that cutting interest rates would be crucial to stimulate the economic recovery.

The economy was stalled by high interest rates; and interest rate reduction was stalled by concerns about economic policy. Large budget deficits raise interest rates through a straightforward interaction of supply and demand: as the Federal Government demanded more of a limited supply of credit in the financial markets, it drove up the price—that is, the rate of interest. But further, large and apparently permanent budget deficits threatened inflation: if there were further policy errors (and large, continuing budget deficits clearly do not inspire confidence in economic policy), or if the buildup of debt grew so large that the Federal Government could not service it (and hence could only inflate its way out of the debt), more rapid inflation would result. Lenders in the financial markets naturally demanded higher interest rates to protect themselves against such threats of future inflation.

The overwhelming majority of economists would argue that deficit reduction slows the economy in the near term—by reducing the purchasing power in the hands of businesses and consumers. (Every dollar of Federal spending becomes someone's spendable income—either as the price of labor or commodities supplied to the government, or as a grant or transfer. Taxes reduce household or business spendable income directly.) Partially offsetting that effect is the reduction of interest rates that results as Federal borrowing needs are reduced. Ultimately, that drop in interest rates encourages investment and makes the economy stronger; but for the short run, the expected net effect of credible deficit reduction on economic growth is negative.

However, the economic policy inherited by this Administration was so out of balance that righting it—reducing the large and continuing budget deficits—bore far less of a short-run cost than most economists expected. Fears of future inflation—because of the mounting budget deficits—were so great that lenders demanded an extraordinary margin of protection through higher interest rates. As the President's economic plan was devel-

Chart 3A-1. INTEREST RATES



oped and put into law, the fears of mounting deficits and future inflation were dissipated, and bond buyers reduced their interest rate demands by far more than the margin predicted by past economic analysis. Thus, the effect of credible deficit reduction on the financial markets was much more than the narrow supply-and-demand impact in the conventional analysis; it was a restoration of financial stability, through the undoing of a pattern of continuing past economic policy errors, and a threat of similar mistakes extending into the future. Thus, budget discipline has freed the economy from a burden that limited its prospects in both the long run and the short run.

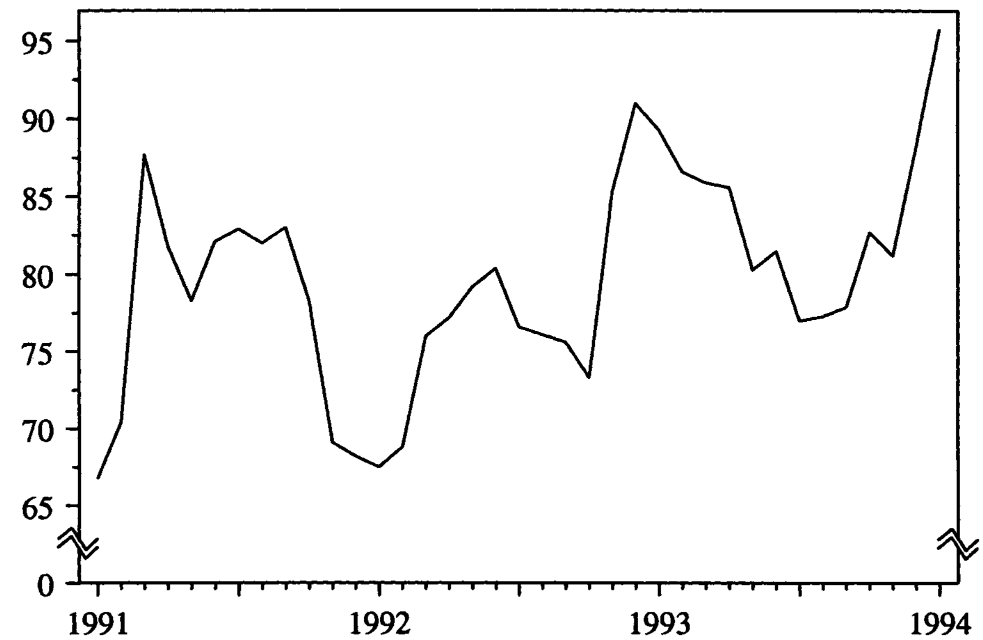
- The yield on 30-year Treasury notes, which stood at 7.66 percent on election day of 1992, dropped to 6.09 percent by late August 1993 when Congress approved the Administration's economic plan. Although the long-term rates have climbed slightly in recent months, they remained about 100 basis points lower than in early November 1992. (See Chart 3A–1.)

That drop in interest rates, through refinancing of home mortgages and other long-term loans, reduced the debt-service burden of households and businesses, freeing some of the cash flow that was devoted to servicing past commitments and allowing them to consider new investments in autos, homes, and plant and equipment. The same lower interest rates reduced the cost of those further commitments. With the growth of demand for big-ticket goods came increased employment—both in these sectors and throughout the economy. (See Charts 3A–2, 3, 4, and 5.)

- Corporate finance has reversed course, with slower issuance of corporate bonds and increased new issues of corporate stock—reversing the dangerous trend of the 1980s toward increased leverage.
- With the change in corporate finance and the reduction of interest rates, the debt-service burden on corporate cash flow has

Chart 3A-2. CONSUMER SENTIMENT

(February 1966 = 100)

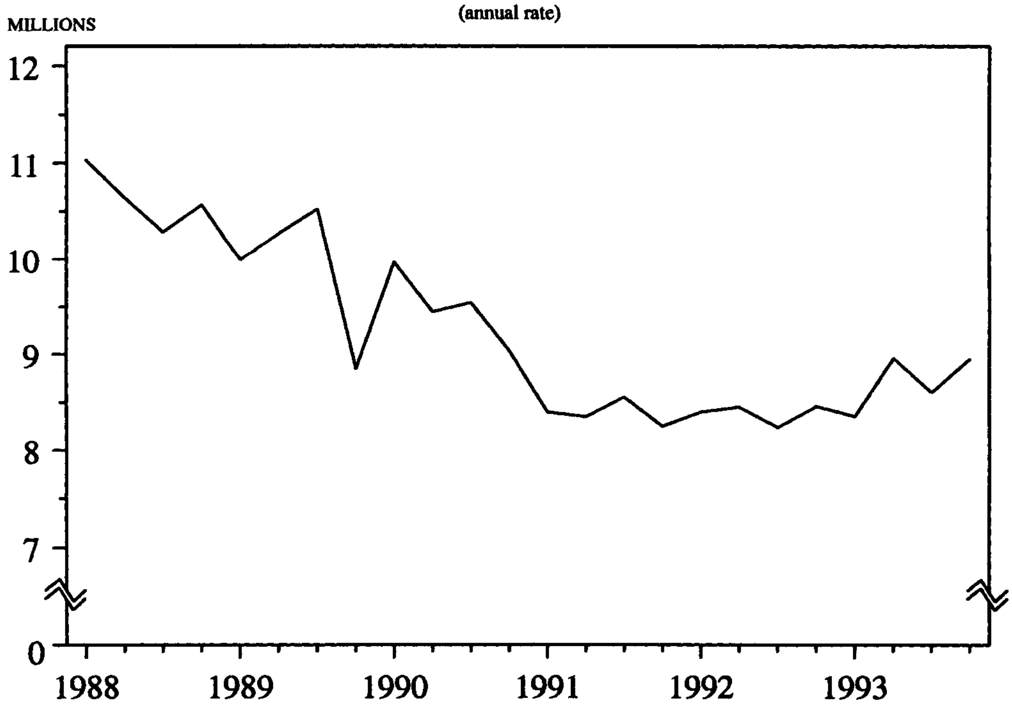


SOURCE: University of Michigan Consumer Sentiment Index.

01/25/94

Chart 3A-3. AUTO SALES

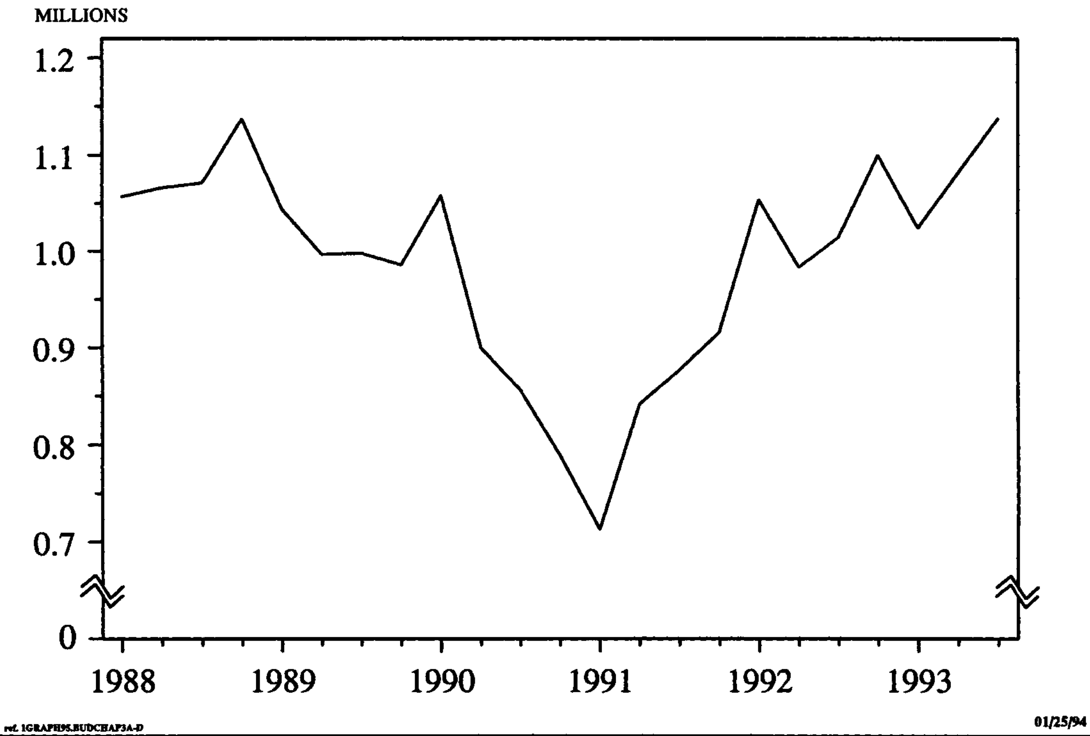
(annual rate)



01/25/94

Chart 3A-4. HOUSING STARTS

(annual rate)



eased considerably—declining to close to its average of the 1970s. The same changes have benefitted households, with their debt-service costs as a share of disposable personal income declining by about two percentage points.

Economic growth over the past year has been heavily concentrated in purchases of business investment goods, homes, automobiles, and other consumer durables—precisely because such goods are typically financed by borrowing, and the Administration's program has brought the cost of borrowing down. This is doubly gratifying—both because it helps sectors of the economy that had been especially weak, and because it builds for the future.

- During the first three quarters of 1993, for example, investment in producers' durable equipment rose at an inflation-adjusted annual rate of 16.5 percent, followed by production of durable consumption items at a 5.6 percent rate. The housing market showed considerable strength in the closing months of 1993, when new and existing home sales reached levels not seen in years.

THE PAYOFF: MORE JOBS, BETTER JOBS

The growing strength in the investment and consumer durables industries finally provided the long-needed boost to employment growth that now promises to become self-sustaining.

- Payroll employment increased by nearly two million jobs in 1993. In fact, almost twice as many new private sector jobs were created in 1993 than during all of the four years of the Bush Administration. Total employment (including farm and self-employed) increased by 2.5 million; from 1988 to 1992, the average yearly increase was only 0.5 million. Job increases were widespread in 1993, with 57 percent of all industries expanding employment. The manufacturing sector, which had been trimming payrolls since 1990, added jobs

Chart 3A-5. INVESTMENT IN EQUIPMENT

(percent of GDP)

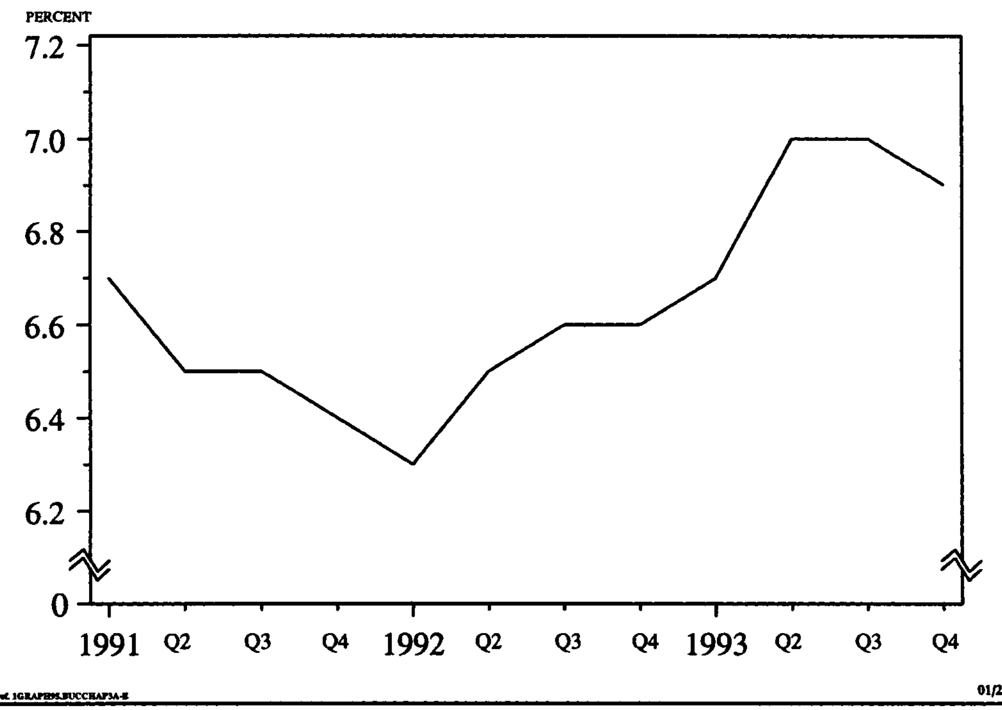
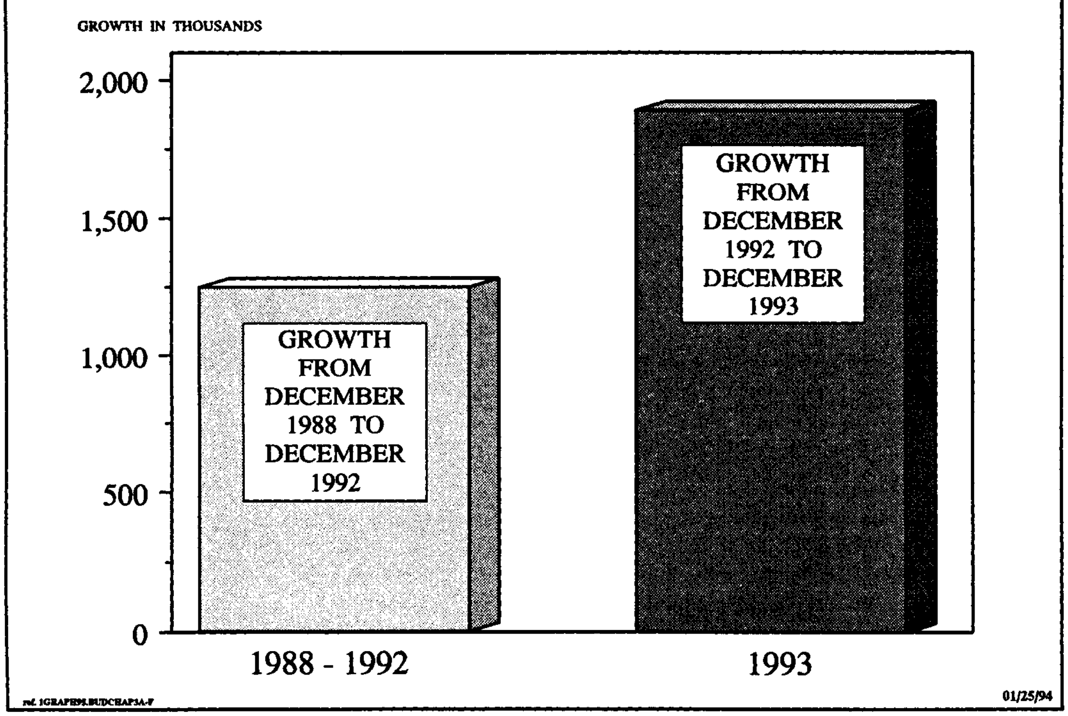


Chart 3A-6. TOTAL PRIVATE NONFARM EMPLOYMENT



in the last three months of 1993. (See Chart 3A–6.)

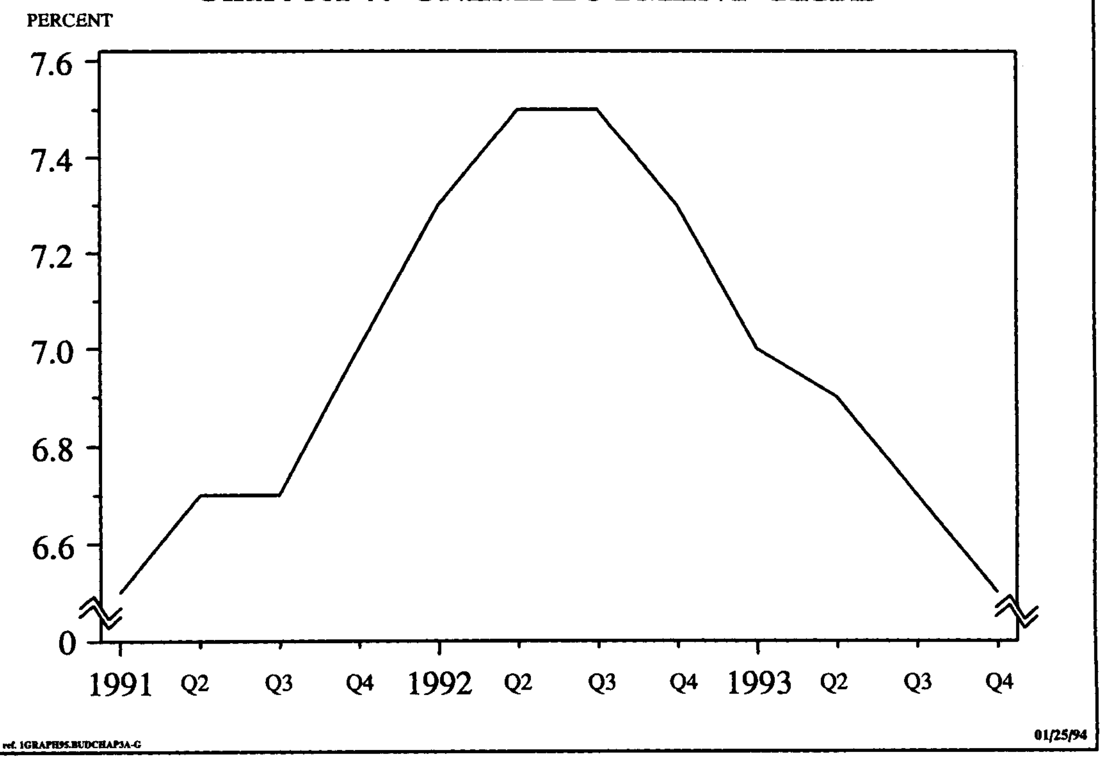
- The overall jobless rate fell to 6.4 percent in December 1993, or 1.3 percentage points below its June 1992 high. The unemployment rate fell or held steady in every month of 1993. The unemployment rates of all major demographic groups—teenagers, adults, whites, African Americans and Hispanics—fell over the year. The number of unemployed fell in ten of the last twelve months; the cumulative reduction was 1.1 million. During the prior four years, the number of unemployed rose by an average of 0.7 million per year. (See Chart 3A–7.)
- In December, 1.7 million workers had been without a job for 27 weeks or longer—still far too many, but less than the high of 2.0 million reached in September 1992.
- About one-half of the 1993 increase in employment occurred in high-paying managerial and professional occupations.

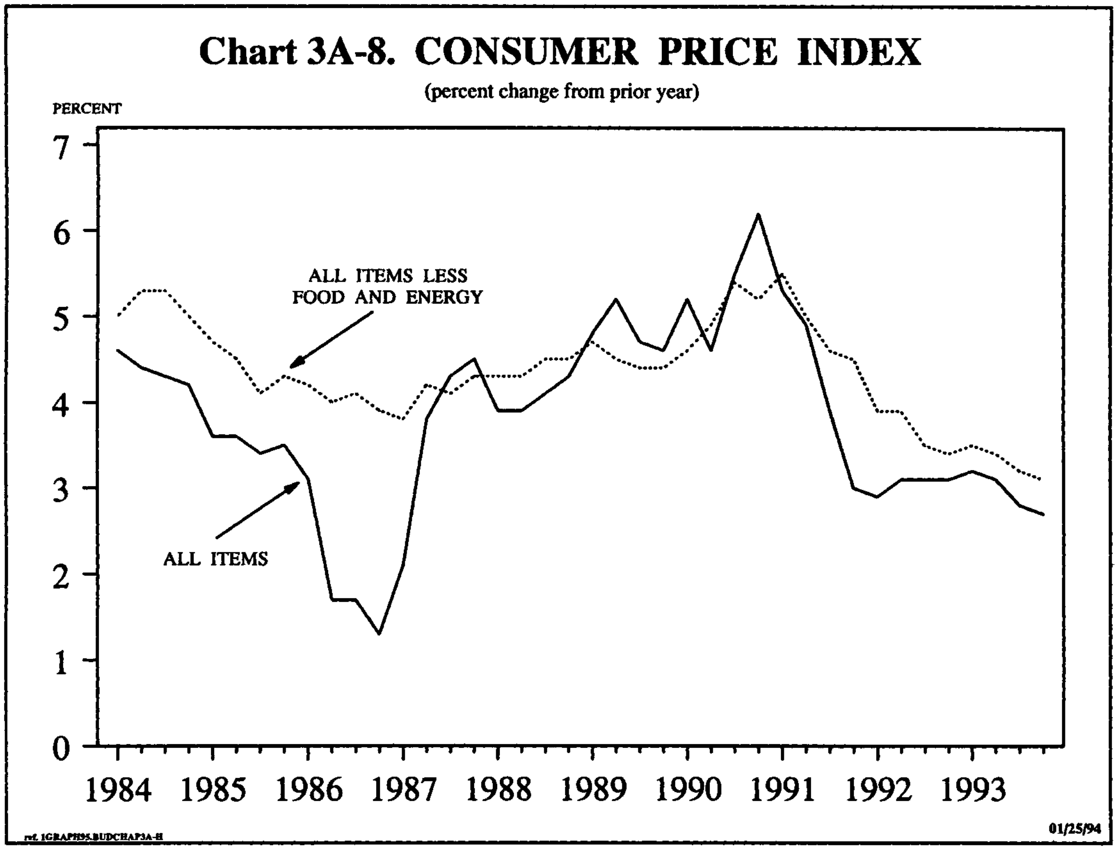
There have been large reductions in the numbers of persons laid off and of permanently separated job losers. Also, in November, the work week reached its highest level since the end of World War II, and overtime its highest level since that statistic was first collected in the 1950s. These records signal future employment gains.

And despite the rapid growth of output and employment, inflation has remained subdued—lending further stability to interest rates. After rising at an annual rate of 3.8 percent in the first quarter of 1993, CPI inflation slowed to a 2.7 percent rate for the year. At the producer level, inflation has nearly disappeared, with the core PPI (that is, excluding the volatile food and energy components) increasing only 0.2 percent during 1993—the best performance since 1974. (See Chart 3A–8.)

One further benefit of this Administration's economic program has not yet been felt. As was noted above, large budget deficits increase the Nation's borrowing from abroad,

Chart 3A-7. UNEMPLOYMENT RATE





raise the value of the dollar, and thereby increase our trade deficit. From the early 1980s, budget irresponsibility has done untold harm to the manufacturing sector through these effects. With the deficit reduced and interest rates down, the dollar can find a more competitive level, and U.S. exporters will have a fairer playing field. Thus, budget discipline, combined with a lean American manufacturing industry, bodes well for U.S. growth and jobs in the future.

Unfortunately, U.S. exporters cannot sell if other economies cannot buy; and virtually all other industrialized nations—especially Japan and Europe—are mired in recession, suffering their own adjustments from the excesses of the 1980s. So while the U.S. trade position with the industrializing nations is strong—and U.S. manufacturers are more competitive than they have been for decades—our overall trade deficit remains high. But the fundamentals are in place to change that, dramatically and for the better, once Europe, Japan and other nations pull themselves out of their own economic slumps.

JOBS IN THE 1995 BUDGET

This budget will contribute to continued job growth.

First, continued budget discipline will keep interest rates down, and keep employment growing. With the momentum of investment in business equipment, new homes, new automobiles, and other consumer durables, the economic recovery has become self-sustaining. Employment growth is on track for the President's goal of eight million new jobs over four years, and the unemployment rate is falling faster than economic forecasters have predicted.

Second, many of the President's proposed public investments in the 1995 budget will create more and better jobs directly:

- The President's 1995 budget request for highways—full funding of the ISTEA highways program—will support a large number of direct and indirect jobs, mostly in the construction and supplying industries.

- The budget request for mass transit formula capital grants would support further jobs, mostly in the construction, motor vehicle manufacturing, and business and professional service industries.
- The proposed 42 percent increase for debt and equity capital guarantee programs provided through the Small Business Administration will contribute to the creation of new employment opportunities through small business creation and expansion, and also help to maintain existing jobs.
- The budget maintains funding in the Community Development Block Grant (CDBG) program, which provides grants for a wide range of community development activities. The request includes $200 million for the HUD Secretary's proposed "Leveraged Investments For Tomorrow" program, for mixed-use development in distressed urban neighborhoods. CDBG is an important job creator.
- The Administration proposes $900 million for new community and economic development initiatives, to assist local governments to stimulate job creation and economic vitality within urban neighborhoods through support of individual projects and local community-building efforts.
- The President's request for public housing modernization funds will improve living conditions for many of the almost 1.3 million families living in public housing—and will support numerous job opportunities.
- The proposed Community Development Financial Institutions Fund would provide assistance to qualifying community development lenders. Lowering barriers for lending in distressed neighborhoods will open the door to construction employment opportunities.
- In July of 1993, the President requested a comprehensive review and overhaul of interagency regulation implementing the Community Reinvestment Act. The review yielded proposed revised regulation on December 21, 1993. With clearer guidance, reduced compliance burdens and greater flexibility, private lenders will be able to increase credit in distressed communities, aiding development and construction employment.
- Last year, the President proposed and the Congress enacted legislation to create Enterprise Zones and Communities, to concentrate resources—through tax cuts, investment, and regulatory relief—on neighborhoods that are lagging behind the economic expansion. This year, the Administration will implement that policy. This will add Federal assistance to newly freed private resources, and stimulate economic activity and job creation in the parts of the country that need it most.
- The Vice President's push for information highways will create jobs as we extend our high-speed communications network to every classroom, clinic, hospital and library in America. Other research and technology investments will also accelerate technological progress and employ scientific and technical workers—and help to reemploy workers from the downsizing defense sector.
- Within the Department of Labor, Title II-B of the Job Training Partnership Act subsidizes temporary minimum-wage jobs and academic enrichment for low-income youth aged 14-21 during the summer. The budget increases funding for this program.
- The Administration provides substantial increases for water infrastructure projects, including Clean Water State Revolving Funds, Drinking Water State Revolving Funds, and loans and grants for rural water and wastewater disposal systems. These investments will lead to job creation in infrastructure construction, repair and improvement.

Other Administration initiatives will help to safeguard this job growth. The Workforce Security proposal, creating a new reemployment system, will help to match workers with job opportunities. The expansion of the Job Corps will help some of the most disadvantaged job seekers. The School-to-Work initiative will help non-college-bound secondary-school students to train for and find productive jobs. Finally, last year's small business tax cuts—including the increase in the amount of business investment eligible for immediate deduction (expensing), and the capital gains tax break for new small businesses—will keep America's prime job generator moving.

This Administration has made early and substantial progress on creating more and better jobs—far beyond the expectations of most economists and job-market experts. With job creation at almost eight times the rate of the preceding Administration—almost twice the jobs in one quarter of the time—the nation is on track to reach the President's eight-million-job goal. Continued adherence to the economic program and the President's proposed investments will keep job creation on the fast track.

BUDGET PROJECTIONS

The budget outlook has improved enormously over the past year; but much remains to be done to put the economy finally on a sound fiscal footing. As the President has often said, it took many years to find our way into our current predicament, and it will take many years to work our way out.

There are three broad tasks remaining to achieve a truly sound fiscal policy:

- *Fulfill the requirements of OBRA-93.* The major outstanding obligation is finding discretionary spending savings to meet the discretionary spending caps. Some critics argued that the discretionary caps postponed actual deficit reduction; but discretionary spending has always been appropriated on an annual basis, so those savings can be attained only over time. The second requirement is obeying the pay-as-you-go restrictions on entitlement programs and taxes; any tax cut or entitlement spending increase must be offset by another tax increase or entitlement spending cut. A further requirement is imposed by the President's entitlement targets, established by executive order; if entitlement spending exceeds or is projected to exceed the preset levels, the President must report to the Congress on the cause and, if he chooses, offer a legislative solution. Compliance with OBRA-93 will lock in the $500 billion of deficit reduction that turned the economy around.
- *Health reform.* Medicare and Medicaid costs are a growing burden on both the private and the public sectors. Health care costs are the single major force behind the Federal budget deficit. In fact, the Federal Government's health care costs are growing so fast that, without fundamental change, there can be no control of the overall budget deficit.
- *A sound economy.* In the long run, we need growing incomes and plentiful employment opportunities to keep the Nation's ledger sound. So, within the constraints imposed by OBRA-93, we must invest in science and technology, physical infrastructure, and worker skills that the private sector needs to make the economy grow.

This budget continues the progress made last year on all of these fronts.

Total Spending

1995 outlays are projected at $1,518.3 billion (without the Administration's health reform proposal), an increase of $34.3 billion, or 2.3 percent, from 1994. Later years show continued slow outlay growth. Between 1993 and 1999, total outlays are projected to grow by an average of only 4.5 percent per year. In contrast, between 1981 and 1993, total outlays grew by an average of 6.3 percent per year. In 1999, projected outlays equal 20.9 percent of the gross domestic product (GDP); in 1993, outlays equaled 22.4 percent of GDP.

Discretionary Spending

Discretionary spending is controlled by caps set in OBRA-93 through 1998—holding outlays to the approximate level of 1993, without an increase for inflation expected at the enactment of the 1993 law (a "hard freeze"). (If inflation exceeds the 1993 forecast, the spending caps are adjusted upward for the excess; but if inflation is below the 1993 forecast—as it was last year—the spending caps are adjusted downward for the underage.) As a result, discretionary spending is expected to remain at approximately the 1993 level through 1998—which would leave it at an inflation-adjusted level 12 percent below that of 1994. Compared with what would have been spent with a full inflation adjustment over 1994–1998, this restraint of OBRA–93 will save a cumulative $107.7 billion.

After 1993, discretionary spending is subject to a single cap; in 1991–1993 there were separate caps for defense, international, and domestic discretionary spending. Given the Administration's proposed downward path for defense, the two nondefense categories are not held to a hard freeze; but the defense reductions are not large enough to permit nondefense spending to keep up with inflation.

Domestic discretionary spending has not been the source of the increase in the budget deficit. While the budget deficit has increased as a percentage of GDP, domestic discretionary spending is below its 1980 percentage of GDP. Total discretionary spending is at its lowest percentage of the GDP since 1962 (the earliest year for which data have been compiled). Over the next five years, all categories of discretionary spending are projected to shrink as percentages of the GDP.

National Performance Review

The restrained spending levels in this budget reflect, in part, the recommendations of the National Performance Review (NPR). Recommendations that cut across agency lines—FTE savings, procurement reforms, and other crosscutting proposals—are discussed in more detail in Chapter 3C, "Delivering a Government That Works Better and Costs Less."

Table 3A–1 summarizes the current status of proposed 1994/1995 budget savings from the recommendations of the National Performance Review agency teams. The current savings estimate of $6.8 billion compares favorably with the original NPR estimate.

Table 3A–1. STATUS REPORT: LATEST ESTIMATE OF SAVINGS

NPR Agency Teams

	Billion of Dollars
Original NPR savings estimates ...	7.0
Higher than anticipated savings	1.9
Proposals proceeding, but with startup delays and/or reestimates of savings	–1.6
Proposals not proceeding at the present time	–0.5
Current savings estimate	6.8

Table 3A–2 provides more detailed information on the agency savings proposals affecting the estimates in the 1995 budget.

Table 3A–2. PROGRESS REPORT: NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS WITH 1995 BUDGET EFFECTS

(In millions of dollars)

Recommendation	1995 Estimate		
	Budget Authority	Outlays	Receipts
Department of Agriculture:			
The wool and mohair subisidy program will be phased out beginning in 1994 and all payments are terminated after 1996 per Public Law 103–130	–47.0	–47.0	—
Legislation was submitted in the Fall of 1993 to phase out the honey program by the end of 1996	–6.5	–6.5	—
Legislation was submitted in the Fall of 1993 to reorganize the Departmental agency structure. This program will reduce the number of USDA bureaus from 42 to 30 and is a vital part of the Administration's plan to streamline USDA's extensive field office structure	–166.9	–158.3	—
Department of Commerce:			
To help protect fishing resources, fees will be proposed to help recover the costs of administering living marine resources	—	—	82.0
Department of Defense:			
The Corps of Engineers will recover its costs for processing certain commercial applications and DOD will establish goals for solid waste reduction and recycling	–50.0	–43.0	6.0

Table 3A–2. PROGRESS REPORT: NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS WITH 1995 BUDGET EFFECTS—Continued

(In millions of dollars)

Recommendation	1995 Estimate		
	Budget Authority	Outlays	Receipts
The efficiency of DOD health care operations will be maximized by using emerging technology to upgrade care at DOD health care facilities and by closing the Uniformed Services University of Health Sciences (USUHS)	–16.0	–9.0	—
Department of Energy:			
DOE defense facilities and laboratories will be redirected to Post-Cold War Priorities by consolidating or eliminating unneeded facilities, and making their services of greater benefit in the post-Cold War era	–1,007.4	–862.8	—
Department of Health and Human Services:			
In order to take more aggressive actions to collect outstanding debts owed to the Social Security Trust Fund, SSA will request the authority to use a full range of debt collection tools available under the Debt Collection Act of 1982	–60.0	–60.0	—
User fees are proposed for the inspection and approval processes of the Food and Drug Administration (FDA). Food, drug and medical device manufacturers, processors and suppliers should be required to pay for FDA services	–337.9	–337.9	—
The Health Care Financing Administration will seek authority to fully and openly compete Medicare claims processing contracts to reduce costs, improve quality of service, and eliminate inefficiencies and conflicts of interest	–80.0	–80.0	—
Department of Housing and Urban Development:			
To assist neighborhood revitalization, the 1995 budget includes an FHA single-family mortgage insurance initiative	14.0	7.4	—
Incentive contracts will be used to refinance expensive old subsidized mortgages	–177.0	37.4	—
Administrative changes will reduce unjustified increases in annual payments to Section 8 projects. This proposal would limit rent increases to those cases where existing rents are less than the local market average rent for non-luxury housing	—	–110.0	—
Public housing agencies will be encouraged to make better use of their assets by reducing subsidies paid for unjustifiably vacant units	–43.3	–19.9	—
Department of the Interior:			
Reclamation of abandoned mine lands will be improved through a combination of administrative and legislative strategies designed to reduce duplication, increase States' decisionmaking authority, and distribute reclamation funds where they are needed most	–15.0	–15.0	—
A national spatial data infrastructure will be established administratively through development of digital data standards, accelerated development of a data clearinghouse, and acquisition of new high-priority data	7.0	6.7	—
Mineral Management Service royalty collections will be improved through legislative action to enable penalties to be assessed for substantial underpayments	—	—	2.0
The Federal Helium Program will be improved through administrative action. To obtain maximum benefit from helium operations, the Government will reduce costs, increase efficiencies in helium operations, increase sales of crude helium as market conditions permit, and study the recommendations to cancel the helium debt	–2.0	–2.0	6.0
Reforms will be instituted to guarantee a fair return for Federal resources such as livestock grazing and hard-rock mining	17.0	17.0	80.0
Environmental mangement will be enhanced by remediating hazardous materials sites through administrative action	3.9	3.9	—
Entrepreneurial management will be promoted by seeking expanded authority to increase park entrance and other recreation user fees	4.8	3.6	32.0
Department of Labor:			
Occupationally disabled Federal employees will be helped to return to productive careers by extending DOL's assisted reemployment progam, thereby reducing long-term benefit costs to the government; an administrative review of the FECA long-term benefit rolls will also be undertaken	–7.0	–7.0	—
An electronic database will be developed to enable Federal contracting agencies to electronically access wage determination information instantly. When integrated into the Service Contract Act process, it should eliminate delays both in the delivery of wage determinations and in the Federal procurement process	0.5	0.5	—

Table 3A–2. PROGRESS REPORT: NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS WITH 1995 BUDGET EFFECTS—Continued

(In millions of dollars)

Recommendation	1995 Estimate Budget Authority	Outlays	Receipts
The Consumer Price Index (CPI) will be revised and updated. The CPI is revised after each decennial census. This revision will be completed in 2000. The revision includes new market baskets of goods and services as well as improvements in collecting and processing data for the CPI and surveys which support the CPI	5.2	5.2	—
The Federal Employees Compensation Act will be amended in order to reduce fraud by (1) making it a felony to lie on benefit applications, (2) making people convicted of defrauding the program ineligible for benefits, and (3) making people who are incarcerated ineligible for benefits	–1.0	–1.0	—
National Aeronautics and Space Administration:			
A major reorganization to streamline program management has occurred and savings are continued in the 1995 budget	–396.0	–282.0	—
Small Business Administration:			
User fees will be established for Small Business Development Centers, located primarily at colleges and universities, which provide management and technical assistance to small businesses	—	—	17.0
Department of State/U.S. Information Agency:			
A department-wide computer modernization and upgrade plan will be developed along with a more effective management policy to begin modernization of computer systems in 1995	25.0	21.3	—
USIA will begin to restructure core program activities in 1994	–3.0	–3.0	—
The Regional Administrative Management Center in Mexico City will be relocated to a domestic location	—	2.7	—
Department of Transportation:			
Federal Aviation Administration fees will be increased for inspection of foreign repair facilities	—	—	1.6
Level I (low use) air control towers will be converted to contract operation	8.3	8.1	—
Funding for selected highway demonstration projects is proposed for rescission. These demonstration projects should compete at the state level for the limited highway resources available and not be singled out for special treatment at the Federal level	–817.0	–406.3	—
Unobligated balances for 1992 and prior earmarked funding for the FTA New Starts and Bus Program that remain unobligated after three years will be proposed for rescission	—	–5.1	—
New, more restrictive criteria will be proposed for small airports to qualify for essential air service subsidies. Somewhat tighter criteria were enacted for 1994	–7.8	–6.7	—
To reduce costs, federal grant funding of two Federal Aviation Administration post-secondary education programs is proposed for elimination	—	–10.0	—
Department of Treasury:			
Federal resources dedicated to the interdiction of drugs will be redirected and better coordinated by consolidating intelligence gathering facilities and reducing flying hours and the marine interdiction fleet	–57.4	–51.0	—
The licensing fee for firearm dealers is proposed to increase from $200 for three years to $600 per year to cover the costs of license processing and reduce the number of dealers. A fee increase to $200 was enacted in the Brady Bill	—	—	25.2
Section 5121 of the Internal Revenue Code will be amended to require proof of tax payment by retailers prior to sale of alcohol to them by wholesalers	—	—	13.6
NAFTA legislation provides for fee increases and implements the Customs Modernization Act, as recommended by the NPR. The 1995 Budget includes inititatives to modernize Customs commercial operations	—	—	215.0
Civil monetary penalties are proposed to be adjusted to the inflation index	—	—	16.9
Certain Federal workers will be required to convert from checks to electronic funds transfer and the consolidation of Financial Management Services (FMS) regional centers will begin	–2.4	–1.9	—
Department of Veterans Affairs:			
The final stage of VA's computer modernization effort for benefits claims processing will be funded	25.5	—	—

Table 3A–2. **PROGRESS REPORT: NATIONAL PERFORMANCE REVIEW RECOMMENDATIONS WITH 1995 BUDGET EFFECTS—Continued**

(In millions of dollars)

Recommendation	1995 Estimate		
	Budget Authority	Outlays	Receipts
A pilot project in the New York City Regional Office is designed to help streamline the benefits claims process	0.3	0.3	—
Supply depots will be phased out. The conversion from a depot storage to a vendor, just-in-time delivery system will be completed by the end of 1995	−11.0	−55.0	—
VA's capabilities in implementing electronic data interchange technology will be enhanced. Benefits from implementing this proposal include more efficient management of VA's supply inventories	−12.9	−12.9	—
Administrative costs of the Veterans insurance program will be recovered from premiums and dividends from three VA life insurance programs	−29.4	−29.4	—
Total, 1995 budget savings	−3,242.4	−2,508.6	497.3
Total 1995 budget authority plus receipts			3,739.7
Memorandum:			
1994 savings enacted/requested	−2,901.5	−703.6	163.0
Total 1994 budget authority plus receipts			3,064.5
NPR budget savings estimated for 1994 and 1995	−6,143.9	−3,212.2	660.3
Total budget authority plus receipts			6,804.2

Entitlements

OBRA-93 cut projected entitlement spending by $3.7 billion in 1994, and $98.4 billion over 1994–1998. There were also five-year increases of $18.3 billion in the earned income tax credit, $2.7 billion in food stamps, and $6.1 billion in other programs.

In 1995, entitlements (not including debt service) are projected to comprise 50.2 percent of budget outlays, or 10.9 percent of the GDP—at a total of $762.9 billion. This is a substantial increase from 1965 ($27.8 billion, 23.5 percent of outlays, and 4.1 percent of GDP) and 1980 ($261.9 billion, 44.3 percent of outlays, and 9.9 percent of GDP).

This rapid growth has led some to conclude that entitlements are the source of the budget deficit problem. This is true, but insufficiently precise. In fact, from 1980 through 1992, Federal spending on health care increased from 1.7 percent to 3.2 percent of GDP, while other entitlements shrank from 8.2 percent to 7.9 percent.

Looking forward, the picture is the same. By 1999 (without passage of the Administration's health reform proposal), combined Medicare and Medicaid spending will reach $386.9 billion, equal to 20.3 percent of total outlays or 4.4 percent of GDP. Other entitlements will grow to $633.8 billion, equal to 33.3 percent of total outlays or 7.2 percent of GDP—less than the percentages of 1992. Medicare and Medicaid spending will grow faster than revenues; other entitlements will grow more slowly than revenues.

In fact, over the five-year budget window, Medicare and Medicaid are the only major categories of Federal spending that are projected to grow faster than the economy, or faster than revenues. Even interest on the debt, which had been one of the fastest-growing categories of the budget, has been brought under control by passage of the Administration's deficit-reduction program. Health care is left as the sole major force behind the budget deficit.

The simple mathematical fact is that, with health costs growing faster than the economy over the foreseeable future, reform of health care is essential if the deficit is to be brought under control. Any other savings merely buy time, because health costs will eventually grow to erase that progress.

Social Security comprises about one-third of total entitlement spending. In the very long run, Social Security costs are projected to increase sharply—mostly as a result of the retirement of the baby boom population, but also because of increased life expectancies, and hence longer periods of retirement. At this time, Social Security is running annual surpluses which add to the balance in its trust fund and reduce the unified budget deficit. However, we must maintain the goal of 75-year actuarial balance; and the 75-year outlook for the system worsens slightly with each passing year, as one year of system surplus becomes history and one year of post-baby-boom deficit comes over the 75-year horizon.

This is a long-term Social Security issue, not a short-term budget deficit issue; it should be answered with careful study, not precipitous, politically motivated action. Social Security is one of the most successful Federal programs in history; it is largely responsible for the reduction in the incidence of poverty among the aged from 35.2 percent in 1959 to 12.9 percent in 1992. More than half of today's elderly rely on Social Security for most of their income, and millions of workers nearing retirement have factored their expected Social Security benefits into their retirement plans. The Social Security Board of Trustees will report on the condition of the system early this year.

Entitlements other than Medicare, Medicaid and Social Security comprise only about 40 percent of projected total entitlement spending for 1995. Spending on these programs is projected to grow less rapidly than the economy or Federal revenues. These programs include Federal military and civilian employee retirement, food stamps, aid to families with dependent children, farm price supports, unemployment compensation, and other, smaller programs. The Administration is committed to seek efficiencies and savings in these programs, and the Bipartisan Commission on Entitlement Reform, established by the President under Executive Order No. 12878, will contribute to that task. However, given the size and rapid rate of growth of the medical programs, ultimate deficit control can come only if we address that area.

The Administration has proposed a major health reform to be considered by the Congress this year. This proposal is expected to add to outlays modestly in the first few years (offset by other provisions), but to contribute significant deficit reduction in 1999 and later years. The health reform program is discussed in detail in Chapter 4.

The Administration also proposes a comprehensive reform of the Nation's welfare programs, which is being drafted for submission to the Congress in the spring. This program will combine training and child care initiatives for the welfare population with work requirements and other outlay-reducing provisions in a deficit-neutral package. This program is discussed more fully in Chapter 3B.

Total entitlement outlays are projected to increase from $763.6 billion in 1995 to $1,020.7 billion in 1999. These projections are within the bounds set by the entitlement targets in the President's Executive Order No. 12857.

During the upcoming year, the Administration will put forward significant initiatives including comprehensive health and welfare reforms, and ratification of the Uruguay Round agreement of the GATT. These initiatives will be deficit-neutral, in keeping with the pay-as-you-go restrictions in the Budget Enforcement Act.

Revenues

OBRA-93 achieved slightly less than half of its total deficit reduction through tax increases—$250.1 billion cumulatively over 1994–1998. With those increases, revenues are expected to change very little as a percentage of GDP over the next five years—from 19.1 percent in 1995 to 18.6 percent in 1999.

This budget proposes no further change in revenues. It proposes some increases in user fees. These are scored in the Budget according to the principles set forth by the bipartisan *Report of the President's Commission on Budget Concepts,* October 1967, which have been observed by all succeeding Administrations.

The Administration supports revenue-neutral initiatives designed to promote sensible and equitable administration of the internal revenue laws. These include simplification, technical corrections, and taxpayer compliance measures. The Administration will monitor and consider ways to ease the impact of the reduction of the deductible portion of business meals and entertainment expenses.

Deficit

With these changes in outlays and revenues, the deficit is projected to decline from $254.7 billion in 1993, to an estimated $234.8 billion in 1994, to a projected $176.1 billion in 1995. If this forecast materializes, it will mark the first consecutive three-year decline in the budget deficit since 1948—under President Harry S Truman. As a percentage of GDP, the deficit falls from 4.0 percent in 1993, to 3.5 percent in 1994, to 2.5 percent in 1995—the lowest since 1979, before Ronald Reagan took office.

Without health-care reform, spending in Medicare and Medicaid will continue to grow faster than the economy, and will eventually force the deficit up again. It is essential to long-term deficit control that the Congress pass the President's health-care reform proposal.

MAINTAINING BUDGET DISCIPLINE

Ultimately, the Nation's budget deficit problem will be solved by changes in *policy*, not changes in *process*. However, this Administration recognizes that the budget process must support, not impede, the formulation of budget policy and the attainment of other important National goals. Therefore, the Administration supported significant budget process disciplines in OBRA-93, and proposes further reforms in the current budget. Some of the proposals are major changes in the budget process or structure; others are relatively small, but will sharpen the focus of the budget and make it more rational and understandable.

Reforms in OBRA-93 and Associated Administrative Action

Discretionary spending caps. As noted above, OBRA-93 extended the discretionary spending caps enacted in the Budget Enforcement Act of 1990 (BEA) through 1998 at approximately the 1993 level—leaving discretionary spending at an inflation-adjusted level 12 percent below that of 1994. These caps are a major source of budget discipline. The discretionary spending caps have been obeyed; discretionary spending has been held at or below the levels prescribed in the BEA. While the law allows an emergency designation for spending outside of the budget caps, this exception has been used sparingly; from 1991 through 1993, total emergency spending has been limited to such needs as hurricanes Andrew and Hugo, tropical storms Iniki and Omar, the Loma Prieta earthquake, and the midwest floods.

Pay-as-you-go. The Administration also proposed extension of the "pay-as-you-go" restraint on entitlement increases and tax cuts, and it was enacted in OBRA-93. Pay-as-you-go requires that any proposed reduction in taxes or increase in entitlement spending be offset by a tax increase or entitlement cut, so that the entire package is "deficit neutral." Like the discretionary caps, the pay-as-you-go restriction has been obeyed.

Entitlement targets. The pay-as-you-go constraints have been successful in that they have prevented the statutory expansion of existing entitlement programs, the creation of new entitlements, or the enactment of tax cuts without budgetary offsets. However, it has not prevented the unanticipated growth of costs of existing entitlements, particularly in medical care. To address this problem, the President issued Executive Order No. 12857, which established targets for spending for entitlement or mandatory programs (except deposit insurance and interest on the public debt) for 1994 through 1997. The targets were based on the 1994 budget resolution's estimates of mandatory spending, and may be adjusted annually in the budget for unanticipated increases in the number of beneficiaries. If there is an actual or projected overage in any year, the President must submit a message in the budget explaining the cause. Depending on economic or other circumstances, the President may recommend recouping or eliminating all, some, or none of the overage. If the President recommends reducing the overage, the message must include the text of a resolution providing specific instructions to the appropriate Committees in the House of Representatives and the Senate. The House has instituted rules to expedite its response to such a message. (See Chapter 15, "Review of Direct

Spending and Receipts," in the *Analytical Perspectives* volume of this budget.)

This Executive Order replaced an identical legislative proposal, which passed the House but was procedurally blocked by a minority in the Senate.

Deficit Reduction Fund. The President established a Deficit Reduction Fund in the Treasury by Executive Order No. 12858. The Fund guarantees that the net budget savings achieved by OBRA-93 are dedicated exclusively to deficit reduction. Amounts in the Fund can be used only to redeem maturing debt obligations of the Treasury that are held by foreign governments. Information about the Fund is included in Chapter 16, "Deficit Reduction Fund," in the *Analytical Perspectives* volume of this *Budget.*

Legislative Proposals

The budget process can be further reformed to facilitate sound economic policy, and to clarify the budget itself.

Enhanced rescission authority. The current rescission procedures are inadequate. Each appropriations act passed by the Congress provides billions of dollars of funding for thousands of items. If the President believes that a particular spending item should be reduced or eliminated, he has three choices:

- He can veto the entire bill, and potentially disrupt funding for many Federal agencies and programs.
- He can sign the bill, and allow the misguided money to be spent.
- He can sign the bill, and ask the Congress to "rescind" the particular item in accord with the rules of the Impoundment Control Act of 1974.

Under current rules, a proposed rescission does not become effective unless it is approved by both Houses of the Congress within 45 days. If a proposed rescission is not approved, the funds must be spent. This means that the Congress can defeat the President's rescission proposals by inaction. The President's actual proposal need never come to a vote, even in Committee.

It is important to maintain the proper authority of the Congress in matters of spending; however, it is reasonable to ask that a President's rescission recommendations receive a timely up-or-down vote. Several bills have been introduced in the Congress to achieve that objective, including the Expedited Rescissions Act of 1993, which the President supported and the House passed last year. They would merely require the Congress to put each of the President's rescission recommendations, individually and without change, to a prompt majority vote (unlike the current veto procedure's two-thirds vote). Such reform is needed to make the rescission authority meaningful.

Biennial budgeting. The budget process consumes an enormous amount of time each year, to the detriment of other important functions of the Executive Branch and the Congress. With only slightly more effort every other year, the budget process could cover two years instead of one. This would:

- Reduce the frequency with which hundreds of small and noncontroversial appropriations are considered, and allow more time for the major issues;
- Leave more time in the intervening year for program oversight by Congress and the Executive Branch;
- Allow the Executive Branch to shift resources from budgeting to program management;
- Provide greater predictability to program managers and the public; and
- Reduce the opportunities to enact wasteful spending.

A biennial budget would not preclude changes (supplemental appropriations and rescissions) during the alternate year any more than the current annual budget precludes changes during the year. Realistically, the need for incremental mid-cycle changes is likely to be somewhat greater, because appropriations in the alternate year will have been based on assumptions made further in advance of actual operations. Nevertheless, those changes will be far fewer and simpler than the current annual appropriations process.

Proper accounting for retirement costs.—The Administration is proposing a reform to charge Federal agencies the full cost of the Government's share of retirement benefits for Federal employees covered by the Civil Service Retirement System (CSRS) and other, smaller, individual-agency systems. Effective in the mid-1980s, Federal civilian and military employee retirement systems were reformed to charge agencies for the full accruing costs of new hires; but agencies are charged for only about two-fifths of the Government's share of accruing costs for civilian employees hired before 1984—who still constitute 1.6 million of the Federal work force.

The Administration's proposed reform makes the cost of the Federal retirement system more explicit. It will also improve agency budget decisions, because it will force comparisons of the full cost of labor with alternative means of providing services, such as contracting out or acquiring labor-saving hardware. It will also allow better comparisons between labor-intensive programs and other programs. This step will not change the deficit, because the increased agency contribution will be paid from one Government account into another.

Simplify the investment of balances held by Government accounts. Federal funds are authorized by law to invest in U.S. Treasury securities. In some cases, fund managers may choose any terms for Treasury securities available in the private market. This arrangement is complex and obscures the budget presentation. The Administration plans to conduct a review of the government account investments and propose legislation that would simplify the way these accounts are credited with interest, while continuing to recognize program objectives and tie returns to market rates on Treasury securities.

Other Administration Initiatives

The Administration plans to make administrative changes in the budget process after consultation with the Congress.

Improve budget accountability. The structure of budget functions, subfunctions, accounts and subaccounts should be aligned with agency missions, outputs, and desired outcomes. The full cost of these operations should be charged to the budgetary account for a program or activity. The current structure has grown haphazardly and does not meet these objectives. OMB, working with the agencies and consulting with the Congress, will begin a review of the functional and account structure, in conjunction with the implementation of the Government Performance and Results Act of 1993. Some budget account restructuring may be proposed for the 1996 budget, and full agency strategic plans will be completed prior to 1998.

Present budget in millions and consolidate accounts. The budget comprises about 2,200 expenditure and receipt accounts shown in thousands of dollars (ranging from $1,000 to over $300 billion) for about 130 agencies, and 90,000 separate "lines" of information. This level of detail and the disparity in sizes of accounts distracts from the larger issues of program and policy. OMB plans to present the detailed budget Appendix in millions of dollars, and to consolidate smaller accounts as part of the restructuring just described.

Discontinue the separate grouping of Federal funds and trust funds. Maintaining separate summary figures for Federal funds and trust funds no longer serves a useful purpose. OMB plans to discontinue the separate grouping beginning with the 1996 budget. Summary tables and an analysis of revolving, special, and trust funds, as a group, will be presented. The accounting integrity of all trust funds will be preserved, and the existing presentations for all major trust funds will be continued.

A Capital Budget

The NPR recommended that the budget "recognize the special nature and long-term benefits of investments through a separate capital budget." This budget begins this process, which will be completed with the 1996 document.

Under the NPR proposal, the budget would be presented in three parts: a capital budget for fixed assets; an operating budget of all expenditures except those included in the capital budget, plus depreciation on the stock of assets purchased under the capital budget; and a "total" or "cash" budget corresponding to the current measure of outlays.

The purpose of the capital budget is to intensify and improve the analysis and review of capital investment expenditures—outlays that yield long-term benefits. By the broadest measure, the Federal Government will spend over $250 billion on capital investment in 1994. The Administration is strongly committed to increasing investment—both public and private—to raise economic growth and future living standards. In *A Vision of Change for America,* the President identified these as key elements of his economic plan for the Nation: "... long-term public investments to increase the productivity of our people and businesses; and a serious, fair, and balanced deficit-reduction plan to stop the government from draining the private investments that generate jobs and increase incomes." Thus, the President proposed to increase investment and reduce the deficit at the same time. Congress appropriated 69 percent of the President's proposed investments, while reducing the deficit by more than $500 billion over five years.

For more than forty years, the budget has separated Federal investment outlays from outlays for current use, using several broad categories of investment so that alternative definitions of investment could be used. This presentation was designed primarily for analytical purposes rather than for decision-making. Now, the capital budget will put such analysis to more practical use.

A capital budget requires several refinements to be most effective. The NPR recommended several changes to the planning and budgeting process for fixed assets which OMB plans to put into effect for the 1996 budget:

- A long-term planning and analysis process for fixed-asset acquisitions, to provide guidance for evaluating choices and setting priorities.
- Incorporation into the budget of the results of agency plans, including a cross-cutting analysis of fixed-asset acquisitions among different agencies.
- More flexible funding mechanisms and procedures to ensure that the most economical method of acquiring fixed assets is used. In particular, the rules of the budget process should not prevent acquisition by the most economical means of needed fixed assets, even if that would create "spikes" in agency spending.

The Federal Government's method of accounting for fixed assets obviously does not change the supply of real or financial resources in the economy; therefore, this capital budgeting process does not obviate the need for fiscal discipline. Furthermore, budget discipline cannot be enforced through a budget measure including depreciation, which is a sunk cost not subject to current control. For these reasons, the NPR stated that, "The cash budget reflects the effect of both the capital and the operating budget on the economy. Therefore, the discipline of the cash outlay caps in the Budget Enforcement Act must be maintained."

With continued fiscal discipline, long-term planning and more detailed budget review, the NPR's proposed capital budget will help the Federal Government to allocate its scarce investment dollars in the most efficient way—while reducing the Federal deficit and increasing economic growth in the long run.

An Option Opposed by the Administration

The Administration does not support current proposals to amend the Constitution to require a balanced budget. While such an amendment may appear to impose fiscal responsibility by forcing policymakers to face hard choices, in practice it would do more harm than good.

- First and foremost, our Constitution is the foundation of our democracy, safeguarding our most fundamental rights and liberties. It is not the proper vehicle to define accounting methods, data measures, projection periods, and other technical and economic concepts. The Constitution was meant to be timeless; it should not prescribe annual policy choices.
- Second, any balanced budget amendment would constrain macroeconomic policy. The Government could be forced to raise taxes or cut spending when the economy was weak, which could cause or aggravate recessions. While most proposed amend-

ments would allow three-fifths of the Congress to override the requirements, and could even allow an automatic suspension of the requirements during a recession, the real harm would be done when the amendment required fiscal contraction before a recession was obvious. The amendment would thus threaten the Nation's overall economic strength, which is a principal test of wise fiscal stewardship.

- Third, the balanced budget amendment could encourage manipulation of the budget. It would strengthen the incentive to shift costs off the budget through direct regulation of the private sector, unfunded mandates on states, creation of government-sponsored entities, or subtle accounting devices. For one example, some important government policies—such as certain insurance and retirement programs—show significant differences between costs measured on accrual and cash bases; accounting methods could be chosen to minimize the measured deficit. For another, a reluctance to show the deterioration of the Nation's financial institutions led to tens of billions of dollars of unnecessary costs for thrift and bank restructuring. A balanced budget amendment could encourage future administrations to mismeasure such accruing costs, with potentially serious implications for long-term economic welfare.
- Fourth, the amendment would be extremely difficult to enforce. Tax and spending policies—or the validity of forecasts of economic conditions, outlays and revenues—could ultimately be decided in the courts, by unelected judges. A frequently violated or manipulated amendment could bring disrespect for the Constitution as a whole.
- While an amendment would provide a sense of action, it would not by itself provide any deficit reduction. In fact, the illusion of progress could delay the necessary hard choices, leading to an even more economically damaging crunch when the amendment finally took effect. The amendment is, in truth, a gimmick designed precisely to postpone the hard choices needed to deal with the deficit problem. Past Presidents and Congresses did not hide behind the Constitution when the times required difficult and painful action. Indeed, last year's enactment of a $500 billion deficit reduction package required no Constitutional amendment—only the leadership and will to make tough choices.
- Finally, an amendment would give a minority in Congress the power to bring government operations to a halt—and could result in less deficit reduction, not more. If economic or other conditions make a deficit inevitable, but three-fifths of the Congress is needed to pass a budget with a deficit, then two-fifths plus one can prevent enactment of a budget. For that minority, there would be a tremendous temptation to demand some projects for their constituents—after all, there would be a deficit anyway—as the price for their votes to pass a budget. This would make fiscal policy excessively responsive to special interests and increase, not decrease, the deficit.

While the Administration is selective in its support of budget process proposals, the debate about methods should not obscure the substantial agreement about goals. The Clinton Administration is strongly committed to the objectives of most proposed reforms—sound fiscal policy, continued deficit reduction, and vigorous long-term economic growth.

INVESTING FOR PRODUCTIVITY AND PROSPERITY: SETTING PRIORITIES UNDER BUDGET DISCIPLINE

At the outset of this Administration, the economy needed Federal budget deficit reduction for both short-run and long-run reasons. In the near term—as has been amply demonstrated—deficit reduction would reduce the burden of Federal borrowing on the credit markets, reduce interest rates, and thereby stimulate credit-sensitive purchases and allow the economy as a whole to grow. In the long run, by freeing private savings to finance private investment, deficit reduction encourages the capital formation needed to increase productivity, raise living standards, and create jobs.

But the economy also needs public investment for the long run—to provide physical infrastructure, scientific and technological knowledge, and worker skills that allow the private sector to prosper and grow. President Clinton and Vice President Gore articulated their program for public investment during the election campaign in *Putting People First;* that program was presented to the Congress in *A Vision of Change for America* in the early days of their Administration.

While deficit reduction and public investment are complementary prerequisites of economic health, they conflict in the budget. Tax increases contributed less than half of total deficit reduction in the President's economic plan—with the amount restricted to limit the burden on middle-class families and maintain economic incentives—and so significant spending restraint was unavoidable. The Congress passed, and the President signed, legislation mandating $107.7 billion of discretionary spending savings over 1994–1998 through binding caps—a five-year hard freeze. Yet discretionary spending must implement much of this Administration's investment agenda.

The President's 1994 budget began the process of increasing public investment through discipline elsewhere in the budget. The Congress followed the President's lead and funded about two-thirds of his substantial public investment program. This 1995 budget continues on that same path. Despite the tight discretionary cap—spending must actually decline in dollar terms, without any adjustment for inflation—this budget provides $7.7 billion of increases in outlays ($13.7 billion in budgetary resources) in the President's designated investments by making tough choices in the other budget accounts.

The budget achieves the necessary savings in the following ways:

- *Choosing priorities.* With limited resources, a dollar devoted to one objective cannot be used for another purpose. The President had to determine which goals were most important. Accordingly, the budget focuses its resources on the prerequisites of economic growth—infrastructure, scientific and technological knowledge, education, worker training, health reform, personal security from crime and drug abuse, and national security. Other public purposes must take their proper place in the line for resources. The result is a budget that fulfills the commitment to deficit reduction while funding the highest investment priorities.
- *Achieving efficiencies.* Given a set of priorities, there are more and less cost-effective ways to pursue them. With limited resources available because of the imperative of deficit reduction, it is equally imperative to choose the best means to each objective. Thus, the budget funds formula grants for infrastructure rather than earmarked projects; civilian and "dual-use" technology more than specialized defense research; an unconditional "re-employment" system more than a plethora of narrow earmarked programs; and treatment of hard-core drug abusers more than interdiction of drug shipments in vast "transit zones." The broad range of such choices is presented in the following discussion.
- *Personnel reduction.* The President directed the agencies and departments to achieve reductions of 100,000 personnel by the end of 1995 in Executive Order No. 12839. The National Performance Review recommended increasing that reduction to 252,000 by the end of 1999; that recommendation was implemented through a Presidential Memorandum of September 11, 1993, "Streamlining the Bureaucracy." Personnel reductions on this track are included in this budget, and provide substantial spending savings.
- *Administrative efficiencies.* The President further required that the agencies and departments achieve administrative savings of 3 percent in 1994, increasing to 14 percent by 1997, in Executive Order No. 12837. Because administrative expenses themselves do not achieve investment objectives, such costs are an appropriate source of savings. The President's mandate, coupled with the budgetary pressures involved in meeting the discretionary cap, provide still further means of achieving deficit reduction while funding a significant investment program.

The following discussions show how, in every priority area, tough choices were made and efficiencies were achieved to allow deficit reduction and public investment to join—for the long-term strength of the economy.

3B. Investing for Productivity and Prosperity: Setting Priorities Under Budget Discipline

3B. INVESTING FOR PRODUCTIVITY AND PROSPERITY

INVESTING IN PEOPLE

> *Our national economic strategy for America will put people first at every stage of their lives. We will dramatically improve the way parents prepare their children for school, give students the chance to train for jobs or pay for college, and provide workers with the training and retraining they need to compete in tomorrow's economy.*
>
> President Bill Clinton

This discussion highlights significant Administration investments that follow through on the President's commitment to "put people first." These investments play a dual role. In a global economy where a nation's only unique resources are the skills and knowledge of its workforce, these investments are the key to prosperity. Further, because many of these investments are targeted to our youngest and least fortunate citizens, they also help break the cycle of poverty and open success to all.

The Administration is committed to producing real change in people's lives. To do so within existing budget constraints requires choosing investments with records of success or the ability to leverage other resources. It requires reforming programs to make them more effective. And it requires combining opportunity with an emphasis on responsibility.

Each section of this discussion addresses an important aspect of Investing in People:

- *Investing in Young Children* will ensure that children start out healthy, are prepared to enter school, and receive good parenting.
- *Improving Education* will raise the achievement of all children, and help reach the National Education Goals.
- *Investing in the Workforce* will aid students' transitions from school to work, train the disadvantaged and retrain workers who lose their jobs in a changing economy.
- *Encouraging National Service* will provide opportunities for young Americans to serve their communities and earn educational benefits in return.

Table 3B–1. **MAJOR INVESTMENTS IN PEOPLE**

(Discretionary budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Young children	5,977	7,064	8,054	+990	+14%
Education	7,278	7,539	9,089	+1,550	+21%
Workforce Investments	5,010	5,474	6,480	+1,006	+18%
National Service	279	575	850	+275	+48%

- *Reforming Welfare* will hold parents responsible for their children and provide them with the skills they need to support themselves and their families through work.
- *Redirecting Housing Assistance* for families will provide better neighborhoods for raising children and expand opportunities for work.

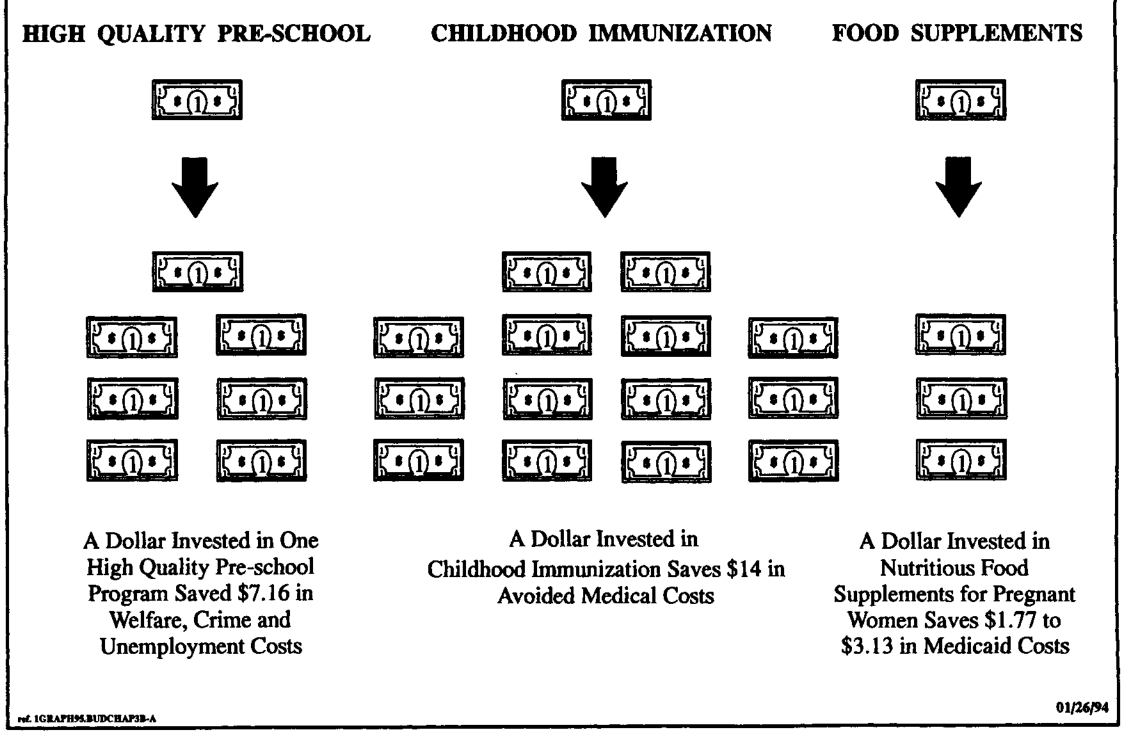
INVESTING IN YOUNG CHILDREN

As early as the fourth century B.C., the philosopher Plato stressed the importance to a just and prosperous society of investing in children from an early age. In *The Republic,* he discusses the type of poetry youth should learn, physical exercise they should undertake and diets they should follow to prevent diseases. He observes "... the first step, as you know, is always what matters most, particularly when we are dealing with those who are young and tender. That is the time when they are taking shape and when any impression we choose to make leaves a permanent mark."

Several millennia later, numerous scientific studies confirm Plato's suppositions about the importance of investing in our children. Research on early, high-quality children's education programs shows gains that may last into adulthood, including higher earnings, lower unemployment rates, and lower crime rates. Supplementing the diets of pregnant women and infants, and immunizing children against early childhood diseases, also save lives and improve health. As Chart 3B–1 shows, these investments both enhance the life prospects of children and save money for the taxpayer over the long run.

Programs such as Head Start, childhood immunization and the Special Supplemental Food Program for Women, Infants and Children (WIC), with demonstrated success in stretching the minds and strengthening the bodies of children, ought to reach more of their target population. Other programs like Family Support and Preservation can teach

Chart 3B-1. RETURN ON INVESTMENTS IN CHILDREN



parenting skills, help families with children at risk of abuse and neglect to stay together, and avoid foster-care placements. Accordingly, the Administration is committed to expanding resources for such programs. These and other programs for children and families also need to be integrated in ways that insure seamless services to recipients, as recommended by the National Performance Review.

Working with the Congress, the Administration has already increased funding for these programs by 19 percent. For 1995, the budget proposes an additional 21 percent increase for a total increase exceeding $2.6 billion (or 44 percent) over the two years it has been in office (See Table 3B–2).

Childhood Immunization

Children should be immunized against at least nine diseases. Most inoculations should be received by age two. Through grants to State and local health agencies, the Centers for Disease Control and Prevention (CDC) currently finance about a quarter of all childhood immunizations. State, local, and other Federal programs finance an additional quarter. The remainder is financed through the private sector.

Investments in childhood immunizations have high returns in averted medical costs, hospitalization and deaths. According to one study, the combined measles, mumps and rubella vaccine saves more than $14 for every dollar invested. Increasing childhood immunization keeps our children healthy, prevents tragic, avoidable losses of life, and reduces future medical costs.

While countries such as Belgium, Denmark and Spain had immunization rates at or above 80 percent for measles, polio, diphtheria and tetanus by the mid-1980s, the United

Table 3B–2. **PROGRAMS INVESTING IN YOUNG CHILDREN**

(Budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Percent Change: 1994 to 1995	Percent Change: 1993 to 1999
Immunization Funds [1]	341	528	888	+68%	+54%
Children Receiving Immunization (000s) [2]	N/A	N/A	13,186	N/A	N/A
Head Start Funds	2,776	3,326	4,026	+21%	+ 246%
Head Start Slots (000s)	714	750	840	+12%	+53%
Percent of Target Population Reached [3]	51%	54%	60%	N/A	N/A
WIC Funds	2,860	3,210	3,564	+11%	+54%
WIC Recipients (000s)	5,920	6,510	7,220	+11%	+28%
Percent of Target Population Reached [4]	79%	85%	95%	N/A	N/A
Family Preservation and Support Funds [5]	—	60	150	+150%	N/A
Individuals Served (000s)	—	N/A	N/A	N/A	N/A
Percent of Target Population Reached	—	N/A	N/A	N/A	N/A
Mandatory Programs	—	60	574	+857%	N/A
Discretionary Programs	5,977	7,064	8,054	+14%	+96%
Total	5,977	7,124	8,628	+21%	+209%

[1] 1995 funding shows a combined $464 million (current discretionary immunization program) and $424 million (new entitlement program). Specific goals will be established after survey data become available.
[2] Data is for all children up through age 18.
[3] Target population is 1.4 million Head Start eligible children.
[4] Target estimate is based on a 1993 CBO study estimating that 84 percent of all WIC eligibles will apply for WIC.
[5] Since Family Preservation and Support is a new entitlement program, participation estimates have not yet been developed.
N/A: Not applicable

States had immunized only 55 to 65 percent of its pre-school children. A survey of nine cities in 1991 found a median measle, mumps and rubella immunization rate of 38 percent for children under two years. In some inner-city areas, the vaccination rate may be as low as 10 percent. For 1992, data indicate higher vaccination rates, but 71–72 percent of children at or below the poverty level were still in need of at least one vaccine. In the past, drops in vaccine use have caused dramatic increases in the incidence of preventable childhood diseases such as measles and mumps. Reported measles cases, for example, rose from a record low of 1,497 in 1983 to 46,000 between 1989 through 1991, before dropping again.

One barrier to childhood immunization has been the high cost of vaccine. To eliminate that barrier, the President sponsored an initiative, enacted in OBRA 1993, to establish a new Federal vaccine entitlement program by October, 1994. The new program, called the Vaccines for Children Program, will buy free vaccine for underinsured and certain low-income children. With the new program underway, health officials have set a target of bringing vaccination rates for all two-year olds nationwide up to 90 percent by the year 2000.

Another barrier to childhood immunization has been access to services. In 1995, the Administration will request $46 million in added discretionary funds for extended clinic hours, mobile vaccination units, vaccine purchases, publicity campaigns about the importance of vaccinating young children and other outreach activities. Combined funding levels for the new entitlement program and the current discretionary program represent about a 68 percent increase over the past year's funding level. Ultimately, the President's health reform plan will have universal coverage for childhood immunization as part of a comprehensive benefit package available to all.

The Administration will continue to explore linkages between participation in federally assisted programs for child care and immunization, along the lines of school immunization standards. When children are in group settings like child care, infectious diseases are the most dangerous. Immunizing children in child care programs can prevent the spread of communicable illnesses.

Preventing childhood diseases by early immunization makes good sense. These measures also help children enter pre-school programs (such as Head Start) and elementary school healthy and ready to learn.

Head Start

Head Start is a $3.3 billion program offering comprehensive social services for pre-school children. The 2,000 local Head Start centers provide early childhood development services such as education, health care, and nutritious meals. The program helps disadvantaged pre-schoolers aged 3 to 5, 90 percent of whom must be from families below the poverty line, prepare to succeed in school.

In addition, virtually all of Head Start families receive social services directly or through referral from Head Start, and 36 percent of paid Head Start staff are current or former Head Start parents.

Evaluations of Head Start children have found short-term gains in IQs, better reading and math skills, higher socio-emotional test scores, and improved health status. Former Head Start children are more likely to be promoted to the next grade and less likely to be assigned to special education classes. Long-lasting positive effects are harder to prove. One long-term study, which followed a group of participants in a high-quality pre-school program through age 27, found that it returned $7.16 for every dollar invested because it halved participants' crime rates, significantly increased participants' earnings and property wealth as adults, and increased their labor-force participation. Unfortunately, not all Head Start programs deliver the high-quality services needed to produce such results.

For these reasons the Administration is committed not only to a major expansion of Head Start, but also to improvements in quality. To address both issues, the Administration appointed a bipartisan Advisory Committee in June 1993 to review Head Start and make recommendations for its improvement and expansion. This panel has identified three principles to guide Head Start:

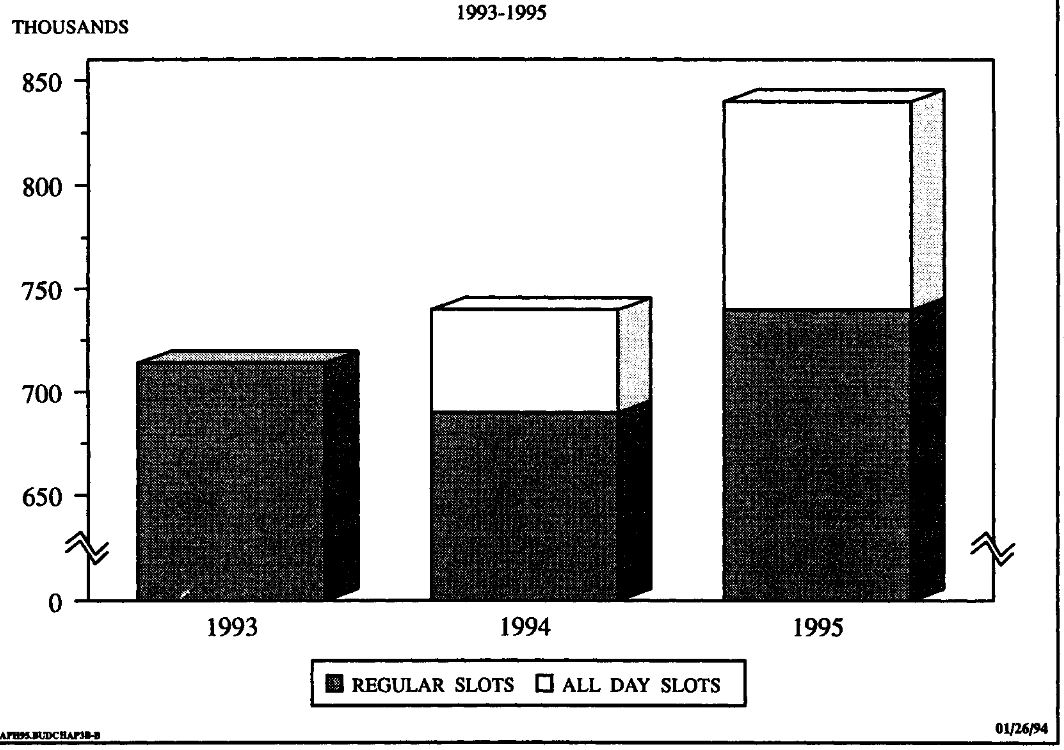
- *Excellence.*—We must strive for excellence in serving both children and families. This means more emphasis on improvements in staffing, in financial management, in facilities, and in Federal oversight and research.
- *Expansion.*—We must expand the number of children served and the scope of services provided in a way that is more responsive to the needs of children and families. This means more full-day, full-year programs, more targeting of resources to high concentrations of poverty, and a possible expansion to younger children.
- *Partnerships.*—We must encourage Head Start to develop partnerships with key community and State institutions and programs with similar objectives.

The Administration has embraced this framework in its vision of Head Start for the 21st century. For 1994, it obtained a 20 percent increase over the past year's funding level; and it requests a 21 percent funding increase for 1995. As Chart 3B–2 shows, the proposed number of Head Start slots for children increases by about 18 percent from 1993 to 1995.

The budget supports significant and sustained increases to continue expansion of Head Start services, to ensure quality in all aspects of the program, and to provide local flexibility to respond to family and community needs. Program quality set-asides of one quarter of the annual increase in funding will be spent on higher staff salaries, upgrades to facilities and teaching tools, and transportation (such as new buses for the children). For the children of working parents, the Administration plans to offer about 100,000 all-day program slots by 1995 (See Chart 3B–2) and about 290,000 by 1999. These expansions and quality improvements invest not only more, but also *more wisely,* in the future of our most vulnerable children and families.

Chart 3B-2. INCREASED ALL-DAY AND TOTAL HEAD START SLOTS FOR CHILDREN

1993-1995



150-001 O-94-4 (QL 3)

To maintain their intellectual and social gains, Head Start alumni must enter stronger, more challenging schools. The Administration's reauthorization proposal for Title I is an essential element in reforming and restructuring schools attended by poor children, and for providing continuity between pre-school and elementary school education (See the following "Education" section).

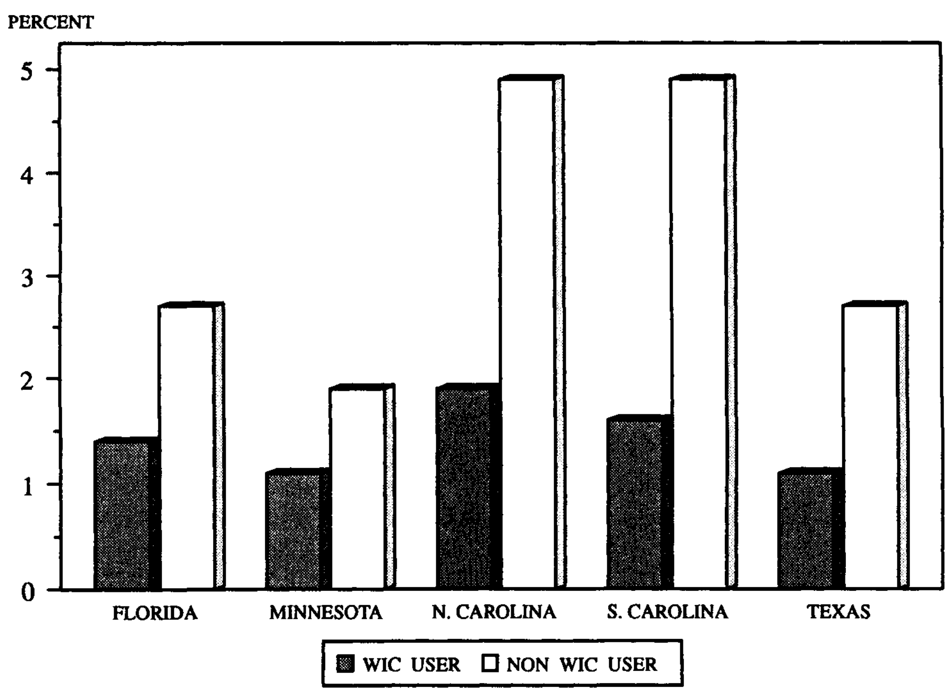
Special Supplemental Food Program for Women, Infants, and Children (WIC)

The WIC program, established in 1972, improves the nutrition of eligible low-income pregnant, breastfeeding or post-partum women, and their children under age five. The program provides supplements such as eggs, cereal, milk, juice, and cheese—foods often lacking in low-income diets—as well as nutrition counselling and referrals to other services such as health care. To be eligible, participants must have incomes below 185 percent of the poverty line (about $22,000 for a family of three in 1993) or receive Medicaid, Food Stamps, or Aid to Families with Dependent Children, and be found to be at medical or nutritional risk. The program is fully federally funded. Today, about four in every ten babies born in America participate in WIC.

Recent studies of WIC suggest the program improves the health status of pregnant women and reduces by 25 percent adverse birth outcomes such as low birthweight among Medicaid beneficiaries. Chart 3B–3, for instance, shows that in five States WIC mothers consistently had lower percentages of babies born with very low birthweights than non-WIC mothers. (Low birthweight causes health and development problems—and is present in 61 percent of all U.S. infant deaths.)

WIC also improves nutrition and prenatal care, and lowers fetal mortality. One study concluded that every dollar spent on WIC for pregnant women saves $1.77 to $3.13 in Medicaid costs in the first 60 days after birth. WIC has also been found to reduce iron deficiencies in infants and improve vitamin and mineral intakes in young children.

Chart 3B-3. PERCENT OF CHILDREN WITH VERY LOW BIRTHWEIGHTS BORN TO WIC AND NON-WIC MOTHERS



SOURCE: 1987-1988 State data on Medicaid newborns.

01/25/94

Recognizing the role of WIC in children's health, the 1994 budget provided a 15 percent increase, or $427 million above the previous year. The budget proposed that by the end of 1996, States should have the funds to serve the 7.5 million post-partum women, infants and children who meet current eligibility requirements and want to participate in WIC. In this year's budget, the President seeks to increase WIC spending by another 11 percent. This will expand the program to serve about 7.2 million women and children in 1995—up from 6.5 million in 1994—and maintain the funding needed to achieve the participation targets in the 1994 budget.

Because participation in WIC is so closely linked with improved health, the Administration further addresses WIC in the Health Security Act, the President's health care reform proposal. The Act includes a special fund to supplement annual WIC appropriations, and thus ensure that the program's participation targets for 1996 will be met.

Parenting and Family Support

Although government can improve the health, nutrition, and education of children, even more important to their welfare is good parenting and strong families. Yet some parents receive almost no help in learning to raise the next generation, and new babies do not come with easy-to-read instructions. The Home Observation for Measurement of the Environment scale, which measures conditions like the quality of the physical environment, the availability of intellectual stimulation, and the degree of emotional support provided by parents, suggests that 11 percent of all children aged 3 to 5 years have deficient home environments. Among low-income households, this rate more than doubles. Today, parenthood is all the more difficult because of the dual burdens of so many working mothers, parents who are trying to raise children alone, and the gradual decline in informal sources of information and support, such as extended families. Substance abuse, community violence, poverty, and homelessness have touched too many families, making the challenge of raising healthy children even greater.

Most families can raise their children with only a little extra help, but some need more intensive services, and a few have such serious problems that there is no alternative to out-of-home placement. From 1981 to 1991, child abuse and neglect reports increased two-fold to about 2.7 million (Chart 3B–4), and the foster care caseload increased by roughly 60 percent, to nearly 430,000 children. By 1990, there were approximately six children per thousand in foster care, the highest measured rate since 1962. Aside from the trauma of being removed from their parents, children in foster care also may face frequent shuttling between foster homes and interminable waiting periods before permanent placement (a phenomenon known as "foster care drift").

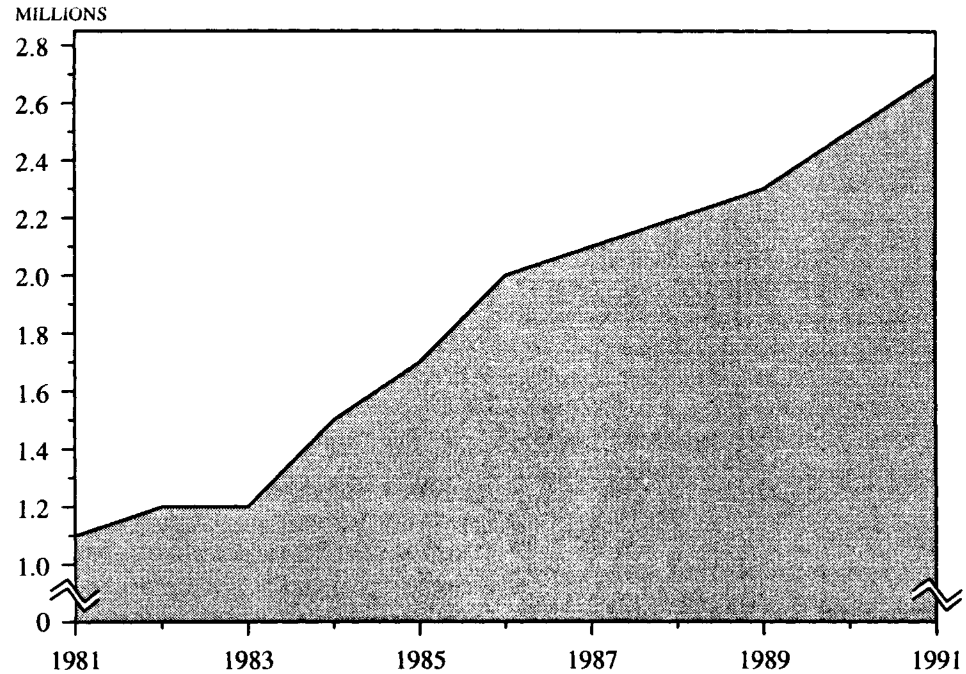
To meet the needs of families for both preventive services, like parenting education, and more intensive crisis services, community-based programs have sprung up across the country. But such services reach too few families. Recognizing this, the President proposed a major new program, Family Preservation and Support, in 1993. This new law, the most significant change in over a decade, will provide services such as family counselling, respite care of children, stress management and parenting skills training. The new program:

- provides community-based services that help and support parents to raise their children more effectively;
- prevents abuse and neglect *before* they occur; and
- helps children in foster care to return to their families as quickly as possible.

Family Preservation and Support, which will provide over $900 million over five years, has a 75 percent Federal funding match rate. Families with children at risk of placement in substitute care and parents opting to improve their parenting skills are eligible, without regard to income levels. Using the new funds, States could expand home visiting programs like the Home Instruction Program for Preschool Youngsters in Arkansas and the Parents as Teachers program in Missouri, which have been replicated in almost every State.

Chart 3B-4. GROWING CHILD ABUSE AND NEGLECT REPORTS

1981-1991



NOTE: Sources of duplication are multiple reports within a year on one child and multiple sources reporting a single incident.

01/25/94

Home visiting programs, which are provided nationwide in countries such as the United Kingdom and Denmark, can teach parents about child development, provide developmentally appropriate activities for parents and children to complete together, and ensure developmental screening of participating children. Longitudinal studies have found lasting benefits from some targeted home visiting programs in the United States, including less welfare dependency, a lower incidence of abuse and neglect, and higher IQ scores.

States will also provide services such as intensive family preservation. Such programs employ caseworkers to work intensively with troubled families in their homes for a short time. Caseworkers provide referrals for problems such as substance-abuse treatment where needed, and help families cope with stress and other factors that may lead to child abuse and neglect.

In conjunction with the Family Preservation and Support program, the Administration also obtained changes to the cluster of programs that provide child welfare services:

- States receive three years of enhanced (75 percent) Federal funding matches to develop automated child welfare management information systems. Such systems provide regular and timely status updates for each child in the child welfare system, allaying long-time concerns that many States do not have adequate information about the children they have in foster care.
- An estimated $35 million of the Family Preservation and Support funds will be awarded as grants to State court systems to determine more effective, streamlined ways to handle foster care cases and to otherwise apply child welfare laws judiciously. Overcrowded court dockets make it difficult to adjudicate child welfare cases swiftly and contribute to foster care drift.
- The Independent Living program, which provides transitional support to foster chil-

dren who "age out" of the foster care system, was permanently reauthorized. Independent Living teaches teenagers basic skills such as how to budget their income, keep house, and find a job. The program will continue at its current annual level of $70 million.

- $26 million of the authorized funding for Family Preservation and Support is set aside for evaluation, research, demonstration, training and technical assistance. Because the Family Preservation and Support program is new, it is important to monitor how well it works. Evaluation grants will help to determine which types of services best help families of at-risk children and teach good parenting skills.

Millions of parents struggle to raise children with little assistance or support from the community. New and inexperienced parents may lack the knowledge to raise a child. Families may not get services until they are reported for abuse or neglect, and sometimes not even then. Family preservation and support services help communities deliver parenting training and assistance to troubled families *before* crises erupt.

The Administration pledges to seek significantly greater resources for programs such as childhood immunization, Head Start, WIC, and Family Preservation and Support. Such programs can improve the life prospects for children, especially those from low-income families, and help ensure that they enter the school system ready to learn.

EDUCATION

A world-class education for all children is one of the Administration's highest priorities. The American education system is a partnership of States, communities, educators, and parents, but national leadership is essential. With enactment of the Administration's legislative and budget proposals, the Federal Government will become a full partner in the nationwide effort to raise the educational achievement of all children and reach the National Education Goals.

The Administration has proposed new education legislation and seeks increased resources to improve the education system. The discretionary budget authority increase for the Department of Education—seven percent, or $1.7 billion, over 1994—is one of the largest increases for any department.

The Administration is not just proposing to invest more. It is also proposing to reinvent the Federal role in elementary and secondary education to raise faltering educational achievement. The new role would change the whole system, through high standards and accountability for results; new flexibility for States, communities and schools; and new Federal funding to support them.

Elementary and Secondary Education

The elementary and secondary education system is in serious trouble, and has been for many years. Government at all levels, business groups, and others have documented low educational performance relative to other nations, declining college entrance test scores, weak educational preparation of teachers, substantial numbers of adults without the literacy skills to get a driver's license or read a ballot, and inefficiencies in school management. Federal, State and local spending for elementary and secondary education has soared during this period—rising 33 per-

LEGISLATION PROPOSED AND ENACTED:

The Student Loan Reform Act of 1993
National Service Trust Act of 1993

LEGISLATION PROPOSED AND PENDING IN CONGRESS:

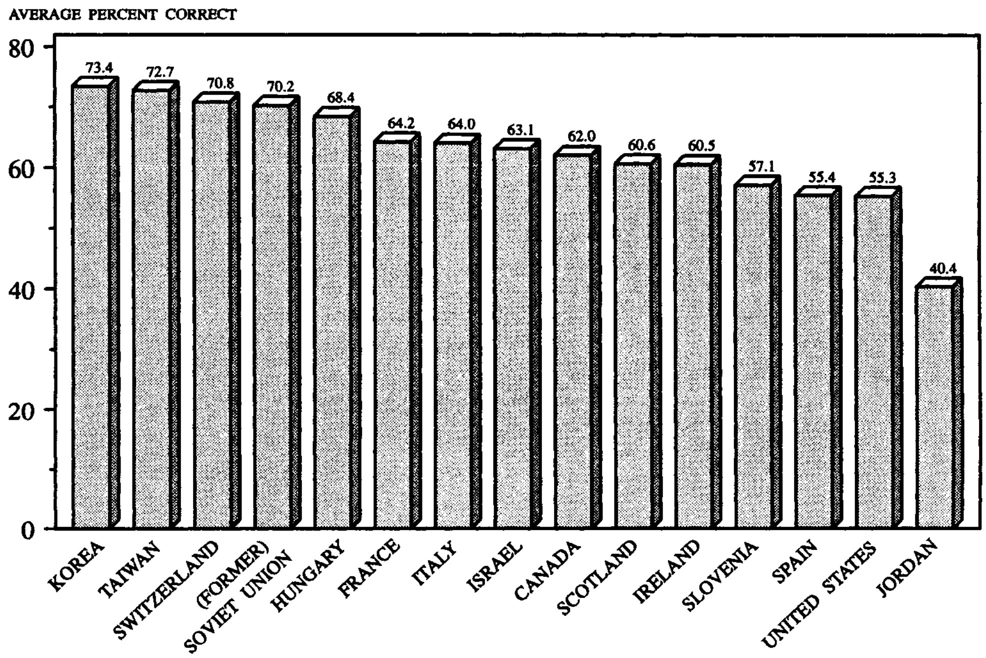
The Goals 2000: Educate America Act
The Improving America's Schools Act
The Safe Schools Act
The School-to-Work Opportunities Act

Table 3B–3. **FUNDING OF SELECTED INVESTMENTS TO RISE 23 PERCENT IN 1995**

(Budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dolloar Change: 1994 to 1995	Percent Change: 1994 to 1995
Goals 2000	....	105	700	+595	+567%
School to Work (Education and Labor)	....	100	300	+200	+200%
Title I Education for Disadvantaged	6,696	6,912	7,579	+667	+10%
Safe and Drug-Free Schools	582	472	660	+188	+40%
Head Start	2,776	3,326	4,026	+700	+21%
National Service	279	575	850	+275	+48%
Total	10,333	11,490	14,115	+2,625	+23%

Chart 3B-5. MATHEMATICS TEST SCORES OF 13-YEAR-OLDS IN SELECTED COUNTRIES



SOURCE: U.S. Department of Education, National Center for Educational Statistics, International Assessment of Educational Progress, Learning Mathematics, by Educational Testing Service, 1991.

01/25/94

cent in constant dollars from 1982 to 1992—without comparable nationwide improvement in student achievement.

Few States or school districts have established challenging performance standards for their students; most measure progress with tests that are not related to the material taught. Parents can rarely obtain information to hold their children or the schools accountable for performance. There are many examples of individual schools, teachers, and States changing their systems and achieving good results. But there are too few such examples to improve educational performance nationwide.

The Nation's Governors and the Federal Government agreed in 1990 to the National Education Goals.

THE NATIONAL EDUCATION GOALS.
By the Year 2000:

1. All children will start school ready to learn.
2. High school graduation rate at least 90 percent.
3. Competency in challenging academic subjects.
4. First in the world in science and mathematics.
5. Literacy for all adults.
6. Safe and drug-free schools.

National goals are the first step. Still needed are: challenging academic standards; curricula designed around those standards; teachers trained in helping children learn the curricula; and assessments that fairly and accurately measure progress so that there will be accountability to students and parents.

Systemic Reform.—The centerpiece of the Administration's education reform agenda is the *Goals 2000: Educate America Act.* Sent to Congress by the President on April 21, 1993, *Goals 2000* will provide the national framework to coordinate Federal, State, and local efforts into an integrated strategy for effective education reform.

Goals 2000 will disseminate reforms throughout the education system. In 1993, about half of the States were planning for one or another of the components of systemic reform, but only one or two had fully developed plans and timetables for reform. School reform has to move more rapidly and more consistently in all school districts in order to achieve dramatic improvement in educational achievement. Educators, business leaders, and parents are beginning to learn what works; these findings must now be used to improve schools in much larger numbers and in approaches designed by each community to meet its needs. New resources and national assistance under *Goals 2000* will encourage communities and States to focus their efforts and sharply accelerate the pace of reform.

States and communities will receive new Federal funds and other assistance to change whichever parts of their systems stand in the way of world-class performance. Some States need to plan and test new ideas. Others need funds for teacher training and technical assistance to implement reforms in all schools. Still others need to replace outmoded tests with multi-faceted assessment systems linked to the new standards and curricula.

For 1995, the Administration seeks $700 million for *Goals 2000,* an increase of $595 million over the 1994 appropriation. Beginning in 1996, the budget calls for annual appropriations of $1 billion. With this major commitment, every State and as many as 20,000 public schools (about one-fifth of all schools in the nation) would receive financial assistance to implement reforms by 1996, with more schools added every year thereafter.

Goals 2000 would also establish an independent *National Education Goals Panel,* consisting of governors, State legislators, Congressional leaders, and Administration officials. The Panel would monitor the Nation's progress toward the education goals and report annually on accomplishments and remaining problems. The Act would also create: a *National Education Standards and Improvement Council* to certify voluntary national and voluntary student performance standards; and a *National Skill Standards Board,* to work with business, labor and schools to develop standards for what students should know to enter different careers. State and local participation would be voluntary, in keeping with this Nation's tradition of local and State control of education. However, these groups will provide much-needed models of world-class standards toward which reformers can aim.

The Improving America's Schools Act.—*Goals 2000* would provide the new educational setting in which over $10 billion would be spent under the Administration's proposal to reauthorize and restructure the Elementary and Secondary Education Act (ESEA). The proposal was transmitted to Congress on September 13, 1993 as *The Improving America's Schools Act.*

Particularly in the largest ESEA program, Chapter 1 (1994 funding: $6.9 billion), Federal law and policy since the mid-1960s have stressed discrete and separate services for children with low educational achievement. Unfortunately, that approach has too often failed to improve the overall education they received. Emphasis has been on compliance with resource tracking rules, not on improved educational performance. Constant testing is required, using tests that stress mastery only of low-level basic skills, not challenging subject matter. Little has been done to improve the training of teachers or the quality of curriculum.

National evaluation studies by independent groups and the Department of Education document that Chapter 1 and other ESEA programs have had little impact on the educational progress of the five million children served, despite expenditure of tens of billions of dollars over the years. Furthermore, studies provide stark evidence that the educational achievement of children in schools with the highest levels of poverty is very low. Over half the children in schools with the highest concentrations of poverty are low achievers, compared to only 15 percent in schools with the least poverty. ESEA programs need to be restructured to produce better results.

The Administration's reauthorization proposal is based on five principles:

- *High standards for all children.*—This is the essential starting point for improving student and school performance. Federal programs, particularly those for at-risk children, have generated low expectations for students, focusing instruction on low-level basic skills. To receive funding under the new proposal, schools would set challenging performance standards for all students, including those at most risk of failure, and design curricula based on those standards.

- *Focus on teaching and learning.*—Opportunities for professional development of teachers and other school staff have been haphazard, short-term and ineffective. An expanded "Eisenhower Professional Development Program" would support quality pre-service and in-service training and education for teachers and administrators. These would be tied to the high standards. A system of regional technical assistance centers would coordinate Federal programs and would assist States and communities implementing educational improvements. A new education technology program would support innovation to raise educational achievement for all students.

- *Flexibility to stimulate local initiative, coupled with responsibility for improved student performance.*—Flexibility and responsibility would replace compliance with administrative process regulations as the hallmark of ESEA programs. The proposal would give schools and communities greater flexibility by simplifying the law and providing a broad waiver authority to remove Federal obstacles to State and community success. More schools with the highest concentrations of poor children could use Federal funds to raise educational improvement throughout the whole school rather than for selected grades or groups of students. A public "charter schools" initiative would encourage teachers, parents and others to create their own high-performance schools, "schools within schools," or clusters of schools, operated outside restrictive rules and regulations. Funding for the proposal's Title I (successor to Chapter 1) could help extend the school day or school year. Under Title I, schools and school districts would be sanctioned for failure to make progress toward State performance standards, and would be rewarded for outstanding performance.

- *Link schools, parents, and communities.*—Schools alone, particularly in high poverty communities, cannot ensure that all students reach high standards. The new Act will encourage and enable parents to work in partnership with teachers and administrators to improve learning, and help schools forge strong ties with community social services. Parents would be encouraged to help their children do well in school.

- *Resources targeted to greatest needs and in amounts sufficient to make a difference.*—Federal resources are currently spread too thinly across too many schools. Academic performance tends to be lowest in schools with high concentrations of poor children. Under the new Act, Title I funds would be better targeted to the poor children in the schools and school districts serving areas with the highest concentrations of poverty. In the Migrant Education program, funds would be targeted to the children with the greatest need for additional services: those children who have moved within the previous 24 months. Thirty percent of resources distributed by States to school districts under the Safe and Drug-Free Schools and Communities program would be targeted on a limited number of high-need school districts.

Overall, spending on ESEA programs would increase more than $900 million over 1994. State and local programs under the restructured ESEA Title I would be funded at $7.6 billion, an increase of $667 million, or 10 percent, over comparable activities in 1994.

Safe and Drug-Free Schools.—Violence and drug and alcohol abuse in many schools make effective teaching and learning impossible. On May 25, 1993, the Administration proposed the *Safe Schools Act* to help schools reduce violence by adding security personnel, finding and removing weapons, and teaching alternative approaches to dispute resolution. Congress appropriated $20 million for 1994 contingent upon enactment; the budget includes $100 million for 1995.

In addition, the Administration proposes to expand the current "Drug-Free Schools and Communities Act" into a new *Safe and Drug-free Schools and Communities* program that would add violence prevention activities. The budget requests $560 million for the new Act, an increase of $108 million, or 24 percent, over comparable activities in 1994. Beginning in 1996, the separate Safe Schools Act would be phased out as comprehensive State and local violence and drug abuse prevention strategies take over. (See also Chapter 5, "Personal Security: Crime, Illegal Immigration, and Drug Control.")

School-to-Work Opportunities Act.—In contrast to those in other industrialized nations, few of our Nation's schools work with businesses to prepare students for the workplace or further skill training. The *School-to-Work Opportunities Act,* sent to Congress on August 4, 1993, provides a framework to help States implement such strategies, and increases funding to $300 million, $200 million more than Congress appropriated for comparable activity in 1994. (See the following "Workforce Investment" section.)

Improving literacy.—Findings from the National Adult Literacy Survey indicate that over 40 million adults can function only at the lowest literacy proficiency level—unable to do even simple tasks, such as locating a meeting time and place on a form. Literacy must be addressed at all age levels. Even Start in the Education Department and Head Start in the Department of Health and Human Services both address inter-generational literacy by working with young children and their parents together. Grants to States under the Adult Education program would be funded at $267 million, an increase of $12 million, or 5 percent over 1994, to help States provide basic literacy improvement and high school equivalency degrees for disadvantaged adults. Workplace literacy grants would be funded at $24 million, $5 million, or 26 percent above 1994 to help businesses work with educational institutions to raise the literacy levels of workers.

Head Start.—The budget provides $4 billion for Head Start in 1995, an increase of $700 million, or 21 percent over 1994. Head Start is the key program in the Federal Government's strategies to help the Nation reach the first National Education Goal of all children entering school ready to learn. The Administration's Title I proposal calls for coordination with Head Start in each Title I school district. (See the previous section, "Investing in Young Children.")

Postsecondary Education

Increasingly, the economy demands, and high-paid jobs require, education or training beyond the high school level. Yet without grants or loans, higher education is beyond the reach of many families. The Federal Government is the largest provider of need-based student aid. The major Federal programs are Pell grants and student loans.

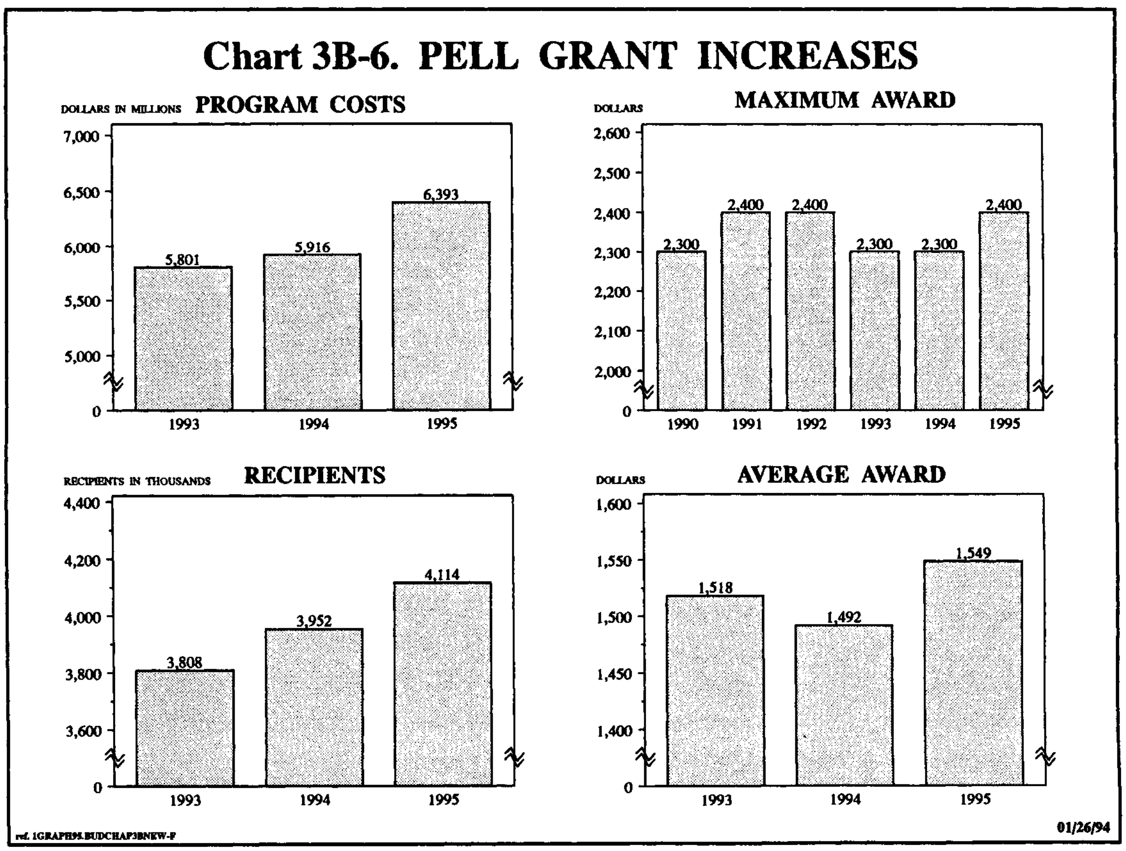
The loan programs have become very costly, difficult to administer, and subject to abuse. The growing use of loans to finance post-secondary education and training overburdens increasing numbers of borrowers, who often make career decisions based more on the income needed to pay off debt than on real career desires.

In response, the President sent to Congress two bills: *The National Service Trust Act* and *The Student Loan Reform Act.* Both were enacted in 1993. (See the "National Service" section below.)

The Student Loan Reform Act.—The guaranteed loan system that has evolved since 1965 is riddled with administrative complexities; provides high subsidy payments to banks, intermediary guaranty agencies and secondary markets; confuses students and schools; and has default costs in excess of $2 billion per year. It has been the subject of repeated Congressional investigations and GAO and Inspector General criticisms.

The Administration's *Student Loan Reform Act* replaces guaranteed lending with Federal direct lending. Direct lending, plus the Act's reductions in the cost of the guaranteed program during the phase-in period, saves taxpayers $4.3 billion (CBO estimate) over the first five years. The Act lowers charges and interest rates paid by borrowers and increases fees on banks, guaranty agencies and secondary markets. Direct lending simplifies administration, over time eliminating from new lending the 8,000 banks, 46 guaranty agencies and the secondary markets. The Act phases in direct lending over several years, so that by 1998, at least 60 percent of lending will be direct lending—or more if the schools ask for it. The direct and guaranteed loan programs together provide about $20 billion per year in loan capital to 5.5 million borrowers.

The new Act creates income-contingent repayment options for direct loan borrowers. Instead of repaying on fixed or other amortization schedules over ten years or less, regardless of earnings, borrowers may repay loans as a small percentage of income over an extended period. Borrowers may also suspend repayment during times of low family earnings, to avoid defaults. All borrowers who



now have loans, or will take out guaranteed loans during the phase-in period, can convert those loans to Federal direct loans to take advantage of income-contingent repayment. Through this repayment option, borrowers may take volunteer or low-paying community service jobs and still meet their loan obligations.

Program management.—The rapid growth in size and complexity of the postsecondary grant and loan programs through the 1980s, accompanied by inadequate Federal management, led to substantial abuses by some schools and default costs exceeding $2 billion per year. Laws enacted since 1989, especially the Higher Education Amendments of 1992, give the Education Department many new tools to improve the integrity of the programs, protect students, and reduce defaults. In particular, the new State Postsecondary Review Program, for which the budget seeks $35 million, $14 million—or 65 percent—over 1994, reviews schools with indications of program abuses and helps remove unscrupulous schools from student aid programs. The Student Loan Reform Act, when fully implemented, will further simplify loan program administration. The budget provides new staff and resources to manage student aid programs.

Pell grants.—The 1995 budget provides $6.5 billion for the Pell grant program for school year 1995–1996. Of this amount, $118 million would complete the retirement of the current estimate of the funding shortfall from prior years. For school year 1995–1996, $6.4 billion would provide grants to 4.1 million individuals, the most ever. The Administration also proposes to increase the maximum award by $100 to $2,400.

The Department of Education Budget

Discretionary budget authority for the Department of Education in the 1995 budget is $26.1 billion, an increase of $1.7 billion, or 7 percent over 1994. Although a number of programs would receive increased funding, not all of Education's 230 current programs should be funded or have funding increased. Many

Table 3B–4. **EDUCATION DEPARTMENT BUDGET INCREASES 7 PERCENT OVER 1994**

(Discretionary budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Goals 2000	—	105	700	+595	+567%
School to Work (Education share)	—	50	150	+100	+200%
Title I	6,696	6,912	7,579	+667	+10%
Safe and Drug-Free Schools	582	472	660	+188	+40%
Impact aid	840	798	750	–48	–6%
Professional Development	711	650	800	+150	+23%
Bilingual and Immigrant Education	213	227	254	+27	+12%
Education of the Disabled	2,966	3,109	3,295	+186	+6%
Vocational and Adult Education	1,474	1,481	1,447	–34	–2%
Pell Grant Program	5,788	6,304	6,393	+89	+1%
Pell Grant Shortfall	671	250	118	–132	–53%
Work-Study; Supplemental Grants	1,200	1,200	1,300	+100	+8%
Other Student Aid Programs	253	245	18	–227	–93%
Historically Black Colleges	98	101	106	+5	+5%
Other Higher Education Programs	735	793	783	–10	–1%
Research and Statistics	189	202	226	+24	+12%
All Other	1,278	1,455	1,481	–26	–2%
Total	23,694	24,354	26,060	+1,706	+7%

are too small to have any significant impact. Others address lower-priority issues, are ineffective, or have long since accomplished their original purpose. The National Performance Review (NPR) cited 34 such programs. Seven of these were terminated by Congress in 1994. The remaining 27 NPR programs, plus another six programs, would be ended by the 1995 budget. Thus, 33 programs, funded for a total of $639 million in 1994, would receive no funding in 1995. For example, the budget provides no funding for the Impact Aid "b" program, funded at $123 million in 1994. Impact Aid generally compensates schools for educating children who live on, or whose parents work on, Federal property. Funding is continued for children who both live on and have parents who work on Federal property.

WORKFORCE INVESTMENTS

Economic change has challenged America throughout its history, and successfully meeting this challenge has long set America apart from less flexible societies. But in recent years, advancing technological developments, defense downsizing, corporate restructuring, and intensifying global competition have altered the nature of our challenge. Many Americans are anxious about economic change and fearful about their economic security.

Current training and unemployment programs were designed in a different time to suit a different economy. When the existing system was established, a much larger number of low-skill, entry-level jobs awaited high-school graduates. Today's typical eighteen-year-old needs a higher level of skill to compete in the emerging global economy. A large share of the unemployed cannot expect to return to their old jobs, and must seek new work. Gaining entry to the labor market requires a higher level of skill. Finally, maintaining membership in the workforce requires greater flexibility.

This means fundamentally rethinking government's role in the labor market. The transition from school to work is at once more important and more difficult to manage. As skill requirements rise, the transition from one job to the next is more hazardous and, for some, more common. To preserve Americans' historical adaptability and openness to change, government must help citizens equip themselves to negotiate these workforce transitions.

To boost productivity growth and create a better-prepared workforce, the Administration has proposed new investments in working people, and a shift in policy from simply buffering the pain of unemployment to actively promoting re-employment. Despite the extraordinary budget constraints facing all discretionary programs, the 1995 budget includes $6.5 billion in budget authority for employment and training programs, an increase of $1.0 billion, or 18 percent, from the 1994 level. (See Table 3B–5.)

Table 3B–5. WORKFORCE PROGRAMS
(Budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Percent Change: 1994 to 1995
Grants for Training the Disadvantaged	1,692	1,647	1,729	+5.0%
Dislocated Worker Assistance	651	1,118	1,465	+31.0%
Job Corps	966	1,040	1,157	+11.3%
Summer Youth Employment	1,025	888	1,056	+19.4%
School-to-Work (DOL Share)	—	50	150	+200.0%
One-Stop Career Shopping	—	50	250	+400.0%
Other Employment and Training	676	681	673	−1.1%
Total	5,010	5,474	6,480	+18.4%

The Clinton Administration's three-pronged workforce investment strategy will finance initiatives that promote: (1) first jobs for people just entering the workforce; (2) new jobs by easing access for workers in transition from one job to the next; and (3) better jobs for all Americans as the economy continues to evolve.

First Jobs

The Administration's budget request includes targeted increases in high-payoff measures to ensure all young Americans a solid start in the working world.

Building a National School-to-Work System.—Too few young Americans possess the skills they need to qualify for entry-level jobs in high-wage careers. The proposed *School-to-Work Opportunities Act,* passage of which is anticipated in 1994, will provide students with on-the-job experience tightly integrated with classroom training, leading to a school diploma and, for most students, a degree or diploma certifying successful completion of at least one year of postsecondary education, and an industry-recognized credential with currency in the job market. The proposed legislation contains special provisions for serving poor and at-risk youth.

The program operated as a demonstration in 1994. For 1995, the budget requests $150 million each for the Departments of Labor and Education for expanded activities. Under the proposed legislation, a nationwide system would be established in waves, with states competing—on the basis of innovative program designs—to join earlier waves. All States would have the opportunity to implement school-to-work systems by the end of 1997. In the long run—once Statewide systems are in place—the Federal role will be limited to information dissemination and program evaluation.

Expansion of the Job Corps.—The Job Corps is America's oldest, largest, and most comprehensive residential training and education program for young, unemployed, and undereducated youth. Designed for severely disadvantaged youth ages 14 through 24, the program breaks the cycle of poverty and welfare dependence by providing the vocational training and job placement that youths need to become taxpaying citizens. The $1.2 billion program boasts a proven track record and is administered through a network of 109 centers, located in 45 states, Puerto Rico, and the District of Columbia.

The budget requests $100.5 million to expand this proven program. An additional $30 million is requested to address a backlog of needed repairs. The expansion funds would launch six new centers in addition to the eight initiated last year. When the current expansion is completed over the next decade, the number of centers will have increased to 162 and the number of slots from 42,500 to 62,500—a 50 percent increase in capacity.

Summer Youth Employment.—Title II-B of the Job Training Partnership Act authorizes the Summer Youth Employment and Training program, which provides temporary summer jobs and academic enrichment for disadvantaged youth ages 14–21. Internal audits and external reviews show that the young people involved in the program are well-supervised, perform useful work for the community, and often receive substantial education benefits. The increased funding will maintain approximately the same participation level in the summers of 1994, 1995, and 1996 as were supported in the summer of 1993.

The Administration's request for programs helping youth into their first job does not reflect an automatic, across-the-board increase in all programs. Indeed, while proven or promising approaches are expanded, $60 million less is being sought for one major program—Title II-C of the Job Training Partnership Act—until the Administration can remedy problems it has identified in the program.

New Jobs

Each year, about 27 percent of all U.S. workers move to new jobs, whether to advance careers or rebound from job loss. Countless others fear job loss and feel insecure about their employment outlook. The Clinton Administration's "new jobs" investment initiative will help experienced workers move from one job to the next, and ease fears about job change. Proposed for this purpose are a $1.5 billion comprehensive worker adjustment program for displaced workers and

$250 million to continue work on a network of one-stop career centers with improved labor market information and services for all job-seekers, as well as a small but strategic investment in a national network of occupational skills standards. The "new jobs" initiative also builds on the recently mandated program for "profiling" claimants for unemployment benefits. Profiling identifies workers likely to have difficulty finding new jobs and refers them to intensive job search assistance programs early in their period of unemployment.

While the Federal Government spends more than $1 billion annually for worker adjustment assistance, existing programs often are rigid and ineffective, and serve only a fraction of the 2 million workers permanently displaced each year. A patchwork of categorical programs targets subsets of the dislocated worker population—such as workers displaced by trade, defense downsizing, or environmental initiatives—raising serious concerns about equity and efficiency.

The Administration will propose legislation to consolidate, expand, and improve existing programs under a comprehensive Workforce Security program. The 1995 budget includes $1.5 billion for the new program, a 31 percent increase from the 1994 level. Serving some 750,000 workers in its first year of operation, the Workforce Security program is projected to serve 1.3 million dislocated workers or virtually all of those estimated to need and want services upon full implementation. Program expansion would refine and build on growth already begun with the Administration's 1994 dislocated worker investment proposal. In 1994, the $1.1 billion in budget authority for dislocated worker assistance was a 72 percent increase over the prior year, and the corresponding number of participants is estimated to rise 43 percent, reaching 500,000.

The Administration's Workforce Security program emphasizes services with proven effectiveness, and those that displaced workers find most valuable. Early outreach is the critical first step in helping dislocated workers. Thus, the new program will improve State rapid-response activities and refer UI applicants who have been identified as at risk of long-term unemployment to early reemployment services. In addition, all dislocated workers will have access to basic reemployment services, including (1) information on job openings, labor market trends, and the quality of education and training providers; (2) referral to appropriate programs, including student financial aid; (3) individual assessment; (4) job counseling; and (5) job search assistance, including job clubs. Dislocated workers who need more intensive services can choose long-term training, in the form of occupational skills training (both classroom and on-the-job), basic skills training, and entrepreneurial training.

Most importantly, the new program will hold training providers accountable for their results. Potential trainees will be armed with information on the track record of training providers, including their success in keeping participants enrolled, placing them in jobs, and securing higher earnings and licensure rates for their graduates. Unscrupulous or unsuccessful training providers whose curricula fail to meet these—and other—quality standards will be barred from program participation.

Finally, under the legislation, qualified long-term trainees will receive supportive services and be eligible for income support to allow them to complete training and launch new careers.

As another part of the "new jobs" investment strategy, the Administration proposes to establish a network of user-friendly One-Stop Career Centers to provide a single point of entry into the employment and training system. Growing from a 1994 budget of $50 million, the proposed 1995 funding of $250 million will provide Federal "seed money" to help States plan and implement programs that streamline access to the full range of employment and training services—aided, where necessary, by waivers of Federal requirements. Eventually, the Administration's One-Stop Shopping initiative will provide all jobseekers with easy access to jobs, career information, and Federal training and employment programs.

Finally, one title of the Administration's "Goals 2000" initiative (discussed under "Education" above) is pivotal to the "new jobs" agenda. The Administration requests $12 million for Title IV of Goals 2000, which authorizes a National Skill Standards Board. This program would create a national system of voluntary skill standards and certification. These standards will introduce real accountability to the training system and insure that workers make the investments that firms value.

Better Jobs

The Administration is pursuing three tactics to create an environment for better jobs. The first tactic focuses on the economy in general, stimulating investment through low deficits; investing in new technologies; expanding retraining programs; and opening global markets to American made products. The second and third focus on the job site, promoting the high performance workplace and enhancing enforcement of workplace laws.

Toward the second goal, the Secretary of Labor is initiating a new mission of promoting high performance workplace practices such as employee training, performance-based pay, and front-line decision-making. This is an innovation with important practical consequences for companies and workers, but one that, by design, has few Federal budgetary consequences.

To meet the third goal, the Department of Labor is launching new efforts to enforce workplace rules that protect both workers and responsible employers and that will total 355 staff and $66.7 million. These additional resources would address new responsibilities under recent laws such as the Family and Medical Leave Act and new regulations. Also included are initiatives addressing new workplace hazards, inspection of small mines and mine health issues, review of the periodic roll in the Federal Employees' Compensation Act program, and coordinated, high-profile enforcement interventions that focus on repeated and egregious violations of key labor laws.

In addition, the Administration will work with Congress to improve occupational safety and health. Reforms could include: a decentralized worksite-based approach to workplace safety and health, such as written health and safety programs and worksite health and safety committees; extension of OSHA coverage to Federal, State, and local government employees not now covered by the Act's provisions; increased employee participation in workplace safety and in OSHA inspections and accompanying protection measures; and targeting those that historically have been egregious violators of Federal laws and regulations. Included in the amounts referenced above are 132 staff and $18 million for improved oversight of workplace safety and health.

While seeking additional resources for some purposes, the Administration also will reinvent its enforcement practices to be more efficient, more strategic, more outcome-based, and fairer. This involves fairness to both workers and firms. When irresponsible companies seek competitive advantage by illegally underpaying wages and taking shortcuts to health and safety, it undermines the position of responsible companies that comply with workplace laws. Good corporate citizens, as well as workers, benefit from efficient and even-handed enforcement of workplace rules.

NATIONAL SERVICE

National service enhances educational opportunity, rewards responsibility, rebuilds local communities and fosters a sense of national community. Signed into law on September 21, 1993, the *National and Community Service Trust Act* will provide Americans of all ages and backgrounds with opportunities to serve their country addressing educational, public safety, human needs, and environmental problems. The Act established the new Corporation for National and Community Service and a new "AmeriCorps," under which participants will receive an education award of $4,725 per year in return for service for up to two years. These awards may be used for post-secondary education, approved training, or to pay off education loans.

The 1995 budget for the Corporation totals $850 million, a $275 million (48 percent) increase over 1994. This includes financing to expand the new programs started in 1994, as well as to continue existing programs formerly operated by ACTION and the Commission on National and Community Service. With this funding, the Corporation will provide opportunities for more than three-quarters of a million Americans to engage in service.

AmeriCorps is the heart of the President's vision of national service. Through formula and competitive grants, local communities will develop and implement programs to fund 20,000 service positions by the end of 1994. The 1995 request will finance 33,000 service positions (over three times the size of the Peace Corps and VISTA combined in 1995).

WELFARE REFORM

Our current welfare system violates two core American values: work and responsibility. Instead of giving people the education and training they need to work, it encourages dependence. Instead of encouraging teenagers to defer parenthood and insisting that absent parents support their children, it allows both to act irresponsibly. Instead of assisting parents who are working hard to support their families, it devotes most of its resources to those who are not.

The Administration will forward to Congress in late spring a detailed, comprehensive, deficit-neutral welfare reform plan. In the interim, the Administration will consult extensively on a bipartisan basis to finalize the plan and the entitlement reforms which finance it.

From Welfare to Work

Fundamental reform of the welfare system will require four major steps:

1. Promoting parental responsibility to help prevent the need for welfare in the first place.

2. Rewarding people who go to work by insuring that families have the tax credits, the health insurance, and the child care they need to make work pay.

3. Substituting work for welfare by providing job search, education, and training to those who need it, and expecting them to work at the end of two years.

4. Reinventing government assistance to reduce administrative bureaucracy, combat fraud and abuse, and give states greater flexibility within a system focused on work.

These reforms cannot be considered in isolation. The Administration has undertaken many closely linked initiatives to spur economic growth, improve education, expand opportunity, restore public safety and rebuild a sense of community: worker training and retraining, parenting education, family preservation and support, educational reform, Head Start, National Service, Empowerment Zones, community development banks, community policing, violence prevention, and more. Welfare reform is one piece of a larger whole, but it is an essential piece.

Two important steps in the Administration's welfare reform have already been taken: expansion of the Earned Income Tax Credit (EITC) as part of the Omnibus Budget Reconciliation Act of 1993; and introduction of The Health Security Act in September 1993. Both will help to make work pay, as described in more detail below.

The Current Welfare System

Currently, there are about 9.5 million children on Aid to Families with Dependent Children (AFDC). This is 14 percent of all children, up from 9 percent in 1970. Government at all levels spent $23 billion for this aid in 1993, and more than twice that amount when noncash benefits (like Food Stamps and Medicaid) for the same families are included. Yet, the system left most of its families still poor. In 1993, AFDC benefits for a mother with two children and no other income ranged from a low of $120 per month in Mississippi to $923 per month in Alaska. The median for all states was $367 per month. Combined with Food Stamps, the total was $652, about 70 percent of the poverty level. Worst of all, the system discourages work and marriage. Under current welfare rules, a recipient who goes to work or marries often sees little increase in income. This system serves no one well. It is anti-work; it is anti-family; and it leaves children in poverty.

Promoting Parental Responsibility

Poverty (especially long-term poverty) and welfare dependency are increasingly associated with growing up in one-parent families. Although most single parents do a heroic job of raising their children, the fact remains that welfare dependency could be significantly reduced if more young people delayed child-bearing until they were ready to assume the responsibility of raising children.

Increasingly, single-parent families are headed by an unwed mother. Further, between 1983 and 1992, cases headed by unwed mothers accounted for about four-fifths of the growth in the welfare rolls. These mothers typically have little education or other resources with which to raise children. About three-fourths receive AFDC. Only one in six receives any financial help from the child's father.

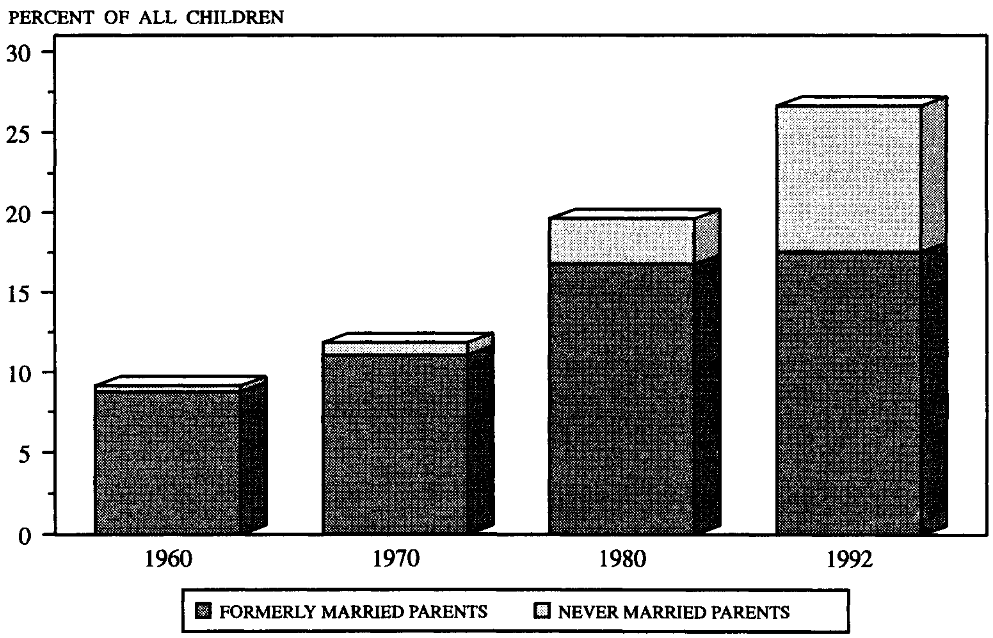
Given these trends, rebuilding an ethic of parental responsibility is fundamental. No one should bring a child into the world until he or she is prepared to support and nurture that child. Government does not raise children; families do. To encourage parental responsibility, the Administration's plan will:

- Require absent parents to support their children by strengthening paternity establishment and collecting child support.
- Reduce the number of teenagers having children through family planning and other measures.
- Require unwed teens with children to live with their parents in order to receive benefits, except in exceptional circumstances.

The first step in promoting parental responsibility will be to ensure that both parents support their children. Welfare reform will expect parents who go on welfare to work to support their children. Noncustodial parents should be held equally accountable. Unfortunately our current system of child support enforcement sends the opposite message. Almost two-thirds of single women with children receive little or no child support; and the gap between what absent parents could pay and what they do pay was an estimated $34 billion in 1990.

Chart 3B-7. THE PERCENT OF CHILDREN LIVING WITH A SINGLE PARENT HAS TRIPLED IN 30 YEARS

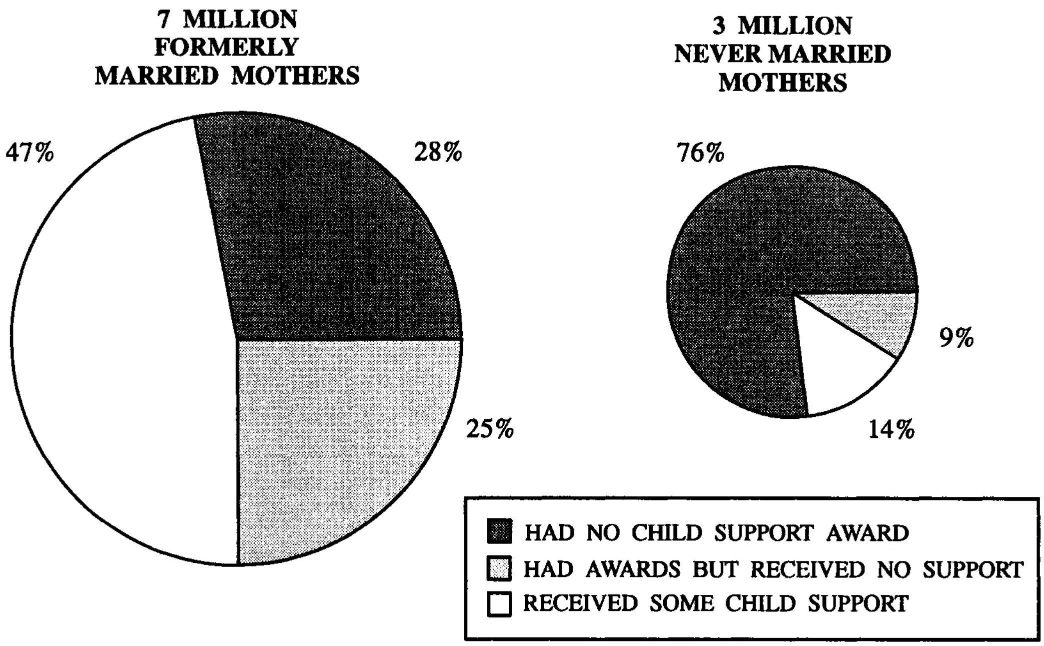
Since 1980, the increase has come almost entirely among children living with a never married parent.



SOURCE: "Marital Status and Living Arrangements: March 1992," Tables G and 6

ref. IGRAPHS.BUDCHAP3-G 01/26/94

Chart 3B-8. MOST SINGLE MOTHERS RECEIVE NO CHILD SUPPORT



SOURCE: "Child Support and Alimony: 1989," P60, No. 173.

01/26/94

To improve on the current system, the Administration is considering:

- A universal and simplified paternity establishment process at time of birth;
- A strict requirement that mothers applying for welfare cooperate with the authorities in establishing paternity;
- Periodic updating of child support orders to reflect the current income and circumstances of the noncustodial parent;
- Greater penalties for nonpayment combined with more help for noncustodial parents who need education, training, or other support to stay involved in their children's lives; and
- More streamlined establishment of paternity, better record-keeping at the state and national level, and other measures to insure that those who should pay, do pay.

Better child support enforcement will not only add to the incomes of single-parent families but may also deter some men from fathering children they are not prepared to support. The problem of irresponsible childbearing is particularly acute among teenagers. Teenage birth rates, after dropping in the 1970s and early 1980s, have been rising since 1987. By one estimate, about 40 percent of all women will experience at least one pregnancy before age 20. Most teen mothers do not intend to get pregnant; most teen fathers do not intend to start a family. Unfortunately, the majority of the mothers end up on welfare. The Nation paid about $34 billion in 1992 to assist families begun by a teenager.

To remedy this situation, the Administration will:

- Encourage and support more responsible family planning;
- Work with community leaders, educators, and the media to foster more responsibility; and
- Experiment with programs to reduce teen pregnancy and other high risk behavior

among youth, especially in distressed communities.

Making Work Pay

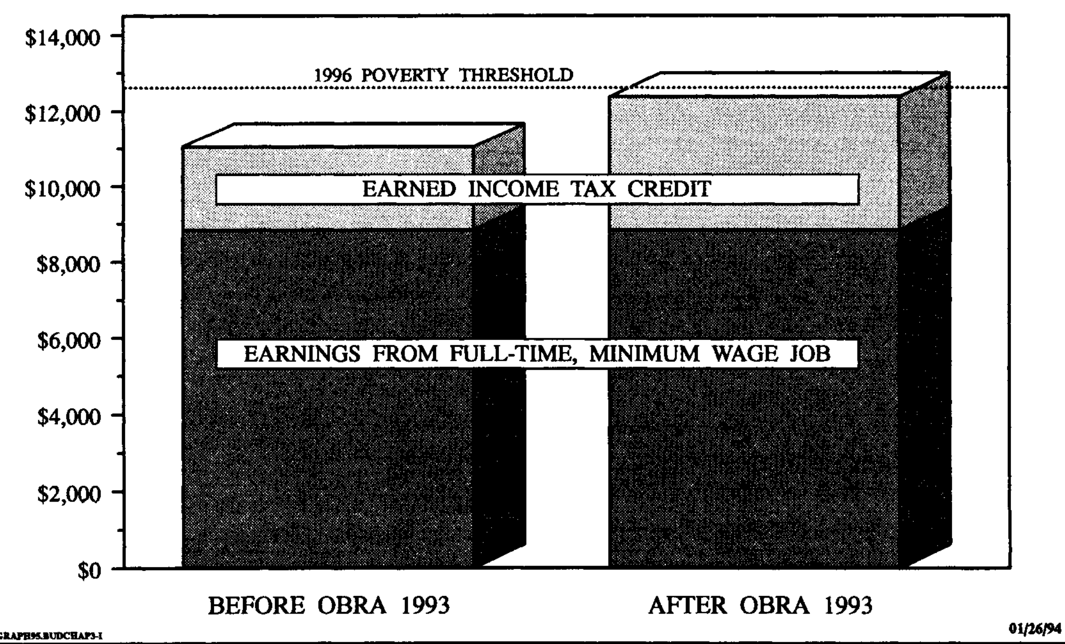
Even full-time work can leave a family poor—especially as real wages have declined significantly over the past two decades. In 1974, some 12 percent of full-time, full-year workers earned too little to keep a family of four out of poverty. By 1992, the figure was 18 percent.

To support the efforts of parents to work their way off the welfare rolls, the President has already launched an expansion of the EITC. Unlike welfare, the EITC is available only for people who work. Because the EITC is refundable, an eligible family may receive any portion of the credit not needed to offset tax liability through a direct payment from the Department of the Treasury. When the expansions enacted last year are fully implemented, a parent with two children may qualify for an EITC totalling more than $3,500. Combined with the current federal minimum wage of $4.25 per hour, the maximum EITC increases the effective wage for a worker with two children to about $6.00 per hour. The expanded EITC brings such a family up to the poverty level, even if the parent is working at a low-wage job. However, we must find better ways to deliver the EITC on a timely basis throughout the year.

Ensuring that all Americans can count on health insurance coverage is also essential. Non-working poor families on welfare often have better coverage than working families. Enactment of the Health Security Act will end this inequity. Health reform is necessary to make work better than welfare so that no parent need sacrifice his or her children's health by going to work.

With the EITC and health reform, the major missing element to make work really pay is child care. For this reason, the Administration's plan will include:

Chart 3B-9. BY 1996 THE 1993 EXPANSION OF EITC WILL BRING A FULL-TIME, MINIMUM WAGE WORKER WITH TWO CHILDREN UP TO THE POVERTY LINE



- Expanded child care and Head Start for the working poor and public assistance recipients moving toward independence.
- Coordinated child care programs and requirements that States ensure seamless coverage for persons who leave welfare for work.

Providing Education and Training, Imposing Time Limits, and Expecting Work

The Family Support Act of 1988 provided a new vision of mutual responsibility and work. Government would provide welfare recipients access to the education and training they need to find employment, and recipients would be expected to take advantage of these opportunities to move from welfare to work. This legislation created the Job Opportunities and Basic Skills (JOBS) program to deliver the services for recipients to become economically independent. The Administration's plan will build on the Family Support Act. As an architect of that effort, the President is committed to building on its vision.

Unfortunately, the site visits and hearings of the President's Welfare Reform Working Group over the past year indicated that this vision is largely unrealized at the local level. The primary function of welfare offices is still writing checks while conforming to all the myriad administrative rules concerning eligibility and the calculation of benefits. The Administration seeks to transform the culture of the welfare bureaucracy and fulfill the promise of the Family Support Act. We do not need a welfare program built around "income maintenance;" we need a program built around work.

The Administration's goal is to establish a welfare system in which people are asked to move toward work and independence. Welfare recipients will be required to look for work from day one. If none is available, they will enter into a social contract to help develop and then follow a plan for self-sufficiency, if the State provides the services in the plan. After two years, people still on welfare who can work but have not found a private sector job will be required to search for a job and work in community jobs to support their families while they are searching.

The Administration's plan will transform the current welfare system:

Expanded Access to Education and Training Services Through the JOBS Program.—The current JOBS program serves only 7 percent of adult welfare recipients. The plan will expand the JOBS program to give many more recipients the services they need to find lasting employment, and many more recipients will be required to participate.

A More Integrated Education and Training System.—Under reform, the JOBS program will not be a completely separate education and training system for welfare recipients, but will provide access to, and information about new job search and placement, training and education programs, including National Service, School-to-Work, One-Stop Shopping and income-contingent student loans. The plan will also serve as a link to such existing programs as Pell grants, JTPA, and Job Corps.

A Time Limit for Cash Benefits.—Limiting the length of time employable persons can receive cash assistance to two years is part of the effort to shift the welfare system from issuing checks to promoting work and self-sufficiency. The two-year time limit will guide both the recipient and welfare agency toward continuous efforts to find a job.

Making Work Available to Those Who Have Reached the Time Limit.—Persons who have reached the time limit for cash assistance will have to work, preferably by finding regular work in the private sector. The goal is for participants to find lasting employment outside the program. States will likely have discretion in the work programs to achieve this end. For example, a State could subsidize short-term private sector jobs or positions in not-for-profit agencies, in the expectation that many of these positions would become permanent.

Reinventing Government Assistance

The current welfare system is enormously complex, with multiple programs with different rules and requirements that confuse and frustrate recipients and caseworkers alike.

The welfare reform plan, in keeping with the Administration's commitment to reinvent government, will rationalize, consolidate and simplify the existing social welfare system. It will:

- Establish performance measures which emphasize moving people from welfare to work, while giving States and localities flexibility to design their programs for the task.
- Use technology to prevent waste, fraud and abuse.
- Streamline AFDC application, budgeting and redetermination processes by simplifying and eliminating rules and reporting requirements, particularly those concerning earnings.
- Make AFDC rules more consistent with those in the Food Stamp program.

The above measures are a fundamental change in direction, from a system based on welfare, to support for work and family. Welfare reform means more independence, control, and security for America's families. It means government helping people to help themselves. Ultimately, it means fewer people on welfare, a more productive citizenry, and lower costs for the taxpayer.

MOVING TO INDEPENDENCE: HOUSING AND THE HOMELESS

The 1995 budget also includes initiatives to expand and reform low-income housing and aid to the homeless in ways that better support families and work. These proposals will redirect housing and homeless programs to complement the Administration's proposals for welfare reform.

Reforming Housing Assistance for Families

Housing assistance can and should support those who work at low-paying jobs or who are struggling to grow from dependency to economic independence. Too often, however, it has trapped families in poor neighborhoods and increased their dependency. Timely housing assistance, combined with other services, should instead encourage transitions. A mother or father can use a housing voucher to move to an area offering greater job opportunities, better schools for the children, and safety. A young resident of public housing can gain skills and job experience rehabilitating the apartments where he or she lives. Homeless families and individuals can have shelter and stability, appropriate transitional services, and rent subsidies, to allow them to live independently, with dignity.

All this can be done with:

- Faster expansion of housing assistance to help program beneficiaries live in safe neighborhoods with job opportunities;
- Redirection of some family housing assistance to the homeless and those working or moving toward work to emphasize and reward *transitions* from dependency to independence; and
- Changes in Federal program organization and administration to link programs for the homeless with existing mainstream programs to provide a "continuum of care;"

The cost can be paid with careful trimming of many existing Federal housing subsidies and other money-saving reforms.

Moving to Independence.—The budget redirects the Department of Housing and Urban Development's (HUD's) housing assistance for families to provide stronger support for economic transitions. The Moving to Independence initiative combines housing certificates with counseling and apartment search assistance to ensure that all certificate holders can truly choose where they will live. Some families, particularly those in high-poverty communities, may choose to move to neighborhoods where they will have more housing choices, better access to jobs, and less concern about their safety and the quality of schooling. Too many assisted tenants have been housed in distressed neighborhoods. These families pay lower rents, but lack some basic amenities: community services, safety from violence, neighbors who work and serve as positive role models for children, and access to good jobs. Experience with housing assistance in combination with support for wider apartment search suggests that it has long-term benefits for low-income families, especially the children.

Metropolitan area-wide assisted housing.—In addition, the Administration proposes a three-year demonstration ($24 million in 1995) to improve social and economic opportunities for low-income families who live in highly segregated neighborhoods. Such neighborhoods are often particularly isolated from good schools, social services, and employment opportunities.

This initiative would establish pilot programs in three locations around the country. Each pilot would be operated by a private non-profit organization. Each organization would be charged with expanding housing opportunities for low-income families by coordinating the region's tenant selection, assignment, and counseling services. This approach to housing assistance would reduce the concentration of families by race, ethnicity, and income and link them to opportunities for sustained self-sufficiency.

Other reforms affecting families.—To emphasize that housing assistance supports transitions to independence, working families who cannot afford adequate housing will be selected ahead of similar welfare-dependent families from the waiting lists for public and other assisted housing. As working poor families increase their incomes and no longer need housing subsidies, those funds will be freed to serve additional families.

As another support for economic transitions, the budget also proposes expanded use of public housing modernization and other Federal resources to create jobs for public housing residents, especially youth. Other public housing initiatives include an expanded Tenant Opportunity program to help residents organize and conduct job training, and develop businesses; and continued support for Family Investment Centers, to expand access to education and jobs. The budget also expands support for Family Self-Sufficiency Coordinators to link housing with other social services for families in transition.

To meet the housing needs of families in rural areas, the budget proposes to double the amount of guaranteed loans for single-family housing and maintain direct loans at the 1994 level. These loans are for very low-, low-, and moderate-income rural households who otherwise cannot secure mortgage financing. Interest rates on the direct loans vary by recipients' income and can be as low as one percent. In 1995, the budget proposes to conform to other Federal housing standards the amount of income loan recipients contribute to their direct loan mortgage payments; recipients would pay 30 rather than 20 percent of their income. To aid rural renters, the Administration proposes to continue funding for rural housing vouchers, which received their first appropriation last year, at the 1994 level. These vouchers provide a flexible source of housing assistance, especially in areas with a surplus of rental units.

Homeless Assistance

Homelessness is one of the most disturbing products of the failure of society to provide adequate opportunity and care for all of its citizens. Communities, States, and the Federal Government have expanded their efforts. Annual Federal appropriations have surpassed $1 billion. Most of the funds for aid to the homeless were authorized in the 1987 Stewart B. McKinney Homeless Assistance Act—with HUD and HHS receiving the largest share of funds. To date, these responses do not appear to have substantially reduced the numbers of people with no place to call home.

One problem is a lack of coordination both across Federal agencies and at the local level. Federal homeless funds often do not link with mainstream Federal programs for which the homeless may be eligible, or with other homeless programs in the locality. Providers are heroes battling on the front lines, but they cannot succeed unless programs properly diagnose the needs of the homeless, give them appropriate transitional services, and graduate them from shelters to relatively independent, stable housing.

Increases in 1994.—In 1994, the Administration made homeless assistance a top priority, proposing more than $1.4 billion for assistance targeted to homeless families and individuals. Congress provided more than $1.3 billion—about 25 percent above the 1993 level.

Federal Plan.—Federal assistance aims to break the cycle of existing homelessness and prevent future homelessness. To advance these goals, President Clinton signed an Executive Order on May 19, 1993, calling for the Interagency Council on the Homeless, chaired by HUD Secretary Cisneros, to develop a Federal plan to break the cycle of homelessness. This plan, which will be completed in February 1994, will review the distribution of funding and the way current programs work together. The Interagency Council is now compiling and analyzing information from Federal sources, States and localities, nonprofit providers, advocates, and homeless persons through the Domestic Policy Council.

1995 overall proposed increase.—The 1995 budget proposes more than $2.1 billion in funding for programs specifically targeted to aid homeless families and individuals—an increase of 60 percent over 1994 and almost double the 1993 appropriation. This increase is in addition to the mainstream Federal assistance provided to the homeless (e.g., through programs like Food Stamps and AFDC) and surplus Federal equipment, food and real property provided to homeless persons. For HUD alone, the budget proposes $1.76 billion, more than 85 percent over the 1994 level. Components of the HUD funding include:

—$1.12 billion to reorganize the HUD McKinney Act programs. Under the proposed reorganization, funds would support activities to form a "continuum of care" to assist homeless persons and prevent future homelessness. Grant funds would initially be allocated to communities that can demonstrate a comprehensive plan to address homelessness; forge partnerships with local, private, and nonprofit providers; and improve participants' access to mainstream services and income-support programs. In subsequent years, awards may be phased out as mainstream programs take over. Some of the funds could be used for the Secretary's Innovative Homeless Initiative, which also promotes comprehensive homeless systems through local partnerships:

— $514 million for 15,000 rental vouchers for five years to help previously homeless families pay the rent in private apartments that they select. These vouchers provide a vital last link of the "continuum of care" that moves families from homelessness through shelter and transitional housing to relative independence.

— $130 million to continue the Emergency Food and Shelter program authorized under Title III of the McKinney Act and previously administered by FEMA.

Focus on mainstream programs.—In addition to the increases in funding targeted to homeless persons, the President's budget also links homeless assistance with mainstream programs providing services and income support, to help homeless people to break the cycle of homelessness. The mainstream Job Training Partnership Act program has been modified to focus more funding on persons with the greatest need, including the homeless population. Similarly, HHS' mainstream Community Services Block Grant program, along with existing HHS targeted programs, helps states and localities to provide health and substance abuse treatment services to the homeless. Finally, HUD's reorganization of its McKinney Act programs also increases linkages with mainstream sources, with some grants initially allocated to communities that have demonstrated efforts to improve access by homeless persons to mainstream services and income-support programs.

INVESTING IN KNOW HOW

SCIENCE AND TECHNOLOGY

> *Investing in technology is investing in America's future: a growing economy with more high-skilled, high-wage jobs for American workers; a cleaner environment ... Scientific advances are the wellspring of the technical innovations whose benefits are seen in economic growth, improved health care, and many other areas.*
>
> President Bill Clinton
> February 1993/October 1993

Investment in science and technology (S&T) is essential to build a prosperous economy, create high quality jobs, improve health care and education, and maintain national security. Federal programs can play a key role in supplementing private research in areas where returns on research investments are too distant or uncertain for private firms to bear. During the Cold War era, Federal S&T programs were dominated by investments in space, defense, and basic research; civilian technology benefited primarily by serendipitous spin-off. The end of the Cold War and sharp increases in international competitive pressure on U.S. industries demand a new approach. The Administration's response was outlined in 'Technology for America's Economic Growth, A New Direction to Build Economic Strength' (February, 1993), including three main goals:

- Reaffirming our commitment to fundamental science, the foundation upon which all technical progress is built.
- Improving the contribution of federally sponsored S&T innovation to economic growth and environmental protection by forging closer working partnerships among industry, Federal and state governments, workers, and universities.
- Coordinating federally supported S&T investments across the Federal Government.

The major progress made toward these goals during 1993 was reported in "Technology for Economic Growth: President's Progress Report" (November, 1993). Programs proposed for the 1995 budget are designed to sustain this momentum.

S&T Highlights

National Science and Technology Council (NSTC).—In responding to a key recommendation of the National Performance Review, the cabinet-level NSTC was created in November 1993 (Executive Order 12881) to coordinate Federal S&T investments and policies. While we are imposing strict limits on Federal spending to reduce our Federal budget deficit, the NSTC will ensure that taxpayers receive the maximum benefit for their investment. The Committee of Advisers on Science and Technology was established along with the NSTC to serve as a private sector advisory group to the President and the NSTC. The NSTC will spend the next year examining how to improve the integration of S&T activities in a broad range of areas, including information technology, manufacturing, health, transportation, environment, fundamental science and education. This more comprehensive review process should be ready for the 1996 budget.

Research and Development (R&D) Investments.—While there are some sophisticated technologies that are not included in the Federal R&D budget (e.g., the Space Shuttle, operational weather satellites, technical information services, etc.), the R&D budget has traditionally been considered the most comprehensive summary of Federal S&T activities. The Administration is proposing $71 billion in R&D investments (excluding facilities) in 1995, a $2.5 billion or four percent increase over 1994 (Table 3B–6). Civilian R&D will increase over $1 billion or four percent to $32 billion. The combination of continued annual growth for civilian R&D, anticipated decreases in defense R&D after 1995, and the inclusion of dual-use defense R&D is likely to cause the civilian share of the R&D budget to exceed 50 percent earlier than the 1998 date predicted in the 1994 budget. Much of this increase will be focused on cost-shared and competitively selected projects that are industry-defined and industry-led (i.e., consortia, cooperative R&D, etc.). In 1995, university-based research will increase to $12 billion, a $437 million or four percent increase over 1994. University-based research continues to provide an important contribution to the creation of knowledge, technological innovation, and the training of scientists and engineers.

Research Grant Overhead Payments.—The Federal Government awards over $17 billion in research grants each year to universities and other non-profit institutions, including substantial amounts (over $3 billion) for reimbursement of overhead costs. In a year in which total discretionary spending is being frozen, and government administrative costs are being aggressively reduced, it is necessary to ask universities and other non-profit institutions to participate in this restraint. Instead of a permanent cut or cap on overhead payments, the 1995 budget proposes a one year pause that instructs grantee institutions not to seek additional payments for overhead above the amounts claimed in 1994.(See the Supplemental Proposals section of the *Budget Appendix* for specific implementation language.) The yearlong pause will provide time for the Council of Economic Advisers, the Office of Science and Technology Policy, and the Office of Management and Budget—with advice from representatives of affected institutions—to conduct a comprehensive review with the goal of improving the incentives that govern overhead reimbursement for a wide range of federal research grantees and contractors.

Putting S&T to Work for America's Future.

Expand Cost-shared R&D Partnerships/Technology Transfer.—Partnerships ensure that federally sponsored research is relevant and efficiently put to use in private markets. The Federal agencies (including Defense, Energy, Health and Human Services, NASA, Transportation, EPA, and Agriculture) play a key role in building these partnerships with industry and the university community, including the use of cooperative research and development agreements (CRADAs). There will be over 3,200 CRADAs in 1995, a 453 or 16 percent increase over 1994, with public and private cash and non-cash investments exceeding $1.5 billion. The Federal agencies will also invest $865 million in 1995 on technology transfer activities, a $314 million or 57 percent increase over 1994.

Expand the Commerce Department's National Institute for Standards and Technology (NIST) R&D Programs.—The Advanced Technology Program (ATP), Manufacturing Extension Partnerships (discussed latter), and in-house research on measurements, standards, data verification, and test methods form the core of the NIST activities. The $451 million budget more than doubles the ATP in 1995. The budget will support roughly 200 ATP projects, with 100 new projects in strategic program areas chosen in cooperation with industry. Funding for in-house research increases to $316 million in 1995, with major new increases in advanced manufacturing ($18 million), biotechnology ($4 million), environmental technology ($5 million), advanced materials ($17 million), information infrastructure ($38 million), international standards ($5 million), and math and science post-doctoral education.

Table 3B–6. **FUNDING FOR SCIENCE & TECHNOLOGY HIGHLIGHTS**
(Budget authority; dollars amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Research & Development (R&D):					
Civilian:					
Basic	11,951	12,578	12,880	+301	+2%
Applied & development	16,384	17,770	18,621	+850	+5%
Total	28,335	30,349	31,500	+1,152	+4%
Defense:					
Basic	1,411	1,212	1,232	+20	+2%
Applied & development	40,004	36,923	38,296	+1,373	+4%
Total	41,415	38,136	39,528	+1,393	+4%
Total R&D (without facilities)	69,750	68,484	71,029	+2,544	+4%
Total R&D (with facilities)	72,478	71,073	73,045	+1,972	+3%
Civilian share of R&D [1]	43	47	47	NA	NA
Defense share of R&D	57	53	53	NA	NA
R&D by agency (without facilities):					
Defense	38,617	35,538	36,971	+1,433	+4%
Health & Human Services	10,336	11,033	11,484	+451	+4%
National Aeronautic and Space Administration	8,090	8,493	8,597	+105	+1%
Energy	5,827	6,054	6,052	–2	–*
National Science Foundation	1,882	2,026	2,220	+194	+10%
Agriculture	1,335	1,393	1,394	+1	+*%
Other	3,664	3,948	4,310	+362	+9%
Total R&D	69,750	68,484	71,029	+2,544	+4%
R&D support to university researchers	11,674	11,719	12,156	+437	+4%
Cost-Share R&D Partnerships/Technology Transfer					
Technology Transfer	384	551	865	+314	57%
Number of CRADAs	2,230	2,758	3,211	+453	16%
Public/Private Cash and Non-cash value of CRADA Investments	813	1,176	1,504	+328	28%
NIST R&D programs	**366**	**490**	**874**	**+384**	**+78%**
National Science Foundation	**2,734**	**3,018**	**+3,200**	**+182**	**+6%**
NASA's new technology investments	....	**42**	**67**	**+25**	**+60%**
Health research	**10,336**	**11,033**	**11,484**	**+451**	**+4%**
(National Institutes of Health)	9,891	10,486	10,994	+508	+5%
Human genome project:					
National Institutes of Health	106	129	152	+23	+18%
Energy	63	70	89	+19	+27%
International space station	**2,262**	**2,104**	**2,121**	**+17**	**+1%**
Civilian industrial technologies:					
Manufacturing technologies	NA	1,841	2,000	+159	+9%
NIST manufacturing extension partnership	18	30	61	+31	+103%
National information infrastructure:					
National Telecomunications Information Administration	....	26	100	+74	+285%
National Technical Information Service	8	....	18	+18	+*
High performance computing and communications:					
Defense	298	341	397	+56	+16%
National Science Foundation	225	267	329	+62	+23%
Energy	100	123	125	+2	+2%
National Aeronautics and Space Administration	82	113	125	+12	+11%
National Institutes of Health	47	58	82	+24	+42%
Commerce	12	29	82	+53	+183%
EPA	8	7	14	+7	+92%
Total HPCC	772	938	1,154	+216	+23%
Transportation:					
Federal Aviation Administration research	230	254	267	+13	+5%
New generation of vehicles (Energy only)	107	141	175	+34	+24%
Alternative fuel vehicles	29	44	69	+25	+57%

Table 3B–6. FUNDING FOR SCIENCE & TECHNOLOGY HIGHLIGHTS—Continued

(Budget authority; dollars amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Intelligent vehicles/highway systems	155	214	289	+75	+35%
Next generation high-speed rail	5	4	33	+29	+725%
NASA aeronautics research	129	287	347	+60	+21%
U.S. Global Change Research Program					
National Aeronautics and Space Administration	932	1,022	1,236	214	+21%
National Science Foundation	125	142	208	+66	+46%
Energy	87	93	126	+33	+35%
Commerce	67	63	84	+21	+34%
Agriculture	48	49	58	+8	+19%
Environmental Protection Agency	25	27	31	+4	+14%
Interior	38	33	33	–1	–1%
Smithsonian	7	7	8	*	+3%
Defense	7	6	6	*	+*%
National Institutes of Health	3	3	4	*	+13%
Tennessee Valley Authority	*	*	1	+1	+233%
Total USGCRP	1,338	1,446	1,794	+348	+24%

1 Includes Defense Dual-Use Activities.
* Less than $500 thousand.
NA: Not applicable.

National Science Foundation (NSF).—The budget proposes $3.2 billion for NSF, a $182 million or six percent increase over 1994. The NSF supports peer-reviewed, university-based science and engineering research, including interagency research efforts in global change research, high performance computing, and manufacturing.

NASA's New Technology Investments (NTI).—The budget proposes $67 million for the second year of the NASA NTI program (a $25 million or 60 percent increase over 1994). The NTI is focused on industry-led projects, including industry-defined advanced technologies and small satellite technologies

Health Research.—The budget proposes roughly $11.5 billion for health-related R&D activities funded through the Department of Health and Human Services, a $451 million or four percent increase over 1994. Of these funds, roughly $11 billion is for the National Institutes of Health, $508 million or 5 percent over 1994. NIH supports biomedical and behavioral research.

Human Genome Project.—The budget proposes 241 million in Energy and NIH, a $42 million or 21 percent increase over 1994, for this multi-year effort to decode the information locked in the chemical building blocks that form human genetic inheritance.

New Facilities for Fundamental Science and Applied Research.—The budget includes $40 million to begin constructing the Advanced Neutron Source (ANS) research reactor project at the Oak Ridge National Lab, a $23 million increase over 1994. In addition, $116 million is included for the B-meson research facility at Stanford ($46 million) and the Tokamak Physics Experiment (TPX) facility at Princeton ($70 million). The ANS will replace aging neutron sources and supports research on disease and human genetics, high-temperature superconductivity, nuclear medicine, and advanced materials. The B-meson facility will explore the dynamics of matter in the Universe's earliest moments, a central question in science. The TPX will advance the development of an economically attractive fusion energy reactor.

International Space Station.—The budget includes $2.1 billion for the redesigned space station and Russian participation. The space station will be a premier orbital research facility for life science and materials research.

NASA also plans a number of Shuttle flights to the Russian Mir space station. This collaborative project on the Mir will provide valuable information for the construction and operation of the international space station.

Moving Manufacturing Technologies to the Global Marketplace.

Accelerate Investments in Civilian Technologies.—Federal programs aimed at increasing competitiveness of civilian industries while improving the environment will be coordinated by the NSTC's Committee on Civilian Industrial Technology. Working closely with the private sector, the Committee will develop a government-wide plan for improving manufacturing technologies that are broadly applicable to U.S. industries and of special importance to our nation's economy. In 1995, nine agencies propose to spend over $2 billion for R&D in manufacturing technologies, a $159 million or 9 percent increase over 1994. Defense, Energy, Commerce, NASA, and NSF are the primary contributors.

Deployment of Civilian Industrial Technologies.—The Federal Government's effort to deploy technologies includes NIST's Manufacturing Extension Partnerships (MEP). The budget funds NIST's MEP at $61 million, a $31 million increase or doubling over 1994. This partnership will help small- and medium-sized manufacturers to tap into regional and national sources of information, knowledge, and assistance in the use of modern manufacturing and production technologies. The Administration anticipates more than 100 manufacturing extension centers by 1997. The Technology Reinvestment Project in Defense and programs in industrial extension in Energy will complement the NIST MEP program.

Realizing the Opportunities of the Information Age

Improve the National Information Infrastructure (NII).—All Americans have a stake in the construction of the communications network, computers, databases, and consumer electronic products that constitute the NII. While the private sector will build the NII, the Federal Government has a key role to play by investing in research and advanced communications applications, and by becoming a leading-edge adopter of information technologies. Federal NII projects are coordinated by the Information Infrastructure Task Force chaired by Commerce. In January, the Vice President challenged the private sector to connect all our classrooms, libraries, hospitals and clinics to the NII by 2000.

High Performance Computing and Communications (HPCC).—The HPCC, which will become part of the NSTC Committee on Information and Communications, funds research programs to create more powerful computers, faster computer networks, and more sophisticated software; and to address complex scientific and engineering computing problems known as 'Grand Challenges,' such as weather forecasting, designing life-saving drugs, and modeling aircraft. For 1995, the budget proposes $1.2 billion for HPCC, a $216 million or 23 percent increase over 1994. The HPCC program also includes a component called Information Infrastructure Technologies and Application (IITA) which applies HPCC technologies in a broad range of applications with large societal impacts, including health care, education, libraries, and manufacturing.

National Telecommunications and Information Administration's (NTIA) Networking Pilot and Demonstration Projects.—The NTIA funds competitively selected grants to connect schools, clinics, hospitals, libraries, and other non-profit entities to existing computer networks. The budget proposes $100 million for this activity, a $74 million or 285 percent increase over 1994.

National Technical Information Service (NTIS).—The NTIS proposes a one-time $18 million pool of investment capital to help support the electronic dissemination of data generated by the Federal Government.

Transportation and the Economy

A transportation system that can move people, goods, and services quickly and efficiently needs technologies to minimize the maintenance of existing transportation infrastructure, and lead to the next generation of transportation modes.

Federal Aviation Administration (FAA) Research, Engineering, and Development (RE&D).—The budget includes $267 million for FAA RE&D, a five percent increase above 1994. FAA conducts research in improving the safety, security, productivity, and capacity of the air traffic control system, including the use of satellite-based navigation and communications technologies.

Partnership for a New Generation of Vehicles.—President Clinton, Vice President Gore, and the CEOs of General Motors, Ford, and Chrysler agreed to an ambitious set of research goals to enhance the competitiveness of the U.S. automobile industry and to improve the environment. This agreement, which involves Commerce, Defense, Energy, Transportation, NASA, EPA, and NSF, will target advanced manufacturing processes, technologies for near-term improvements in fuel economy, and up to three-times improvement in fuel economy in about a decade. While the interagency budget will be fully developed during 1994, Energy alone is proposing $175 million for these activities, a 24 percent increase over 1994. Energy's efforts focus on advanced lightweight and ceramic materials, fuel cells, more efficient engines, electric vehicles, and hybrid vehicles. Another $69 million is proposed in 1995 by Energy for alternative fuel vehicle development and purchases of alternative fuel vehicles for the Federal fleet, a $25 million or 57 percent increase over 1994.

Intelligent Vehicles/Highway Systems.—The Department of Transportation (DOT) is conducting research on improving highway safety, increasing highway automation and productivity. The 1995 budget proposes $289 million, an increase of $75 million or 35 percent over 1994.

Next Generation High-Speed Rail.—The objective of this DOT program is to promote private industry investments in futuristic, cost-effective rail technologies through the use of existing infrastructure. The program will be funded at $33 million in 1995, a $29 million increase over 1994. Where possible, the program will be administered in conjunction with Commerce's Advanced Technology Program and Defense's Technology Reinvestment Project.

NASA Aeronautics Research.—The aviation industry employs nearly 1 million people, generates almost $100 billion in annual sales, and produces tens of billions of dollars in exports. In collaboration with industry, NASA is sponsoring high-speed research (HSR), advanced subsonic technologies (AST), and the HPCC activities mentioned above. Industry concepts envision a high-speed civil transport that could carry 300 people overseas at Mach 2.4 (arriving in roughly half the current subsonic transport time and at comparable subsonic fares). The AST program will increase subsonic aircraft productivity and lower operating costs through the development of lightweight engines and airframes, optical flight systems, and integrated wing designs, and other technologies. For 1995, the budget proposes $347 million for HSR and AST, a $60 million or 21 percent increase over 1994. In addition, most of the $74 million of 1994 funding is available in 1995 for the definition of requirements and design, in collaboration with industry, for new or drastically modified U.S. wind tunnels.

Energy and Environment: New S&T for Environmentally-Safe Economic Growth

Energy and environment S&T activities can help balance economical growth with lower energy use and environmental protection. The Administration is developing a comprehensive energy and environment approach, including the U.S. Global Change Research Program to improve knowledge of our planet's climate, the Climate Change National Action Plan to curb greenhouse emissions, and the development of environmental and energy conservation technologies (for more details, see the Investing in the Quality of Life section).

Defense Technology: The Payoffs for Economic and Military Security

For 1995, $9.3 billion is proposed for defense S&T programs. This includes $4.2 billion for basic and applied research, as well as $5.1 billion for advanced technologies. These efforts form the foundation for advanced military capabilities—such as stealth aircraft and precision weapons convincingly demonstrated during Operation Desert Storm. In addition, in the post-Cold War era defense technology investments can provide for national security requirements and contribute to economic growth. In 1995, Defense dual-use S&T activities will total $2.1 billion, which includes both established programs and initiatives such as the Technology Reinvestment Project, an effort jointly funded by the Federal Government and private sources (for more details, see the next section on Defense Reinvestment and Conversion).

DEFENSE REINVESTMENT AND CONVERSION

> *Clearly, defense conversion can be done and can be done well, making change our friend and not our enemy. But in order to do it we must act, act decisively, act intelligently and not simply react years after the cuts occur.*
>
> President Bill Clinton
> March 11, 1993

The end of the Cold War provides an opportunity to reinvest some defense industrial, technological and work force capabilities to contribute to our Nation's economic competitiveness: those who helped us win the Cold War can help us compete globally. The Administration's five-year, multi-agency Defense Reinvestment and Conversion program, unveiled in March 1993, capitalizes on this opportunity through the President's investment priorities of worker retraining, community redevelopment, and advanced technology investments.

For workers, the Department of Labor's (DOL) workforce security initiative provides retraining and job search assistance. In 1995, an estimated $195 million of the overall initiative could be expected to be used to assist displaced defense workers. SWAT teams of labor program experts respond to layoff announcements or base closures to provide quick-reaction job-search services and assistance information. For Department of Defense (DOD) civilian and military personnel, the conversion program provides funding for separation and transition programs, including the Troops-to-Teachers program which provides financial incentives to local school districts to hire separating military personnel. DOD also provides early retirement incentives to manage the personnel drawdown and ease the transition for those leaving military service.

For communities, DOD's Office of Economic Adjustment (OEA) is often the first Federal agency on the scene after the announcement of intended military base closures or defense contract cutbacks. The $39 million requested in 1995 ensures access to redevelopment and diversification planning grants. The Department of Commerce's Economic Development Administration (EDA) funds long-range economic planning, construction of infrastructure and development facilities, and management and technical assistance. For 1995, $140 million is requested for EDA's defense conversion activities, a $60 million increase over 1994.

In response to the July 1993 round of military base closure announcements, the Administration developed a five-point plan for revitalizing affected communities. The plan, distinct from the overall conversion program, promotes redevelopment through the transfer of base property to communities at low or no cost, rapid environmental cleanup, and improved access to Federal programs and funding.

For industry, the defense conversion program reflects a two-pronged strategy: invest in civilian high-technology conversion opportunities for defense firms, and promote dual-use technologies that have both a commercial and military application.

Civilian Technology Investment. The multi-agency conversion program provides more than $7 billion over five years for civilian high-technology investments. For example, NASA's aeronautics initiative helps defense firms and workers use defense expertise in civilian aircraft technology development. The Department of Commerce's Information Highways use defense-related software and hardware. These investments leverage the talents and resources of defense workers and firms, diversify the economy, and build overall competitiveness.

Dual-Use Technologies. The defense technologies that make us the strongest military power can also promote industrial competitiveness. At the same time, dual-use technology

Table 3B–7. **DEFENSE REINVESTMENT AND CONVERSION**[1]

(Budget authority in millions of dollars)

	1993 Actual	1994 Estimate	Proposed 1995	Proposed 1996	Proposed 1997	Total 1993–97
Department of Defense Personnel Assistance and Community Support	1,020	1,265	1,192	[2]1,192	[2]1,192	5,861
Department of Energy Worker and Community Transition Program	92	200	125	100	100	617
Department of Labor Workforce Security Program	[3]	[4]125	[4]195	[4]195	[4]195	710
Department of Commerce Community Diversification Assistance (EDA)	[5]	80	140	140	140	500
Total: Worker and Community Assistance Programs	**1,112**	**1,670**	**1,652**	**1,627**	**1,627**	**7,688**
Department of Defense Dual-Use Technology	**882**	**1,441**	**1,429**	**1,454**	**1,479**	**6,685**
Technology Reinvestment Project (TRP)	[6]465	554	625	650	675	2,969
Other Dual-use Initiatives	417	887	804	[2]804	[2]804	3,716
New Federal High Technology Investments (Conversion Opportunities)[7]	....	**907**	**1,734**	**2,054**	**2,444**	**7,139**
Other Industry Assistance Programs	....	[8]**50**	[8]**50**	....	....	**100**
Grand total: Programs that will assist defense workers, communities and firms	**1,994**	**4,068**	**4,865**	**5,135**	**5,550**	**21,612**

[1] This program reflects funding above 1993 levels plus that portion of existing programs re-directed to conversion efforts.
[2] This is the 1995 level. Specific estimates for 1996 and 1997 are not yet available.
[3] $75 million was transferred in 1993 from the Department of Defense to the Department of Labor.
[4] This is the portion of the overall investment increase that could be expected to be used to assist displaced defense workers.
[5] In addition, $80 million was transferred in 1993 from the Department of Defense.
[6] In addition to $465 million of TRP funding, the 1993 TRP solicitation included $7 million in separately budgeted Small Business Innovative Research funds for a total of $472 million.
[7] This includes investment programs that provide direct conversion opportunities (e.g., NASA's aeronautics initiative) and 50 percent of programs that provide some conversion opportunities (e.g., Department of Commerce program for Information Highways.)
[8] This reflects the National Shipbuilding Initiative which the Congress funded in 1994 in the defense budget. Funding for 1995 loan subsidies is provided in the Department of Transportation budget.

increases national security because the unprecedented advances in civilian technology benefit military systems. For 1995, the defense conversion program provides $1.4 billion for dual-use programs including the Technology Reinvestment Project (TRP), a multi-agency effort administered by DOD's Advanced Research Projects Agency to promote commercial-military technology integration. 1995 funding for the TRP has been increased to $625 million, over $70 million more than the 1994 level.

Coordination of the Defense Reinvestment and Conversion program is within the Executive Office of the President, to ensure that resources are delivered effectively, fairly and in keeping with the goals of the program.

Funding. As shown in Table 3B–7, the conversion program brings together activities from across the Federal Government. In almost all cases, increased funding has been requested for 1995. These increases, when combined with additional 1993 and 1994 spending in key conversion programs, bring the defense conversion program to about $22 billion over five years—$2 billion over the $20 billion level announced in March 1993.

INVESTING IN PHYSICAL CAPITAL

IMPROVING THE NATION'S INFRASTRUCTURE

> *To build a twenty-first century economy, America must revive a nineteenth century habit—investing in the common, national economic resources that enable every person and every firm to create wealth and value. The only foundation for prospering in the global economy is investing in ourselves.*
>
> President Bill Clinton

Americans have come to expect public infrastructure investments that are safe, dependable, and well maintained. Investments in transportation, water resources, and the environment:

- promote growth of production, employment, productivity, and living standards;
- make the Nation more competitive in the world economy;
- contribute to a clean environment; and
- create jobs.

This Administration is committed to increasing funding to improve the infrastructure and to targeting resources to projects that provide the greatest benefits. Therefore, this budget:

- fully funds core *highway* investments at the congressionally authorized level, but eliminates funding for selected so-called "demonstration projects";
- increases formula capital grants for *mass transit* and proposes an urban congestion initiative, but waits for a revised evaluation process to fund additional discretionary "new starts;"
- increases funds for *air traffic control* improvements, and maintains the current level of *airport grants;* and
- increases funds for *water treatment and supply facilities,* and funds ongoing water resources development projects.

The 1995 budget proposes $34.4 billion for infrastructure spending. (See the summary Table 3B–8 below and the detailed Table 3B–9 at the end of this section.) This is $0.5 billion, or 2 percent, more than proposed for 1994. Chart 3B–10 displays the percent of 1994 spending for types of infrastructure. Highway spending accounts for 60 percent of the total.

Table 3B–8. **SUMMARY OF INFRASTRUCTURE INVESTMENT**

(Discretionary program level; dollar amounts in billions)

	1993 Actual	1994 Proposed[1]	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Highways	18.0	20.3	20.3	–*	–*%
Other Transportation	7.1	7.5	8.3	+0.7	+10%
Water Treatment and Supply	3.1	3.1	3.3	+0.3	+9%
Water Resources Development	2.2	2.1	1.6	–0.5	–22%
Other Infrastructure Investment	0.8	0.9	0.9	—	—
Total Infrastructure	31.3	33.9	34.4	+0.5	+2%

Note: Program level is budget authority, obligations, or obligation limitation.
* $50 million or less or 0.5 percent or less.
[1] Includes proposed supplementals and rescissions for 1994.

Federal, State, and local governments all have important roles in infrastructure investment. Infrastructure investment by all levels of government totaled $65.9 billion in 1990. State and local governments financed $40.2 billion or 61 percent of this amount (according to a recent study by the Congressional Budget Office (CBO); latest data available). The Federal Government financed the remaining $25.7 billion, of which $21.4 billion was grants to State and local governments.

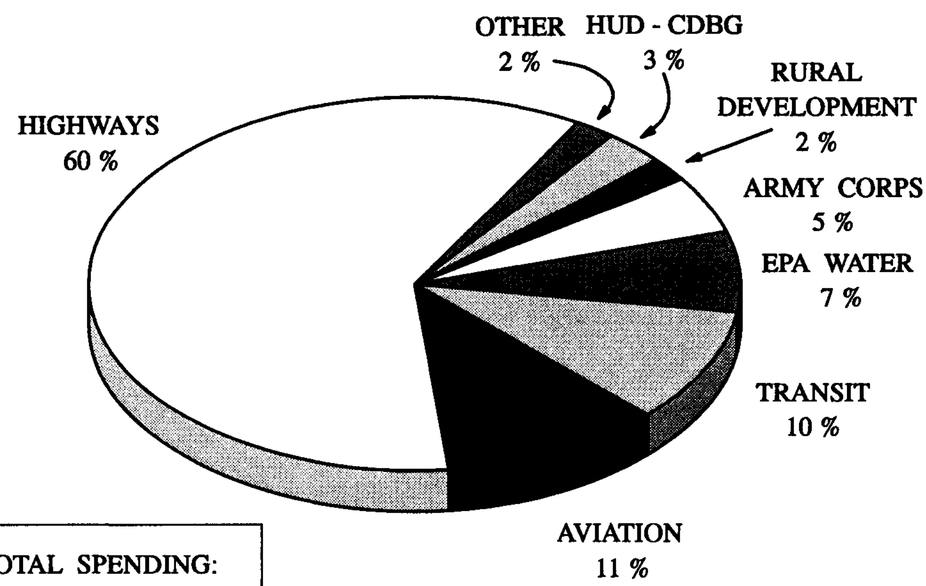
In order to improve the Nation's infrastructure, the Administration seeks not only greater investment, but also more effective investment. Toward this end, the President recently issued an Executive Order setting forth principles for Federal infrastructure investments. The Order instructs agencies to conduct systematic economic analysis of these investments. Because the benefits from infrastructure facilities depend in part on how well they are managed, the Order also requires periodic reviews of management practices, including operation and maintenance activities, contracting practices, and pricing policies.

Economic Growth.—Many recent studies (such as *How Federal Spending for Infrastructure and Other Public Investments Affects the Economy*, CBO, 1991) have documented the important contribution of infrastructure investment to economic growth. Transportation and other infrastructure systems can reduce costs and increase productivity, helping the private sector compete in the international arena. However, public investment financed at the expense of more productive private investment can hinder economic growth. Thus, increased public investment is important, but only the most effective investments merit funding, and there must be a balance between public and private investment.

Clean Environment.—Selective infrastructure investments also protect the environment. Because pollution crosses State lines, there is an important Federal role in investments in water and wastewater treatment systems.

Chart 3B-10. INFRASTRUCTURE SPENDING

(1994 discretionary budget resources by major category)



TOTAL SPENDING:
$33.9 BILLION

01/26/94

150-001 O - 94 - 5 (QL 3)

Job Creation.—Infrastructure investment also contributes to job creation. Estimates indicate that $1 billion of Federal highway construction generates as many as 26,000 jobs and, by increasing the productivity and competitiveness of the economy generally, aids job creation and retention in the private sector.

Addressing Infrastructure Problems in the 1995 Budget

Highways

The Administration proposes full funding of the Intermodal Surface Transportation Efficiency Act (ISTEA) authorized level for the core highway programs, which are the categorical grants distributed to the States under the Federal-aid highway programs. These grants help finance the preservation of 900,000 miles of major highways, including the 43,000 miles of the Interstate Highway System. Individual projects are selected by the States.

For these core programs, the Administration requests $19.8 billion in budgetary resources for 1995, $0.7 billion or 4 percent more than in 1994.

This funding permits the States to address a wide range of priorities from Interstate preservation to congestion mitigation and air quality improvement. Full funding also permits the States to take maximum advantage of the flexibility provisions of ISTEA. ISTEA provides States the discretion to transfer funding between highway and transit uses.

The Administration has submitted to Congress recommendations for the National Highway System. The proposed system includes nearly 159,000 miles of Interstate highways, major arterials and defense support roads, and key corridors. If enacted as proposed, the System would include highways that carry about 40 percent of total vehicle miles travelled and 75 percent of interstate truck traffic. The National Highway System will provide the focus for major State highway investment decisions.

Elimination of Funding for Low Priority Highway Projects.—To "free up" limited funding for the core highway programs, the Administration proposes rescissions of $4.7 billion for selected "highway demonstration" projects. This includes prior year balances and authorized amounts for 1995–1997.

Both the recent National Performance Review (NPR) and the General Accounting Office (GAO) have criticized increased congressional earmarking of projects at the Federal level. According to these reports, there are three reasons that rescission of these projects is warranted. First, most of the projects do not respond to the most critical Federal-aid highway needs of States and regions. For example, in more than half of the cases, the projects were not even included in State or regional plans. Second, there is no guarantee that these projects, once started, would be finished. GAO determined, for example, that project costs greatly exceed authorized Federal and State funding levels, and that State officials are uncertain of their ability to contribute more. The excess costs have been estimated to be more than $27 billion for ISTEA projects. Third, many States are of the view that these projects offer only limited benefits, especially compared with other projects that could use additional Federal funding to greater advantage. In conclusion, reducing or eliminating these projects allows funding for other, critical highway spending. If the projects are a high priority, the States may choose to fund from the core programs.

Increased Funding for Smart Cars/ Smart Highways.—To promote more efficient use of the existing infrastructure, the Administration supports the intelligent vehicle highway system (IVHS), or "smart cars/smart highways," which uses advanced technology to provide drivers with congestion and safety information. This will improve traffic flow, reduce congestion and travel time, and improve safety. The budget requests an increase of $75 million for 1995 for this program, from $214 million in 1994 to $289 million in 1995.

Emergency Highway Repair.—The 1995 budget estimates do not display requested funding for the repair of highways in and around Los Angeles damaged by the recent San Fernando Valley earthquake. Funding of $1.4 billion for highways has been transmitted to Congress separately. Much of the 1994 amount for emergency repairs ($0.7 billion) included in the budget and shown in Table 3B–9 is associated with continuing repair work for highways damaged in the 1993 floods and the Loma Prieta earthquake in Northern California in 1989.

Mass Transit

Formula Capital Grant Increases.—Mass transit is critical to reducing congestion and pollution. The Administration proposes a 40 percent increase for formula capital spending, from $1.6 billion in 1994 to $2.3 billion in 1995. With this funding, the Federal Government shares with State and local governments the cost of purchasing and rehabilitating buses, bus facilities, rail systems, and other investments. These investments improve public mass transportation in approximately 500 urban and rural areas in the country.

Reductions for Discretionary Projects.—Compared with formula grant funding, discretionary grant funding is normally allocated to relatively few cities. For some discretionary projects, costs have been much higher, and ridership lower, than originally estimated. To ensure that Federal resources are directed only to the most effective investments, the Administration is developing a revised "new start" evaluation process, as required by ISTEA.

The $1.5 billion in budgetary resources for transit discretionary capital grants would maintain 1994 funding levels for rail modernization and bus projects, but limit funds for "new start" construction to projects already approved.

Urban Congestion Relief Initiative.—Highway congestion has increased, especially in large urban areas. The percentage of urban Interstate travel that is congested during the daily peak travel hour increased from 55.4 percent in 1983 to 70.2 percent in 1991. Congestion in the Nation's 50 largest urban areas now costs more than $39 billion annually in lost productivity and fuel costs. Many of these areas also have serious automobile-related air quality problems.

The Administration is developing an urban congestion initiative to address this growing and costly problem. As part of this initiative, 10 percent of the formula capital grants would be used as an incentive to urban areas to implement projects that will contribute to decreased traffic congestion.

Railroads

Improving Rail Transportation in the Northeast Corridor.—The Federal Government invests in improved passenger rail service in the Northeast Corridor between Washington, D.C., and Boston. Grants to the National Railroad Passenger Corporation (Amtrak) are used to electrify track between New Haven, Connecticut and Boston, and for other projects to reduce travel time. The Administration requests $0.2 billion to continue this program in 1995.

The Administration also proposes to form a partnership with New York State, New York City, and Amtrak to redevelop Penn Station in New York City. Penn Station is the largest intermodal hub in the country, and serves Amtrak, the Long Island Railroad, New Jersey Transit, and the New York City subway. For 1995, the Administration requests $90 million to support this project, which will renovate the James A. Farley Post Office building as a train station and commercial center, and upgrade Penn Station. Funds will be contingent upon financial contributions from the State of New York, New York City, and Amtrak. A 1994 supplemental appropriation of $10 million is requested to initiate the project.

The grant to Amtrak for capital spending will allow for the purchase of new equipment, station improvements, and capital equipment overhauls, all of which will reduce operating costs in the long run. The Administration is requesting $0.3 billion for these grants for 1995, an increase of 29 percent over 1994.

Air Transportation

The Federal Government invests in air transportation through modernization and maintenance of facilities and equipment for the air traffic control system and through airport development grants.

Air Traffic Control Investment.—The Federal Aviation Administration's air traffic control modernization program supports growth in aviation activity. Benefits include reduced delays, more efficient aircraft routing, fewer accidents, and more cost-effective operation.

The Administration requests $2.3 billion in budget authority for facilities and equipment, an increase of $0.2 billion (nine percent) over 1994. The 1995 proposal implements the Capital Investment Plan with new solid-state navigation and landing aids and highly-automated work consoles to replace controller work stations to handle increased air traffic of the 1990s and beyond.

Airport Grants.—Approximately 3,300 large and small airports are eligible to receive capital grants from the Federal Government to assist local airport authorities in the construction of runways and other capital improvements.

The Administration requests $1.7 billion for the airport grants program for 1995, the same amount as for 1994, to assist with capital needs. These grants supplement locally generated capital, which on average funds 90 percent of the development costs of large hub airports. This local funding includes approximately $0.7 billion in local passenger facility charges, which were authorized in 1990 and are paid by passengers for the improvement of the aviation facilities they use. The collections go directly to the local airports for improvement projects.

Water Treatment and Supply

The Administration requests $3.3 billion in budget authority for 1995 for water treatment and supply programs, $0.3 billion or 9 percent more than in 1994. Most of this spending is in the Environmental Protection Agency (EPA).

Clean Water and Drinking Water State Revolving Funds (EPA).—The clean water State revolving fund (SRF) program provides capitalization grants to State revolving funds, which make low-interest loans to municipalities to finance wastewater treatment facilities and other specified activities to improve water quality. The goal of the program is to create, in each State, a fund to provide steady loan amounts year after year, even after the Federal Government has ended its annual capitalizations. This will occur as loan repayments to the fund are loaned out again. To date, the Federal Government has provided more than $9 billion in capitalization funds.

The Administration requests $1.6 billion for the clean water State revolving funds, $0.4 billion more than the 1994 amount, to meet the immense needs for water quality protection and restoration. With leveraging and repayments of prior loans, States will be able to provide more than $2 billion in loans in 1995.

The Administration will apply the revolving loan fund concept to drinking water as well, to meet treatment requirements under the Safe Drinking Water Act. In 1994, $0.6 billion was provided for drinking water State revolving funds. For 1995, the Administration is requesting $0.7 billion in budget authority, to become available after the drinking water State revolving fund program is authorized.

Targeted Wastewater Assistance.—EPA also provides wastewater assistance targeted to special needs outside the normal State revolving fund allocation formula. For 1995, the Administration proposes $250 million, including $150 million for Mexican border environmental projects in support of NAFTA—of which $50 million will be devoted to the colonias in Texas—and $100 million for cities that meet stringent criteria of high needs for secondary treatment and high current user charges.

Rural Water and Wastewater Programs.—The Department of Agriculture funds construction, repair, and improvement of rural water and wastewater disposal systems through direct loans and grants for low-income communities with populations of less than 10,000. Many rural communities need Federal assistance for water and sewer systems because they cannot afford private credit terms for needed facilities, including those necessary to meet the requirements of the Clean Water Act and the Safe Drinking Water Act. The interest rate on the direct loans varies depending on the income of the community and whether the water or sewer project is necessary for health and safety reasons. Under a proposed reorganization, these programs will operate through a "Rural Utilities Service."

The Administration requests $1.0 billion in loan authority for rural water and wastewater facilities, a 17 percent increase above 1994; and $0.5 billion in budget authority for grants, a $25 million or 5 percent increase above 1994. The proposed loan level will support about 934 systems, while about 896 communities will receive grants. This will give rural Americans access to clean water and will also provide important environmental benefits. In addition, the Administration is requesting $25 million in grants for drinking water projects targeted to the colonias along the Mexican border.

Water Resources Development

Water Resources Projects Already Underway.—Water resources investments include multi-use facilities such as dams that provide flood control, water storage for irrigation and drinking water, hydropower, and recreation; single-purpose facilities, such as channels and levees for flood damage reduction, and locks and dams for inland waterways; and major commercial ports to aid water transportation. The Administration requests $1.6 billion for 1995 for water resources infrastructure, $0.5 billion less than in 1994. These programs are operated primarily by the Army Corps of Engineers and the Bureau of Reclamation. The request will support work on projects already underway.

Army Corps of Engineers.—The Corps of Engineers operates more than 400 multi-purpose dams. In addition, the Corps is responsible for locks and dams along major water routes. It has constructed and now maintains 25,000 miles of navigation channels that serve 130 of the Nation's 150 largest cities, and is responsible for construction and maintenance of 100 major commercial ports. Ports and waterways now handle more than 2 billion tons of cargo per year. Corps facilities provide 4 percent of the Nation's electrical energy, water supply for more than 9 million people, and account for 644 million recreational visits. Infrastructure programs of the Corps are cost-shared with State and local governments and through collection of user fees.

For 1995, the Administration requests $1.2 billion in discretionary budget authority for the construction programs of the Corps, $0.4 billion or 24 percent less than the 1994 amount of $1.6 billion. The 1995 request emphasizes completion of projects already underway. There will be no new starts—170 projects will be funded and 13 are expected to be completed in 1995. These projects are economically justified and environmentally sound.

Bureau of Reclamation.—Programs of the Bureau of Reclamation are located exclusively in the western United States. The Bureau has constructed multi-purpose projects for storage and conveyance of water to almost 10 million acres. These projects service the full water supply needs of 15 million people, provide 2 percent of the Nation's electrical energy, and account for 79 million recreational visits. Program emphasis is shifting from project construction to resource management, consistent with recommendations of the National Performance Review. As an example of this transition, the budget includes $10 million in grants to the Los Angeles area to fund a water reclamation and reuse pilot program, which is not a traditional water resources development project and is included as an environmental investment.

The Administration requests $371 million in infrastructure development budget authority for 1995, $67 million or 15 percent less than the 1994 amount of $438 million. The decrease is largely the result of construction projects nearing completion. As with the Corps, there are no new water resources development projects proposed for 1995.

Other Infrastructure Investment

Approximately 20 percent of the Community Development Block Grant program (Department of Housing and Urban Development) is used for urban streets and other infrastructure. Infrastructure spending from this grant is estimated to be $0.9 billion in 1995, the same as in 1994.

Additional Information on Investment Spending in the 1995 Budget

Other sections in this Chapter discuss budget proposals for investing in research and development and education and training. Chapter 8 of *1995 Budget Analytical Perspectives*, "Federal Investment Outlays and Capital Budgets," provides more comprehensive information on outlays for all physical capital investment, including infrastructure, and outlays for research and development and education and training. The *Historical Tables* volume, which also accompanies this budget, provides historical data on investment outlays: outlays for physical capital are in Section 9; and outlays for the conduct of research and development and for education and training are in Section 10.

Table 3B–9. **INFRASTRUCTURE INVESTMENT**

(Discretionary program level in billions of dollars)

	1993 Actual	1994 Proposed[1]	1995 Proposed	Dollar Change: 1994 to 1995
TRANSPORTATION				
Department of Transportation:				
Highways:				
Core categorical highway grants	16.5	19.1	19.8	+0.7
Emergency repair[2]	0.5	0.7	0.1	–0.6
Highway demonstrations and other projects	1.0	0.5	0.4	–0.1
Subtotal, highways	18.0	20.3	20.3	–*
Mass transit:				
Formula capital grants	0.9	1.6	2.3	+0.7
Discretionary grants	1.7	1.7	1.5	–0.2
Subtotal, mass transit	2.6	3.3	3.8	+0.4
Railroads:				
Northeast corridor	0.2	0.2	0.2	—
Penn Station redevelopment	—	*	0.1	+0.1
Amtrak capital	0.2	0.2	0.3	+0.1
Subtotal, railroads	0.4	0.4	0.5	+0.1
Air transportation:				
Air traffic control facilities and equipment	2.3	2.1	2.3	+0.2
Grants for airports	1.8	1.7	1.7	—
Subtotal, air transportation	4.1	3.8	4.0	+0.2
Subtotal, transportation	25.1	27.9	28.6	+0.7
WATER TREATMENT AND SUPPLY				
Environmental Protection Agency:				
Clean water State revolving funds	1.9	1.2	1.6	+0.4
Drinking water State revolving funds	—	0.6	0.7	+0.1
Targeted wastewater assistance[3]	0.6	0.6	0.3	–0.3
Department of Agriculture:				
Rural water and wastewater programs:				
Grants and loans	0.5	0.6	0.7	+*
Loan level	(0.8)	(0.8)	(1.0)	(0.1)
Subtotal, water treatment and supply	3.1	3.1	3.3	+0.3
WATER RESOURCES DEVELOPMENT				
Army Corps of Engineers	1.7	1.6	1.2	–0.4
Bureau of Reclamation (Department of Interior)	0.5	0.4	0.4	–0.1
Subtotal, water resources development	2.2	2.1	1.6	–0.5
OTHER INFRASTRUCTURE INVESTMENT				
Community development block grants[4]	0.8	0.9	0.9	—
Total infrastructure	31.3	33.9	34.4	+0.5

Note: Program level is budget authority, obligations, or obligation limitations.

* $50 million or less.

[1] Indicates proposed supplementals and rescissions for 1994.

[2] Budget does not include estimates associated with the recent San Fernando Valley earthquake. Funding of $1.4 billion for highways has been transmitted separately.

[3] $500 million in 1994 for targeted wastewater assistance is subject to congressional authorization.

[4] Includes 20 percent of these grants, which is the approximate amount used for infrastructure.

DEVELOPING URBAN AND RURAL ECONOMIES

> *The best way to serve distressed communities in urban and rural America is through a comprehensive, coordinated, and integrated approach that combines bottom-up initiatives and private sector innovation with responsive Federal-State support.*
>
> President Bill Clinton

This budget includes an array of new initiatives for the economic development of distressed urban and rural communities. Taken together, they will:

- mobilize underused human and physical capital resources; and
- redress inequalities in economic opportunity arising either from history or from more recent dislocations.

The Clinton Administration's strategy to increase economic opportunity for people in distressed urban and rural communities balances investments in human and physical capital, in businesses and in housing. The evolving new approach to aiding distressed communities both provides financial resources and additional flexibility to use them for redevelopment. In addition to creating new jobs in areas of concentrated poverty, it provides residents of those areas with new means to obtain training and to move to areas with jobs and economic stability. Finally, it reforms the relationship between the Federal government and State and local governments. Communities are encouraged to think and plan strategically, to form new community-based partnerships, to integrate resources from different Federal programs, and to set measurable performance objectives. Their efforts will be judged primarily on whether they achieve the objectives they have set for themselves. Proposed 1995 funding for urban and rural development initiatives is highlighted in the Table 3B–10.

Empowerment Zones and Enterprise Communities

The Administration's effort was launched in 1993 with enactment of its Empowerment Zones and Enterprise Communities. This new approach to urban and rural redevelopment is designed to empower people and communities all across the nation by inspiring Americans to work together to create jobs and opportunity. It combines tax benefits, social service grants, improved program coordination, and local flexibility in nine Empowerment Zones and ninety-five Enterprise Communities. The competitive application process will encourage creative planning by requiring each applicant to develop and submit a strategic vision for change. The community must demonstrate strong relationships between the local government and the private sector and show how its plan will combine resources from Federal programs and other sources. Urban Zones and Communities will be designated by the Secretary of HUD; Rural Zones and Communities will be designated by the Secretary of Agriculture.

Federal financial support will be concentrated primarily in the six urban and three rural Empowerment Zones. Enterprise Communities will also receive grant money, and will benefit mostly from special access to other Federal programs as well as regulatory waivers from various program requirements. The President's Community Enterprise Board—the White House committee established in September to develop and implement the Administration's urban and rural revitalization strategy—communicates with leaders from local government, community and religious groups, private businesses, and others to implement the new community empowerment program. The Administration plans to designate the six urban and three rural Empowerment zones and a large portion of the Enterprise Communities by August, 1994.

Tax incentives available to designated Enterprise Communities and businesses include:

- tax exempt facility bonds for qualified zone businesses; and
- tax credits of 50 percent for individual and group contributions to Community Development Corporations.

Additional tax incentives available to Empowerment Zone communities and businesses include:

Table 3B–10. **PROPOSED URBAN AND RURAL DEVELOPMENT INITIATIVES**

(Discretionary loan levels and grant budget authority; dollar amounts in millions)

Agency/Program	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
HUD:					
Community/Economic Development Assistance					
Project-Based Community Development Grants					
Economic Revitalization Grants	—	—	150	+150	NA
Community Viability Fund	—	—	150	+150	NA
Empowerment Zones Grants	—	—	500	+500	NA
Colonias Assistance Program	—	—	100	+100	NA
Subtotal, HUD	—	—	900	+900	NA
USDA:					
Rural and Infrastructure Investment					
Water and wastewater disposal loans	850	834	977	+143	+17%
Water and wastewater disposal grants	425	500	525	+25	+5%
Community facilities loans	152	300	375	+75	+25%
Rural Community and Business Assistance					
Business and Industry guaranteed loans	187	249	1,116	+867	+348%
Intermediary relending direct loan program	34	100	125	+25	+25%
Rural Development Grants	21	42	50	+8	+19%
Rural Housing Assistance					
Single family direct loans	1,295	1,800	1,800	—	—
Single family guaranteed housing loans	580	728	1,300	+572	+79%
Rural rental assistance grants	404	447	523	+76	+17%
Other rural housing loan and grant assistance	49	85	85	—	—
Subtotal, USDA	3,997	5,085	6,876	+1,791	+35%
Commerce:					
Urban/Rural Business Development					
EDA Guaranteed Loans	....	....	269	+269	NA
Other Independent Agencies:					
Community/Economic Development Assistance					
Community Development Financial Institutions.	....	....	144	+144	NA
TOTAL, URBAN AND RURAL DEVELOPMENT INITIATIVES	**3,997**	**5,085**	**8,189**	**+2,691**	**+53%**

NA: Not applicable.

- a wage tax credit for private employers hiring Zone residents. An employer located within a Zone receives a 20 percent tax credit on the first $15,000 in wages or certain training expenses for employees who live in the Zone;
- accelerated depreciation for certain property in the Zones; and

In addition, $1 billion of Title XX Social Service Grants will be divided among the Empowerment Zones and Enterprise Communities. Each urban Zone receives $100 million; each rural Zone receives $40 million; and each urban and rural enterprise community receives $2.95 million. Communities may use these funds for a broad range of activities, including making investments in community development corporations; purchasing or improving land; paying wages to individuals as a social service; creating drug and alcohol prevention and treatment programs; establishing training programs for zone residents on construction and rehabilitation of affordable housing; public infrastructure and community facilities; afterschool programs to protect families and children; job counseling; transportation services; and homeownership counseling.

New Community and Economic Development Initiatives

The Department of Housing and Urban Development (HUD) is proposing a set of new initiatives to help local governments create jobs and bring new economic vitality to urban neighborhoods. These will not only fund individual projects but also strengthen local capacity to plan, design, and implement community-building efforts.

The new community economic development initiatives reinforce and enhance other programs including Empowerment Zones and Enterprise Communities, the Community Development Block Grant (CDBG) program, and the related Section 108 loan guarantees. They reflect the National Performance Review's recommendation of flexible assistance to enable localities to identify and respond to their specific needs. All will be competitively awarded, based on the strength of local commitments as well as needs. They all address the shortage of jobs and economic opportunities in so many urban neighborhoods. The new initiatives include:

- *Economic Revitalization Grants.* The budget proposes $150 million in grants to help finance projects under the Section 108 loan guarantee program. Section 108 loans, which are guaranteed by future CDBG revenues, finance a wide range of community economic revitalization activities. The proposed grants, which would be awarded on a competitive basis, would encourage greater use of Section 108 loans by giving localities a source of loan repayment and a way to reduce the effective interest rates on the loans.
- *Community Viability Fund.* Many distressed communities lack the capacity to use existing Federal and state resources. The budget proposes $150 million in competitive grants for strategic local and regional planning, innovative urban design, and comprehensive local and regional planning for strategic economic development. This fund would focus national attention on local and regional efforts for economic redevelopment; reduce the spatial isolation of lower-income groups; and expand amenities and community services in distressed urban areas. Twenty million dollars of these funds will be used to continue the NCDI initiative authorized last year.
- *Empowerment Zones and Enterprise Communities Grants.* The budget proposes $500 million in grants to finance capital projects, including housing, in urban Empowerment Zones and Enterprise Communities. These grant funds would complement other Federal resources (e.g., tax incentives and Title XX Social Service Block Grants) authorized in the Omnibus Budget Reconciliation Act of 1993. The grants could be used for a range of activities, at local discretion, including: repayment of debt financed by municipal bonds; financing section 108 loan guarantee projects and other economic development projects; and project-based rental assistance, and other housing activities.
- *Leveraged Investments for Tomorrow (LIFT).* The budget proposes $200 million within CDBG for the LIFT competitive grant program to provide subsidies for private investment in strategic nonresidential or mixed-use development projects in distressed urban neighborhoods.
- *Colonias assistance.* The Colonias program will provide $100 million for severely distressed settlements along the United States-Mexico border. These areas have inadequate roads and drainage, inadequate or nonexistent water and sewer facilities, and grossly substandard housing. Applicants would be required to develop comprehensive action plans to address housing, infrastructure and social service needs in conjunction with other Federal and state resources.

Economic Development Administration (EDA) Guaranteed Loans. The budget proposes creation of a $50,000,000 EDA credit subsidy reserve to guarantee $269,000,000 in loans to private and public entities. The loans will have broad eligibility and will help businesses in distressed communities to access investment capital. This credit reserve will complement similar programs of the Small

Business Administration and Farmers Home Administration by targeting potential commercial borrowers that do not meet the criteria used by these agencies.

Rural Development Initiative

The Administration's Rural Development Initiative (RDI) was first proposed in 1994 when Congress enacted 67 percent of the requested $1.9 billion investment increase. For 1995, the Administration again requests increased resources to improve rural infrastructure, which provides the necessary underpinning for rural economic development. It would also directly assist rural communities and businesses to improve the quality of rural life, increase rural employment and housing opportunities, and further diversify the rural economy.

The budget request includes a significant increase in funding for Department of Agriculture (USDA) Small Community and Rural Development Programs by leveraging Federal investment loan and grant programs to allow rural areas to help themselves. Overall, the total 1995 program level for the RDI is $6.9 billion (grants plus loans at face value), which is a 35 percent increase over the comparable 1994 enacted level, and more than a 70 percent increase over 1993. (See Table 3B–10.)

$1.5 billion will be available in 1995 for loans and grants to improve rural water and wastewater disposal systems. Often small rural communities are unable to meet expensive water and sewage standards without Federal assistance. Community facility loans are proposed at $375 million. These loans are available to finance essential community facilities, such as hospitals and fire stations. To help support business development and job creation in rural areas, $1.1 billion would be available through USDA's Business and Industry guaranteed loan program. In addition, $125 million in one percent interest rate loans would be available to State-sponsored rural economic development intermediaries, that, in turn, relend to rural businesses and emerging "micro-enterprises". All assistance would continue to be coordinated through existing State Rural Development Councils, whose members include representatives from Federal, State and local government agencies, as well as the private sector.

The RDI would also improve the housing conditions of low- and moderate-income persons in rural areas. Direct and guaranteed homeownership loans totaling $3.1 billion would be provided in 1995, an increase of nearly $600 million over 1994. Rental assistance in rural areas would also be provided through housing vouchers and grants for use in rental units. Vouchers would be targeted to areas where rental units are available, but not currently affordable for low-income persons.

Community Development Financial Institutions

The Administration has proposed the creation of a Community Development Financial Institutions Fund (Fund) to provide assistance to qualifying community development lenders. The purpose of the program is to support lenders who are committed to providing credit and related financial services to currently underserved and distressed communities. For example, the program will help lenders provide loans to otherwise creditworthy first-time homebuyers with limited or mixed credit histories, or to offer financing to local community groups hoping to start a daycare program, or to provide credit to an entrepreneur planning to rehabilitate affordable apartment buildings in a deteriorating area. In addition, the program will help lenders offer basic banking services—checking and savings accounts—in communities where a lack of depository institutions forces residents to rely on expensive check cashing services.

The Administration supports legislation currently before Congress which would establish the CDFI Fund as an independent agency. To be eligible for assistance, a community development financial institution (CDFI) must have a primary mission of lending to and developing an underserved target population that is low-income or disadvantaged. All types of new and existing community development financial institutions will be eligible for assistance, including community development banks, community development credit unions, revolving loan funds, micro-loan funds, minority-owned banks, and community development corporations. All CDFIs will be required to present a strategic plan in their application which clearly states how they will meet the economic and community development needs of their targeted communities.

The Fund will provide capital (equity investments and grants), loans, and technical assistance to qualifying applicants. A dollar-for-dollar match for investment in insured depository CDFIs will be required. A match is also required for investment in other CDFIs, but the amount is at the discretion of the Fund. Eligibility for assistance will also be based on the applicant's level of community support, the likelihood that the applicant will become self-sustaining, and the extent of community lending that will result from the federal support. All insured depositories receiving assistance from the Fund will still be subject to all laws and regulations established by Congress and the banking regulatory agencies.

Community Reinvestment Act

In July 1993, the President requested the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation and the Federal Reserve Board to undertake a comprehensive review and overhaul of the interagency regulations implementing the Community Reinvestment Act (CRA). Under the CRA, banks and thrifts have an affirmative obligation to help meet the credit needs of their entire communities, including low and moderate income areas. The President charged the agencies with reforming the CRA regulations to emphasize performance over documentation, and to refocus the regulations on making credit and financial services available to all communities, including underserved areas throughout urban and rural America. In response to the President's request, the agencies issued proposed revised regulations on December 21, 1993. Following a public comment period, final regulations will be issued.

Currently, banks and thrifts' CRA assessments are based on 12 general factors. The regulatory agencies and examiners within the agencies have interpreted and judged these factors differently, resulting in inconsistent CRA ratings. The Administration's initiative calls for more specific, uniformly applicable assessment standards based on measurable performance in three specific areas: lending, service, and investment. Under the proposal, banks and thrifts would be evaluated based on the products and services offered in their normal course of business.

The proposed revisions will improve the implementation of the CRA in four key ways. First, financial institutions will have clearer guidance. Quantitative measures of performance will be stressed instead of the current public relations and documentation focus. Second, public participation will be encouraged by advance publication of examination schedules and solicitations for public comments prior to examinations. Third, unnecessary compliance burdens will be reduced and improved performance will be rewarded. The proposal provides for streamlined, but rigorous, small institution examinations and shifts the examination burdens from the institution to the examiner. Fourth, the proposal provides for flexibility for examinations of diverse institutions by distinguishing between large and small retail institutions and among retail, wholesale, and limited-purpose institutions. The proposed reforms will help financial institutions focus on what they do best—lending—rather than on regulatory compliance. This in turn, will greatly expand the credit and financial services available in currently underserved, distressed communities.

INVESTING IN THE QUALITY OF LIFE: INCREASED ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES ENHANCEMENT, WITH ECONOMIC EFFICIENCY

Preserving our heritage, enhancing it, and passing it along is a great purpose worthy of a great people. If we seize the opportunity and shoulder the responsibility, we can enrich the future and ennoble our own lives.

President Bill Clinton

With these words in his April 1993 Earth Day speech, President Clinton offered a new set of challenges to the American people regarding environmental policy and the need to invest in our own quality of life.

The 1995 budget carries through that theme by focusing resources on strengthening our stewardship of the Nation's natural resources and improving our environmental regulatory and management programs.

The aim of the environment and natural resources budget is to achieve these two goals by targeting limited financial resources to high-priority areas to support key programs and, in many cases, fund the initial stages of powerful new approaches to environmental management, such as ecosystem management. These priority areas comprise about one-third of total spending on the environment and natural resources. The budget request increases discretionary funding for these investment priorities by 18 percent above the 1994 enacted levels, from $8.8 billion up to $10.4 billion. (See Tables 3B–11 and 3B–12.)

These priority investments include funding for such programs as State revolving funds for clean water and drinking water; natural resource protection and enhancement of our national forests, national parks, and other protected lands and waters; global climate change national action and research programs; pilot programs in ecosystem management; and international programs supporting the North American Free Trade Agreement (NAFTA).

Funding for most other environment and natural resource programs is being maintained at about the same level as in 1994, with a number of individual programs increasing substantially—EPA's Operating Program, energy conservation, solar and renewable energy research and development, international environmental aid, and the Montreal Protocol. Federal facilities cleanup funding also continues to increase, though not at the same rate as in recent years.

Overall, total discretionary funding for environment and natural resources increases for 1995 by 5 percent, or $1.6 billion, over 1994, from $33.6 billion to $35.2 billion. Compared to 1993, this represents a 12-percent increase, when spending totalled $31.4 billion (Table 3B–11).

This discussion presents the 1995 environment and natural resources budget in five major categories, which are briefly summarized below:

EPA's Operating Program.—The budget for this program is one of the key indicators of the Administration's commitment to providing adequate resources to manage the country's environmental protection activities, carry out numerous Congressional mandates, and introduce needed reforms in overall Environmental Protection Agency (EPA) management. The budget requests an increase of 13 percent, to $3.051 billion, up from $2.689 billion in 1994. Along with this, the budget includes an increase in staffing to fulfill one of the recommendations of the National Performance Review, which is to encourage some conversion from contractor to Federal employees in key areas where the result will be better program control and management.

Stewardship of Natural Resources.—In keeping with the President's Earth Day statement, the budget places a high priority on the

Table 3B–11. **TARGETING RESOURCES TO HIGH-PRIORITY ENVIRONMENT AND NATURAL RESOURCE PROGRAMS**

(Discretionary budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to1995
Priority Investments	8,100	8,798	10,385	+1,587	+18%
Total Spending by Program Category:					
EPA's Operating Program	2,750	2,689	3,051	+362	+13%
Stewardship	15,136	15,129	15,409	+280	+2%
Ecosystem Management and Biodiversity	56	511	610	+99	+19%
Cleanup and Compliance	11,643	13,438	13,931	+493	+4%
International Cooperation	1,810	1,807	2,238	+431	+24%
Total	31,395	33,574	35,239	+1,665	+5%

management, protection, and enhancement of the Nation's natural resources. Management of Federal lands in the national parks, national forests, national wildlife refuges, lands under management by the Bureau of Land Management, and coastal and marine areas under management by the National Oceanic and Atmospheric Administration all receive increased funding. In addition, the budget requests increased support for the Climate Change National Action Plan and for State and local water infrastructure grant and loan programs. The budget request in this area is for $15.4 billion, an increase of $280 million.

Ecosystem Management and Biodiversity.—Nothing better characterizes the Administration's new approach to natural resource management than the emphasis on ecosystem management. This emphasis on managing whole ecosystems replaces the piecemeal approach of the past wherein land, water, air, endangered species, and mineral and other resources were primarily dealt with one by one. The budget includes funding for four pilot projects covering a range of ecosystems: the forests of the Pacific Northwest; the Everglades of Florida; the marine ecosystem of Prince William Sound in Alaska; and an urban river in the Nation's capital. In addition, the Administration plans strong support for information collection and other programs to protect and preserve our rich heritage of biodiversity. The budget request in this area is $610 million in discretionary spending, an increase of 19 percent over 1994.

Cleanup and Compliance.—A very large share of the Federal government's discretionary spending on environmental issues is devoted to cleaning up the problems of the past. The largest Federal programs are those at the Departments of Energy and Defense, cleaning up the environmental legacy of the Nation's weapons and defense programs of the past fifty years. Another key program is the Superfund, dealing with hazardous wastes at over one thousand inactive contaminated sites around the country. The Administration is proposing significant changes in this program in order to streamline it, speed cleanups, reduce their cost, and decrease private-sector spending on litigation—without sacrificing human health or the environment. The 1995 budget request for cleanup and compliance is $13.9 billion, an increase of 4 percent over 1994.

International Cooperation.—International environmental leadership is part of our Nation's global role. The budget includes a significant increase in funding to support the implementation of the NAFTA agreement, the U.S. global change research program, a new initiative in global environmental education, the Montreal Protocol on reducing ozone-depleting chemicals, and environmental funding through multilateral and bilateral assistance programs. The request for $2.2 billion represents a $431 million increase over 1994.

Table 3B-12. PRIORITY INVESTMENTS AND OTHER MAJOR ENVIRONMENT AND NATURAL RESOURCE PROGRAMS

(Discretionary budget authority; dollar amounts in millions)

	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
PRIORITY INVESTMENTS:					
Stewardship:					
Clean water state revolving funds (SRFs) (EPA)	1,944	1,240	1,600	+360	+29%
Drinking water SRFs (EPA)	....	599	700	+101	+17%
Water/wastewater grants/loans (USDA)	548	616	661	+45	+7%
Watershed restoration (EPA)	50	80	100	+20	+25%
So. CA water reclamation and reuse pilot prog. (DOI)	....	10	10	—	*%
Needy cities (EPA)	100	[1]100	100	—	*%
Climate charge national action plan (DOE/EPA/USDA/Others)	....	45	283	+238	+529%
Enhanced Federal natural resource protection and environmental infrastructure:					
National parks (DOI)	984	1,062	1,128	+66	+6%
National forests (USDA)	749	735	782	+47	+6%
Wildlife refuges (DOI)	506	483	541	+58	+12%
Public lands (DOI)	293	269	296	+27	+10%
Subtotal	2,532	2,549	2,747	+198	+8%
Recover fisheries and protected species (NOAA)	232	231	281	+50	+22%
Wetlands plan (Corps/DOI/EPA/Others)	590	635	708	+73	+11%
Environmental technology (EPA)	92	128	172	+44	+34%
Green programs (EPA)	8	26	35	+9	+35%
Federal aid highways, congestion mitigation & air quality (DOT)	601	681	718	+37	+5%
Ecosystem management and biodiversity:					
Pacific northwest forest plan (USDA/DOI/Others)	....	302	372	+70	+23%
Everglades/South FL restoration (DOI/Corps/EPA/NOAA)	52	39	59	+20	+51%
National Biological Survey (DOI)	....	167	177	+10	+6%
International cooperation:					
NAFTA env. support (EPA/USDA/Treasury/Others)	209	148	300	+152	+103%
U.S. global change research program:.					
Ground-based (DOE/NSF/USDA/NOAA/Others)	406	424	558	+134	+32%
Space-based (mission to planet earth) (NASA)	932	1,022	1,236	+214	+21%
Subtotal:	1,338	1,446	1,794	+348	+24%
Global environmental education (NOAA/NASA)	....	1	12	+11	+1,100%
Total, priority investments [2]	8,100	8,798	10,385	+1,587	+18%
OTHER MAJOR PROGRAMS:					
EPA's operating program	2,750	2,689	3,051	+362	+13%
Stewardship:					
• Wetlands reserve program (mandatory) (USDA)	15	67	283	+216	+322%
• Solar and renewable energy research and development (DOE)	302	340	390	+50	+15%
• Energy conservation (DOE)	576	690	978	+288	+42%
• Pesticide reduction initiative: selected programs (USDA)	103	118	159	+41	+35%
Cleanup and compliance:					
• Federal facility/site cleanup:.					
DOE (environmental management program)	5,521	6,175	6,280	+105	+2%
DOD	1,686	2,579	2,710	+131	+5%
Others (USDA/DOI/DOT/Others)	196	201	229	+28	+14%
Subtotal	7,403	8,955	9,219	+264	+3%
• Superfund (EPA)(Non-Fed. facility/site cleanup)	1,589	1,497	1,499	+2	*%
• Environmental compliance and pollution prevention (DOD)	1,804	2,324	2,557	+233	+10%
• Research and development for environmental programs (DOD)	373	343	353	+10	+3%
International cooperation:					
• Montreal Protocol (EPA/STATE)	25	25	48	+23	+92%
• Multilateral and bilateral international assistance (Funds Appropriated to the President/AID)	272	277	326	+49	+18%
Total, other major programs [2]	15,202	17,315	18,839	+1,524	+9%

[1] 1994 funding level not yet determined pending Congressional reauthorization.
[2] Total does not add due to elimination of double counts and mandatory spending.
* $500 thousand or less or 0.05 percent or less.

The sections below on *EPA's operating program, stewardship, ecosystem management and biodiversity, cleanup and compliance, and international cooperation* provide more detail on the Administration's budget for increasing environmental protection and enhancing natural resource conservation, with economic efficiency.

EPA'S OPERATING PROGRAM

The budget requests $3.1 billion for the EPA's Operating Program, providing a 13-percent increase over 1994. The Operating Program provides funding for research, regulatory development, enforcement, and State grants. This major increase signals the Administration's commitment to increased environmental protection and includes these specific initiatives:

- A $53 million increase to continue the Climate Change National Action Plan implemented in CY 1993, 98 percent over 1994.
- A $44 million, or 34-percent, increase in funding for environmental technology.
- A $20 million, or 25-percent, increase for watershed resource restoration grants to States.
- A $56 million, or 12-percent, increase for implementing the 1990 Clean Air Act Amendments.

EPA's workforce will increase 4.5 percent from the 1994 approved level. Specific workforce increases are provided to continue implementation of the Climate Change National Action Plan (98 FTEs), and convert up to 900 contractor positions to EPA employees. This contractor conversion will allow EPA to address Congressional and EPA Inspector General criticisms of its reliance upon, and ability to manage, contractors by increasing contractor oversight and by reassigning certain critical tasks to Federal employees.

STEWARDSHIP

Water Infrastructure

Environmental Protection Agency (EPA)

The budget requests substantial additional funds for EPA water infrastructure in 1995. For the Clean Water State Revolving Funds (SRFs), $1.6 billion is requested, a $360 million increase over the 1994 enacted level for continued capitalization of these SRFs. In addition, the Administration is proposing substantive changes to the Clean Water Act (CWA) that address remaining national water quality impairments and promote flexibility in implementing the CWA. These changes were not final when the 1995 budget process was complete. Therefore, the budget reflects only the increased Clean Water SRF capitalization.

For additional Drinking Water SRF capitalization, $700 million is requested, a $101 million increase over 1994 enacted. The budget also includes $150 million for wastewater infrastructure to control municipal sewage along the Mexico border in support of NAFTA; and a $100 million grant in targeted clean water assistance for cities that meet stringent need and user-charge criteria established last year by the Administration.

Rural Water and Wastewater Infrastructure Investment

The Department of Agriculture's new Rural Utilities Service funds the construction, repair, and improvement of rural water and wastewater disposal systems through direct loans and grants. These loans and grants are awarded to low-income, rural communities with populations of less than 10,000. The budget requests $977 million in loan authority, a 17-percent increase over 1994, and $525 million in grants, a 5-percent increase over 1994, for these programs. Within the amount proposed for grants, $25 million is targeted to the colonias along the U.S./Mexico border.

Southern California Water Reclamation/Reuse Pilot Program

The budget proposes $10 million in 1995 for a Bureau of Reclamation water reclamation/reuse pilot program in Southern California. The pilot provides Federal funds for several projects in the Los Angeles area that will contribute to efforts to improve water quality in Santa Monica Bay; reduce dependence on water imports from Mono Lake, the San Francisco Bay/Sacramento-San Joaquin Delta, and the Colorado River; and create jobs as part of the Rebuild L.A. effort.

Air Quality

EPA's operating program request includes an increase of $56 million for carrying out the Administration's commitment to implement the 1990 Clean Air Act (CAA) Amendments effectively. Included in this funding is $24 million, a $14 million increase, for assistance through the Montreal Protocol Facilitation Fund to help developing countries reduce their emissions of ozone-depleting chemicals. Coupled with a similar amount being provided through the State Department, this funding will enable the U.S. to meet its current commitments under the Montreal Protocol and eliminate the current payment arrearage over two years.

In addition, the budget for the Department of Transportation includes estimated obligations of $718 million (a 5-percent increase over 1994) in Federal highway funds designed to improve air quality through projects to mitigate congestion. The Congestion Mitigation and Air Quality (CMAQ) Improvement Program, which is one of several sub-programs funded by the Federal-aid highways grant program, directs funds toward transportation projects in CAA non-attainment areas for ozone and carbon monoxide. The projects funded by the program must help areas make progress toward the CAA standards. Examples of projects that may be funded through this program include any Transportation Control Measure (TCM) in the CAA, construction of pedestrian and bicycle facilities, transit programs, and advanced traffic management systems that help reduce vehicle emissions.

Climate Change National Action Plan

On Earth Day 1993, the President announced an ambitious but achievable goal—to reduce U.S. greenhouse gas emissions to their 1990 level by the year 2000. To meet this commitment, the President announced last October the Administration's Climate Change National Action Plan comprising 50 new and expanded initiatives. The budget provides $283 million in 1995, a $238 million, or 529-percent increase, over 1994.

The Action Plan is comprehensive, targeting all significant greenhouse gases—carbon dioxide, methane, nitrous oxide, and hydrofluorocarbons—and all emitting sectors of the economy. It will foster partnerships with business to solve environmental problems and stimulate investments in the technologies of the future.

The Action Plan will encourage individuals and firms to invest in cost- and energy-efficient equipment or other technologies—over $60 billion in private investment and energy savings between 1994 and 2000, with additional energy savings of over $200 billion by the year 2010. These investments will create new jobs in the sectors and industries that produce, market, or install technologies that save energy or reduce greenhouse gas emissions.

Between 1994 and 2000, the Administration is committed to spending approximately $1.9 billion (generally from existing Federal resources) on the Action Plan.

Enhanced Natural Resource Protection of Federal Lands

The budget reflects the President's Earth Day commitment to "...set our course by the star of age-old values, not short-term expediencies; to waste less in the present and provide more for the future; to leave a legacy that keeps faith with those who left the Earth to us." The foundation for the environmental legacy that today's Americans will leave to future Americans is the beauty and wonder embodied in the Nation's national parks, forests, wildlife refuges, marine sanctuaries, and other public lands and waters. The Administration is committed to enhancing these national treasures and managing them into the future for their long-term environmental and sustainable economic value, not for short-term gain.

For those areas set aside for natural resource preservation, Interior's National Park Service and Fish and Wildlife Service, and Commerce's National Oceanic and Atmospheric Administration (NOAA) will increase their efforts to protect our Nation's unique natural places found in the national parks, wildlife refuges, and marine sanctuaries.

The budgets of the Agriculture Department's Forest Service and Interior's Bureau of Land

Management show significant increases for efforts to manage the landscape as integrated ecosystems on a sustainable basis, rather than as unrelated fragments to be exploited and depleted separately. The budget acknowledges that these multiple-use lands can continue to provide our Nation with wealth only if they are managed with future generations in mind.

Part of our Nation's legacy includes the diversity of life. The Fish and Wildlife Service, the National Biological Survey, and the National Oceanic and Atmospheric Administration will make major strides in 1995 not only to protect the Nation's endangered species, but also to prevent more of our biological heritage from becoming endangered in the future.

National Park Service

The President's priority investments expand funding for enhanced protection of our national parks (a total of $1.1 billion, 6 percent over 1994). Beyond additional funds for basic operating requirements and specific resource protection needs in selected parks, the budget proposes an additional $23 million for improving the professionalism of park rangers and other Park Service employees.

Improving Entrepreneurial Management of National Parks

To implement the National Performance Review's recommendations on promoting entrepreneurial management by the National Park Service, the budget seeks expanded authority to increase park entrance and other recreation user fees. In addition, funding is included to cover the costs of collecting these fees. This legislative proposal will raise an additional $32 million in revenues in 1995 and create a new, mandatory National Park Renewal Fund, which will receive half of the additional revenues, net of fee collection costs, and return them to the collecting parks for direct expenditure in 1996. To ensure accountability, expenditures will be held to strict performance standards based on demonstrated results in program output and project execution.

Managing and Conserving Marine and Coastal Resources and Habitat

The budget for the Department of Commerce's National Marine Fisheries Service (under NOAA) provides a total of $281 million to strengthen the Federal role in marine fisheries and protected species management and conservation. This is a 22-percent increase over 1994, and reflects the Administration's commitment to reversing declining marine populations, particularly commercially important fish species. The budget supports the restoration of marine species through implementation of improved fishery management practices, information, and science. Improved fishery management will help restore jobs in the depressed commercial fishing industry, as well as provide for the sustainable use of our marine resources.

In addition, the budget for the National Ocean Service (NOAA) provides $12 million (a 31-percent increase over 1994) for the designation and operation of national marine sanctuaries. Sanctuaries, the marine equivalent of our treasured national parks, define areas of the marine or Great Lakes environment of special resource or human-use values. During 1995, NOAA will improve the management, research and educational aspects of twelve designated national marine sanctuaries. Three additional sanctuaries will be in development during 1995.

Implementation of the Administration's Wetlands Plan

In August 1993, the Administration announced a comprehensive wetlands plan to protect natural resources without impeding economic growth. The plan was developed after consultation with Congress, State and local governments, the development community, and environmental organizations. The budget provides additional resources to implement the plan, improve the wetlands regulatory process, encourage voluntary wetlands restoration on private lands, and enhance State capacity to assume a larger share of the effort to protect wetlands.

The budget requests nearly $1 billion in total spending (a 41-percent increase over 1994) for wetlands restoration, acquisition, protection, research, mapping, monitoring, and education; and improved non-Federal capabilities for wetlands management. This includes $283 million (322 percent over 1994) in mandatory spending for USDA's Wetlands Reserve Program, which in 1995 will retire, on a willing-seller basis, up to 300,000 acres of current or former wetlands from agricultural production. EPA's budget includes a $5 million (50-percent) increase to its wetlands grants program, primarily to assist State governments in operating their delegated Clean Water Act Section 404 programs for regulating activities in wetlands. An enhanced non-Federal role in wetlands management is a key tenet of the Administration's wetlands policy.

The budget also incorporates a legislative proposal authorizing an increase in Section 404 wetlands regulatory permit fees charged by the Army Corps of Engineers. The increased fee revenue will total $6 million in 1995, and $12 million in each subsequent year. Commercial applicants may be assessed fees on a sliding scale based on the degree of the proposed development's impact on the affected wetland and the amount of effort required to conduct the permit review.

Energy Conservation

The Department of Energy (DOE) conservation program funds research and development (R&D) and commercialization activities to improve energy efficiency and reduce the generation of waste and pollutants in virtually all sectors of the U.S. economy: transportation, buildings, industry, and utilities. The program also includes funding for grants to States for low-income home weatherization and State-level energy efficiency programs. The environment-related activities are concentrated in the R&D component of the program.

Energy conservation activities are funded at $978 million, up $288 million (42 percent) from 1994. This increase reflects both Energy Policy Act and Climate Change National Action Plan initiatives. Major components include: a doubling of funds for R&D and commercial promotion of advanced building, heating/cooling, and appliance technologies ($179 million, up $98 million, or 120 percent over 1994); expanded R&D on electric and hybrid vehicles and other transportation technologies ($228 million, up $49 million, or 28 percent); increased outreach, demonstration, and commercialization efforts for industrial energy efficiency and waste minimization ($181 million, up $56 million, or 44 percent); improved utility planning ($13 million, up $6 million or 86 percent); and an increase in weatherization and State energy conservation grants ($325 million, up $71 million or 28 percent).

These energy conservation activities will save 4 percent of the energy consumed in the U.S. by the year 2000, resulting in savings of $25 to $30 billion for consumers. These conservation efforts will also achieve a 50 million metric ton reduction in carbon dioxide (CO_2) gas emissions.

Solar and Renewable Energy

The solar and renewable energy program within the Department of Energy funds research and development and commercialization activities to enhance the use of renewable energy sources in all sectors of the economy. These sources include photovoltaics, solar thermal, wind, and biomass energy. The program also funds research and development on high temperature superconductivity, electric transmission, and energy storage, including hydrogen. For 1995, the solar and renewable program is funded at $390 million, up $50 million or 15 percent over 1994. The 1995 program includes significant increases in areas such as photovoltaics, biomass use for utility electric generation, wind, and health effects of electric and magnetic fields.

Grazing Fees

The Administration supports reforms in the management of public rangelands and is committed to bringing Federal grazing fees closer to market value in order to improve the long-term health of America's rangelands. While discussions continue with Western Governors, interested groups, and the general public to refine the Administration's grazing fee proposal, the budget assumes reforms and fees announced by the Secretary of the Interior in August 1993.

Hardrock Mining

The Administration is committed to comprehensive reform of the Mining Law of 1872 to bring Federal policy on public land hardrock mining into the twentieth century, and do so without threatening the health of the domestic mining industry. The budget assumes fee levels and reforms consistent with H.R. 322, the House-passed version of hardrock mining law reform. Royalties are assumed at 8 percent on a "pre-smelter" basis; additional user fees to cover the costs of implementation are also assumed. The royalties and increased fees will finance a new abandoned mine restoration fund and the increased costs of implementing hardrock mining reform.

Acquisition Strategies for the Conservation and Protection of Land and Water

The Administration proposes several means to protect our natural and cultural assets. A primary tool is the Land and Water Conservation Fund (LWCF) administered by the Departments of the Interior (DOI) and Agriculture (USDA), funded at $254 million (same as the 1994 enacted level). LWCF funding finances land acquisition to preserve nationally important natural and historic resources and incorporate them into the Nation's national park, forest, refuge, and public land systems. It also finances State grants supporting outdoor recreation activities.

The budget also includes $18 million (a $2 million, 11-percent increase over 1994) for DOI's Partners in Wildlife Program. This voluntary Federal-private partnership administered by the Fish and Wildlife Service implements fish and wildlife habitat restoration on private land. From revenues generated from Duck Stamps and other sources, DOI's Migratory Bird Conservation Fund is used by the Fish and Wildlife Service to acquire important waterfowl habitat. The Administration proposes $41 million in mandatory spending for Migratory Bird Conservation Fund acquisition in 1995. The Fish and Wildlife Service will also spend approximately $14 million in 1995 (17-percent increase over 1994) from the North American Wetlands Conservation Fund to acquire additional wetland habitat consistent with the North American Waterfowl Management Plan.

ECOSYSTEM MANAGEMENT AND BIODIVERSITY

The Administration is reinventing the way the Federal Government uses and cares for the environment. Several agencies have issued new or revised statements and policies supporting "ecosystem management" to maintain the sustainability and biodiversity of ecosystems, as well as economies and communities. The human component is fundamental.

To ensure Federal efforts are comprehensive and efficient, the National Performance Review recommended a coordinated ecosystem management policy be established across the Federal Government.

The Administration is considering the following principles for ecosystem management:

- Manage along ecological rather than political or administrative boundaries.
- Ensure coordination among Federal agencies, and increased collaboration with State, local, and tribal governments, the public, and Congress.
- Use monitoring, assessment, and the best science available.
- Consider all natural and human components and their interactions.

The budget accelerates implementation of selected, on-going interagency ecosystem management efforts. Each effort described below will entail better management of existing activities. Modest savings may be possible as conflicts and the need for remediation are reduced.

Ecological and Economic Sustainability: The Pacific Northwest Forests

Following the April 1993 Forest Conference in Portland, Oregon, the President directed a Federal inter-agency team to develop a comprehensive, integrated approach to managing old-growth forests and their biological diversity west of the Cascade Range in Washington, Oregon, and Northern California. The Forest Plan that the President subsequently approved offers such a new approach, based on sound science and a commitment to existing law. It identifies and protects key watersheds, old-growth forests, and scores of species—such as the northern spotted owl, the marbled murrelet, and salmon—as well as the region's drinking water.

Regional economic and social needs were integrated into the Forest Plan. The Administration proposed new assistance for local workers, businesses, and communities to diversify the region's economy. Implementation has already begun with oversight by an inter-agency team and participation from State and local agencies. $372 million in proposed 1995 funding (a 23-percent increase over 1994) will be used for worker retraining, business loans, watershed analysis, and ecosystem restoration.

Looking at the "Big Picture": South Florida Ecosystem Restoration

The natural systems from the Kissimmee River, south of Disney World, to the coral reefs off the Florida Keys are an interdependent landscape and seascape. Historically, however, these systems have been managed as if they functioned in isolation from one another. Half of the Everglades have been drained and converted to agriculture or urban development. As a result, populations of wading birds have declined by more than 90 percent, and South Florida has 56 threatened or endangered species. Florida Bay, which in the past supported huge commercial and recreational fisheries, is in a State of ecological collapse.

The Administration is developing a comprehensive restoration approach to better manage the South Florida Ecosystem as a whole, working closely with State, tribal, and local governments. To support this effort, a regional working group will develop an integrated, long-term budget. This budget proposes $59 million in 1995, a 51-percent increase over 1994 enacted funding for restoration activities. A preliminary restoration plan has been developed and is being reviewed. In addition, issues of water quality, water quantity, and the effect of water delivery on the natural systems central to the restoration effort are being analyzed.

Using Available Resources More Effectively: The Restoration of Prince William Sound (Alaska)

In the past year, significant strides have been made to restore the natural and economic resources of Prince William Sound, which were heavily damaged by the March 1989 Exxon Valdez oil spill—the largest in U.S. history. The Administration committed $25 million to acquire environmentally sensitive lands, worked closely with the State of Alaska to hire an Executive Director for joint Federal/State restoration, and published a draft restoration plan outlining the use of the restitution and settlement payments that are being made by the Exxon Corporation into the next century (a total of $1.1 billion). In 1995, the Administration will continue leadership in the acquisition of environmentally sensitive habitat, and the development of a comprehensive research and monitoring program in the spill zone. The budget includes $90 million in mandatory spending for these activities.

Restoring a Forgotten River: The Anacostia (Maryland and the District of Columbia)

The Anacostia River watershed covers 170 square miles in Maryland and the District of Columbia. The river flows through some of the most densely populated and economically depressed areas of the Nation's capital. Once covered with forest and wetlands, the watershed is now highly urbanized, the natural river flow has been altered, and the river is best known for its extremely poor water quality. Until recently, little attention was given to the Anacostia in contrast to the Potomac River. In fact, while over $1 billion has been spent to bring Lyndon Johnson's dream of a fishable, swimable Potomac to pass, less than 1 percent of that sum has been spent on restoration of the Anacostia. As a result, the Anacostia has been rated among the Nation's 10 most threatened rivers.

In 1987, the District of Columbia, the State of Maryland, and two Maryland counties signed a landmark restoration agreement for the Anacostia, and established a committee of local governments and regional organizations to develop a comprehensive restoration plan. The role of the Federal Government in the Anacostia is different than in the Pacific Northwest and South Florida. Rather than being a primary organizing force, it is a participant in an effort developed and led by State and local governments. The budget proposes $2.3 million in Federal funding for river basin restoration efforts in 1995. Participating Federal agencies include the Army Corps of Engineers, EPA, the National Park Service, the Forest Service, and the Fish and Wildlife Service.

An example of the Administration's leadership in addressing urban watershed issues, the Anacostia River restoration effort is well underway. A recently completed restoration project that doubled the amount of wetlands in the tidal Anacostia and a soon to be completed Corps of Engineers' feasibility study of restoration alternatives are two projects jointly funded by the Federal Government, the District of Columbia, the State of Maryland, and local governments.

The National Biological Survey

In his Earth Day speech, the President announced his intent to create a new agency in the Department of the Interior, the National Biological Survey (NBS), to avoid the costly and unnecessary economic and environmental "trainwrecks" of the recent past.

The new agency will provide better, more reliable, objective scientific information in advance of problems that might threaten animal and plant species with extinction. Inadequate science has led to poor decisions that years later have posed a false choice between jobs and the environment. By identifying potential problems early, while society still has flexibility to address them, the NBS will make it easier to continue economic growth in harmony with the environment.

The budget includes $177 million for the NBS, a 6-percent increase over 1994. The increase will accelerate world-class research and monitoring of key U.S. ecosystems, such as the Northwest forests and the Everglades.

The Bottom Line

The Administration will better manage natural resources by bringing together all interested parties, with a focus on natural systems (rather than bureaucracy) to make informed decisions for the long run. The ecosystem management efforts and the NBS will improve the way decisions are made on the ground across the Nation.

CLEANUP AND COMPLIANCE

Midwest Flood Response/Recovery, and Alternatives to Levee Construction

The 1993 Midwest floods were unmatched in U.S. history in property damage, environmental harm, disrupted business, and personal tragedy.

To assist States and localities meet this unique challenge, the Administration proposed, and Congress enacted, an emergency supplemental bill totalling $5.7 billion to fund the Federal share of the relief effort. This budget proposes additional emergency supplemental funding totalling $411 million for the Army Corps of Engineers and the Department of Agriculture's Soil Conservation Service (SCS) for levee repairs that could not be addressed within the amounts in the 1993 supplemental. Over 450 levees should be repaired by the end of the 1994 construction season.

The Administration's first priority after the floods was to return people's lives to normal as quickly as possible. At the same time, however, the Administration reviewed existing flood recovery and floodplain management policies and practices to reduce future damages and disruption of lives, and restore the environment and the natural functions of the floodplains:

- In August 1993, the Administration promulgated procedures to ensure that nonstructural levee repair alternatives were considered.
- In November, the Administration published a list of Federal programs offering floodplain management alternatives to States, localities, and private citizens.
- In the emergency supplemental, the Administration requested, and Congress provided, language to allow the SCS, under certain circumstances, to fund wetland restoration in lieu of levee repair if local landowners agreed. With the additional SCS funding requested in the budget, this

new authority should result in over 100,000 acres of restored, protected wetlands. For example, levees in Louisa County, Iowa, protecting 3,000 acres of land, 2,000 acres of which are cropland, have received Federal repair funds 14 times in 60 years, totalling $3.5 million in 1993 dollars. The local levee district has applied to restore the lands to wetland condition through SCS's Emergency Wetland Reserve Program—an opportunity for a major change from the wasteful flood/repair cycles of the past.

- The Administration also supports new approaches to recovery and long-term mitigation of flood hazards in urban areas. Hundreds of communities have requested assistance to relocate damaged homes, businesses, and facilities out of harm's way.

Not simply reacting to the Midwest floods, the Administration also commissioned a study by Federal agency experts to ensure that the assets of the floodplain are used to the fullest extent compatible with economic and environmental values. The views of State and local governments and the private sector should be carefully considered and addressed in this study, to be released in the spring of 1994.

Department of Energy Federal Facility Cleanup and Compliance

The Department of Energy (DOE) faces one of the Nation's most complex environmental challenges. Its Office of Environmental Restoration and Waste Management (EM) must safely manage the generation, handling, treatment, storage, transportation, and disposal of DOE nuclear and hazardous waste (including waste management, environmental restoration, facility transition, and technology development). The budget provides $6.28 billion, an increase of 2 percent over 1994, for these key programs. Additionally, DOE has been authorized to convert 1,200 contractor positions to Federal positions through 1994 and 1995. This conversion will enable DOE to strengthen its management and improve EM effectiveness and efficiency.

Waste Management activities (47 percent of the EM budget) include the minimization, characterization, transportation, treatment, storage, and disposal of radioactive, hazardous, mixed, and sanitary wastes generated by past and ongoing operations.

The Environmental Restoration program (33 percent of the budget) manages assessment and cleanup at surplus and inactive sites. DOE implements 93 cleanup and compliance agreements with State regulators and EPA. These agreements include specific activities and schedules required to meet environmental laws and regulations.

Facility Transition (14 percent of the budget) coordinates and oversees the transition of DOE surplus contaminated installations, facilities, and materials into the EM program for deactivation, decommissioning, or disposition.

Technology Development (6 percent of the budget) is the applied research and development arm of the EM program, supporting new technologies for environmental restoration and waste management.

Department of Defense Federal Facility Cleanup, Compliance, Research and Development, and Conservation Programs

The Department of Defense (DOD) continues to make significant progress in environmental cleanup, compliance and pollution prevention, research and development, and conservation. The budget provides a total of $5.7 billion for these programs, an increase of 6 percent above 1994.

DOD plans to spend $2.7 billion, a 5-percent increase over 1994 (including the defense environmental restoration and base closure accounts) for environmental cleanup—the identification, investigation, and cleanup of past contamination from hazardous substances and wastes. Since 1984, DOD has been engaged in cleanup at about 1,800 military installations and 8,000 formerly used defense locations, including over 60 installations scheduled for closure or realignment under the President's Fast Track Cleanup Program.

In addition to cleaning up past contamination, DOD plans to spend nearly $2.6 billion for environmental compliance and pollution prevention (a 10-percent increase over 1994)—meeting current standards in air and water permits, maintaining and repairing environmental treatment facilities, and undertaking construction to meet new environmental standards. This allows DOD to comply with all applicable Federal, State, and local environmental laws. Pollution prevention includes activities designed to eliminate or reduce pollution at its source.

DOD provides $353 million for research and development in 1995. This will accelerate development and deployment of dual-use technologies for environmental cleanup, waste minimization, and substitutes for hazardous waste materials. It also provides funding for research on global environmental change.

Finally, funding for the DOD conservation program is $108 million in 1995. DOD is the steward for over 25 million acres of public lands. Its conservation program ensures that the biological, cultural, and historical resources on these lands are managed in balance with the Department's military mission.

Superfund

The Administration is proposing legislation to reform the Superfund program. Reforms to the current liability system will reduce litigation and related transaction costs for the private sector of our economy, enhance the program's fairness, speed site cleanups, and promote economic development. Reforms to the existing remedy selection process will reduce cleanup costs without sacrificing human health or the environment, while increasing community involvement. Because the Administration was still finalizing its Superfund legislative reforms when the 1995 budget data base was locked, the current request does not reflect the budgetary impact of these reforms.

Pesticide Use Reduction Initiative

The Administration is committed to reducing pesticide use and promoting sustainable agriculture practices. In June 1993, it announced a series of food safety legislative, regulatory, and administrative initiatives. These initiatives were designed to maintain and enhance food safety for all Americans; address recommendations of a 1993 National Academy of Sciences report on ways to protect children from pesticide risks; and strengthen Federal regulatory agency authority to make and enforce sound, timely, science-based decisions for protecting both public health and the environment.

The budget supports the pesticide use reduction initiative (total funding of about $160 million, 35 percent over 1994) by increasing support for research and extension activities such as Integrated Pest Management, biological and cultural pest and disease control systems, and other sustainable agriculture systems. The budget also includes substantial increases for USDA's food intake surveys to include more information on small children, and to expand USDA's chemical use surveys and restricted use pesticide surveys to include more States and crops and post-harvest chemical use.

The budget also reinstates fees on pesticide manufacturers to cover EPA's costs of issuing new pesticide registrations; and extends and increases existing fees to support EPA's program to re-evaluate the safety of pesticides already in use and re-register those determined to be safe.

INTERNATIONAL COOPERATION

North American Free Trade Agreement (NAFTA) Environmental Support

The budget includes $300 million in support of NAFTA and the U.S.-Mexico Border Environmental Plan. This represents a $152 million (103-percent) increase over 1994 that will continue existing anti-pollution activities and provide additional resources targeted along the border with Mexico.

The budget continues construction of the new Tijuana sewage treatment plant near San Diego and expands treatment capacity at the plants in Nogales, Arizona, and Mexacali, Mexico. These projects will dramatically improve water quality along the Mexico border. The budget also includes $50 million in EPA State grants to address wastewater treatment needs in colonias (unincorporated sub-divisions) along the border in Texas. These border communities lack the health and environment infrastructure enjoyed by other areas of the country. In addition, the budget requests $25 million in new resources for USDA grants for colonias to improve the quality of drinking water by installing necessary infrastructure. This will bring total EPA/USDA colonias funding to $186 million since 1993.

NAFTA's environmental side agreement and related agreements between the United States and Mexico established three new institutions—the Commission for Environmental Cooperation (CEC), the Border Environment Cooperation Commission (BECC), and the North American Development Bank (NADBank).

The EPA budget includes $5 million as the U.S. share for a permanent, independent CEC Secretariat to facilitate cooperation among the United States, Mexico, and Canada on environmental and conservation issues. $3 million is requested in the State Department budget for BECC operations, assisting U.S. and Mexico border States and communities design and finance wastewater treatment, drinking water, and municipal waste projects. The NAFTA Implementation Act provided Treasury with $56 million as the first of four payments to capitalize NADBank (a total U.S. share of $225 million over 1995-98). NADBank will backstop shortfalls in private-sector financing for border environmental projects. Finally, the Interior Department budget includes $11 million to enhance endangered species protection along the border, and invest more funding in national wildlife refuges and fisheries habitat restoration in the border area.

U.S. Global Change Research Program (USGCRP)

The Administration is committed to support a series of international agreements and national policies that address environmental changes that can have significant impacts on the world's society and economy (global warming, ozone depletion, and biodiversity). The USGCRP's goal is to support the development and implementation of these policies by continually improving our knowledge of the natural and anthropogenic processes and forces that influence these changes. In 1995, $1.8 billion is being proposed for this interagency research effort, a $349 million or 24-percent increase over 1994.

The budget proposes a special research emphasis on improving our understanding of the dynamics between human behavior, the economy, and environmental change; terrestrial ecology; international ground-based data campaigns; and climate change modeling. The budget also funds the continued development of a comprehensive space-based data collection system (NASA's Mission to Planet Earth).

International Environmental Funding

Global Environment Facility

The Global Environment Facility (GEF) was created in 1991 as a three-year pilot collaboration among the World Bank, the United Nations Development Program, and the United Nations Environment Program. Originally capitalized with approximately $1.3 billion from both direct contributions to the Global Environment Trust Fund of the GEF and co-financing arrangements, the GEF provides concessional financing to developing countries to address the problems of global warming, ozone depletion, loss of biodiversity, and pollution of international waters. The pilot phase of the GEF expires in 1994.

International negotiations are underway to restructure the GEF as a permanent entity. The Administration is committed to the successful conclusion of these negotiations and the creation of a transparent, accountable GEF that can serve as the funding source for achieving global environmental benefits, including those related to the Climate Change and Biodiversity conventions.

Montreal Protocol

The EPA and State Department budgets provide a total of $48 million to replenish the Montreal Protocol multilateral fund, a $23 million (92-percent) increase over 1994. This will both meet the second year of a three-year U.S. commitment (1994-96) totalling $114 million, and pay down over a two-year period amounts not paid from previous years. The multilateral fund helps developing countries finance ozone-protection training, research, investments, and projects (chlorofluorocarbon (CFC) recycling/recovery equipment and devices; and retooling of manufacturing facilities for non-CFC alternatives).

Global Environmental Education

The budget provides a total of $12 million in 1995 for the "Global Learning and Observations to Benefit the Environment" (GLOBE) initiative. NOAA and NASA began this effort in 1994 with a total commitment of $1 million from existing resources. EPA will also participate in the initiative, beginning in 1995. Students around the world will take part in an environmental observations program designed by educators and scientists to enhance awareness of the environment and the impacts of human activities, and collect environmental data for increased scientific understanding of the earth. Although the United States would take the lead, GLOBE's long-term goal is a global partnership. Over 1,000 schools will participate globally by the spring of 1996, with a target of 100,000 by the year 2000.

Multilateral and Bilateral Assistance

The budget requests an increase of $49 million (an increase of 18 percent over 1994) for bilateral and multilateral environment assistance. Bilateral assistance comprises Agency for International Development (AID) activities to improve climate change, biodiversity, tropical forests, urban and industrial pollution, coastal zones and water resources, environmentally sound energy use, and sustainable agriculture in developing countries. Multilateral assistance funds U.S. voluntary contributions to the United Nations environment system and other international organizations that address a wide range of international environment activities, including the United Nations Environment Program (UNEP), Convention on International Trade in Endangered Species (CITES), and the World Meteorological Organization (WMO).

Green GDP and Economic/Environmental Accounting

The Department of Commerce's Bureau of Economic Analysis (BEA) has an ambitious plan to improve understanding of the interaction between the economy and the environment. BEA's three-phase plan calls for the development of a comprehensive, integrated set of economic and environmental accounts. By Earth Day 1994, BEA will present prototype estimates of the economic value of nonrenewable natural resources (including oil and gas, coal, uranium, and nonfuel minerals with a scarcity value) and a measure of gross domestic product (GDP) adjusted for the depletion of these resources. The prototype estimates will utilize a range of alternative methods for measuring the stocks of natural resources, new discoveries and extensions, and depletions. In addition, BEA will present an integrated economic and environmental accounting framework for renewable natural resources and a broader range of environmental assets.

Subsequently, BEA will extend the nonrenewable natural resource accounts to renewable natural resources such as forests, soil, water, water aquifers, and fish stocks. BEA ultimately will value a broader range of environmental assets, such as clean air and the environment as a recreational resource. These final estimates will be more difficult because they must be based on less well-developed concepts and data sources. Although significant advances will be required in data as well as methods, BEA will move from near ground zero to the forefront of world efforts in integrated economic and environmental accounting. To carry out these activities, the budget proposes $1.9 million, an increase of $1.5 million over 1994.

OPENING MARKETS OVERSEAS

> *The truth of our age is this and must be this: Open and competitive commerce will enrich us as a Nation.*
>
> President Bill Clinton

Opening overseas markets to U.S. exports increases employment and incomes in the United States, and gives foreign consumers the same range of choices of products and services that U.S. consumers have in our open market. This Administration made great progress last year, and has a full agenda for the future.

URUGUAY ROUND

The Uruguay Round represents the largest, most comprehensive set of trade agreements since the GATT's inception in 1947, involving 117 countries and directly affecting approximately 85–90 percent of global trade. At the insistence of the United States, the Round not only involved traditional trade liberalization by reducing tariffs, but also, more importantly, it opened trading opportunities for many sectors of the American economy, including services, that had never previously benefitted from multilateral trade agreements. The Council of Economic Advisors tentatively estimates that, once the Uruguay Round is fully implemented in 2004, it will add $100 to $200 billion to U.S. annual GDP per year (1.5–3.0 percent of current GDP) as a direct result. The Uruguay Round will:

- **Reduce tariffs by an average of one-third.** Significant reductions or eliminations of tariffs will occur in such sectors as construction, medical and agricultural equipment, steel, beer, pharmaceutical goods, paper, toys, furniture, and certain electronics. Chemical tariffs will be set at low rates.
- **Cover trade in agriculture in a comprehensive way for the first time.** Countries must permit a minimum level of agricultural imports (e.g., rice imports by Japan), must cut agricultural export subsidies by 36 percent and reduce the quantity of exports subsidized by 21 percent over 6 years for developed countries (10 years for developing countries). Domestic subsidies to agriculture must be at levels 20 percent below their 1986–90 base. The United States has already achieved the required reductions in domestic subsidies. Efficient U.S. producers of farm commodities will realize significant benefits from freer markets.
- **Eliminate the current trade regime for textiles and apparel over a 10-year period.** American consumers will pay lower prices for clothing as a result of this part of the Round. At the same time, the agreement provides a mechanism to cushion the impact on U.S. producers from sudden increases in imports.
- **Provide new coverage of trade in services and intellectual property.** The achievement of this major U.S. objective will create a framework for the liberalization of the $900 billion worth of cross-border trade in services and approximately $3 trillion of international activity that has not traditionally been regarded as trade such as some forms of legal services.
- **Prohibit many export subsidies.** Government subsidies generally provided for domestic purposes (e.g., for industrial research) that might give a commercial advantage to a benefitting firm are allowed, but only under certain prescribed circumstances.
- **Reduce other non-tariff barriers to trade.** A wide range of other barriers to trade, such as unfair licensing procedures and trade-related investment measures, have been made less restrictive or removed entirely.

North American Free Trade Agreement (NAFTA)

NAFTA creates a $6.5 trillion market with 370 million people and eliminates most restrictions on trade between the U.S. and Mexico, our third largest and fastest growing export market. Since Mexico began to open its markets in 1986, U.S. merchandise exports to Mexico have risen by 228 percent, reaching $40.6 billion in 1992. NAFTA locks in this liberalization and eliminates the remaining Mexican barriers to U.S. exports, which are 2.5 times larger that current U.S. barriers to Mexican exports.

As of January 1, 1994, 50 percent of all U.S. exports to Mexico enter Mexico duty-free, including some of our most competitive products, such as semiconductors and computers, aerospace equipment, telecommunications equipment, electronic equipment, and medical devices. NAFTA has opened Mexico's markets to U.S. service exports (e.g., telecommunications services, insurance, and banking) and eliminated numerous Mexican requirements on U.S. investment. Service trade with Canada will also be further liberalized. Unlike previous trade agreements, the NAFTA text also explicitly provides for the consideration of environmental standards and concerns, such as discouraging a NAFTA country from weakening its environmental protection to attract investment. Provisions of the NAFTA also ensure that the U.S. can maintain and enforce its existing environmental standards as well as international treaty obligations to limit trade in controlled products such as endangered species.

A consensus of the economic studies of NAFTA have found that it will increase U.S. GDP, employment, and probably wages. Most studies suggest that the U.S. GDP will increase by approximately one-quarter to one-half a percentage point once NAFTA is fully implemented. Export-related jobs are expected to rise. Currently, the number of American workers producing merchandise exports to Mexico is estimated to be 700,000. With NAFTA, employment related to exports to Mexico is projected to increase by another 200,000 by 1995. This adds to the 1.5 million U.S. jobs that are already supported by merchandise exports to Canada. Real wages may also benefit, since the wages of U.S. workers in jobs related to exports to Mexico are 12 percent higher than the national average.

Although NAFTA's net effect on U.S. jobs will be positive, it is also likely to lead to some job displacement. To assist those workers who may face job loss, the Administration has in place a transitional program until the Administration's comprehensive workforce security program has been enacted.

Key to NAFTA's effective implementation are the **side agreements** negotiated by the Administration on labor, the environment and import surges. Both the labor and environment agreements obligate each NAFTA partner to enforce its domestic laws. Each of these agreements also creates a commission charged with monitoring progress under the agreements. An additional side agreement between the U.S. and Mexico will address the serious environmental problems in the border region and ensure that the environmental consequences of increased trade with Mexico will be affirmatively managed. The side agreement on import surges creates an "early warning" mechanism to identify sectors where explosive trade growth may occur and significantly harm domestic industry during the transition period.

THE TRADE AGENDA

The Administration has an ambitious agenda to continue market opening and export promotion. It will implement NAFTA's side agreements and other provisions such as transitional support for workers adversely affected by NAFTA and environmental cooperation between the United States and Mexico. Once the Uruguay Round of trade agreements is signed, the Administration intends to submit legislation to implement the Uruguay Round agreements for Congressional approval under the fast track procedures. The Administration will also examine the prospects for future bilateral and multilateral trade negotiations, with the latter focused on the relationship between trade and the environment, competition policy and worker rights. In addition, the Administration is engaged in comprehensive negotiations with Japan, through the U.S.-Japan Framework, in order to improve market access.

The end of the Cold War has changed the nature of the requirement for export controls on critical military technologies. The Administration is relieving unnecessary burdens on U.S. business by eliminating unilateral dual-use export controls unless they are essential to national security and foreign policy interests. The Administration has significantly liberalized control levels for computers, and is negotiating with our allies to liberalize control levels for supercomputers and telecommunications. These actions carry out the President's pledge at the United Nations to "work with our partners to remove outdated controls that unfairly burden legitimate commerce and unduly restrain growth opportunities all over the world."

On other issues also on the legislative agenda, the Administration will seek the renewal of the Generalized System of Preferences (GSP), a program that provides duty-free treatment to selected items from eligible, less developed countries that meet certain worker rights and other criteria. The agenda also includes a decision on whether to seek a renewal of Most Favored Nation (MFN) trade status for China. The Administration has conditioned MFN renewal on China's progress in the human rights area. Consistent with the Budget Enforcement Act, the Administration will seek bipartisan agreement on offsets for the budgetary cost of any trade legislation that reduces tariff revenues.

Finally, the Administration recognized the need for a unified review of the budgets of U.S. agencies that promote trade and for the creation of a unified export provision budget as mandated by the Export Enhancement Act of 1992. The Administration is committed to strengthening the country's trade promotion efforts because exports play a vital and increasing role in creating high skill, high wage jobs for our economy. In a report published last September by the Trade Promotion Coordination Committee (TPCC) *Toward a National Export Strategy,* the Administration lays out a set of initiatives to enhance coordination and to consolidate federal export promotion efforts. In furthermore of this goal, and the statutory mandate, the TPCC will shortly issue a companion document which details the allocation of Federal resources across agencies involved in export promotion efforts. One focus of the review was how best to promote higher technology, U.S. exports, and ensure that budget resources went to high priority programs. The Trade Promotion Coordination Committee made several recommendations to OMB that were used in planning the 1995 budget:

1. **Costs of Trade Negotiations.** The five agencies with the most direct responsibility—the Departments of Commerce, State, Treasury and Agriculture, as well as the U.S. Trade Representative—expect to spend about $190 million in 1995 in negotiating and implementing trade agreements.
2. **Providing Credit to Less Developed Countries.** Eximbank and other agencies provide loans, insurance and guarantees to developing countries to purchase U.S. exports. The 1995 budget will request $1.4 billion to pay for this credit.
3. **Helping Correct Market Imperfections.** The Commerce Department and other agencies provide assistance, such as market information, to U.S. exporters. The budget will request about $290 million for these services.
4. **Matching Foreign Export Subsidies.** Eximbank and the Agriculture Department provide subsidies to U.S. exporters to counter foreign export subsidies. The most significant development in this area is the $150 million "tied-aid fund" that Eximbank will administer. The budget will request $682 million for matching U.S. subsidies.
5. **Other Trade Related Subsidies.** The Agriculture and State Departments provide subsidies to foreign importers of U.S. goods, both for business and foreign policy reasons. These subsidies will decline from about $1.0 billion in 1994 to about $0.5 billion in 1995.

The review revealed that export-related expenditures total about $3.4 billion in the 1995 budget as Table 3B–13 shows:

Two caveats about these figures should be borne in mind. First, the primary contribution the U.S. Government can make to promote U.S. exports is to reduce the deficit, which constricts resources for the exporters and the economy as a whole. Second, budget resources are measures of inputs not outcomes, such as increased U.S. exports. The major determinants of U.S. exports, which totalled $592 billion in 1992 for merchandise trade and services, are underlying competitiveness, foreign exchange rates and open trade regimes, not U.S. Government budget support for a limited number of U.S. exporters.

Table 3B–13 EXPORT-RELATED EXPENDITURES BY CRITERIA

(In millions of dollars)

	1993 Actual		1994 Estimated		1995 Proposed	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
(1) Credit problems in LDC markets.						
a. These programs provide credit-worthy emerging markets with otherwise unavailable credit so that they can purchase U.S. goods						
Department of Agriculture—Mandatory	752	534	403	368	394	396
Department of Agriculture—Discretionary	346	324	330	419	280	297
Export-Import Bank	647	259	944	458	694	555
Subtotal	1,745	1,117	1,677	1,246	1,368	1,248
b. These programs provide credit and/or grant assistance to U.S. companies interested in investing in or exporting to less-developed countries.						
Trade and Development Agency	36	23	36	32	40	39
Department of Energy	....	....	....	....	20	8
Overseas Private Investment Corporation	18	11	17	13	20	21
Subtotal	54	34	53	45	80	68
Total	1,799	1,151	1,730	1,291	1,448	1,316
(2) Negotiating open markets and lowering/removal of trade barriers. These programs negotiate to open markets to U.S. goods and services.						
Department of Agriculture—Discretionary	11	11	12	12	12	12
Department of the Treasury	7	7	7	7	7	7
Department of State	62	61	65	64	66	66
Department of Commerce	78	68	77	75	81	119
Office of the U.S. Trade Representative	20	20	21	22	21	21
Total	178	167	182	180	187	225
(3) Costs of exporting that small- and medium-sized firms cannot fully bear. These programs provide market information, matching services, trade events, etc.						
Department of Agriculture—Mandatory	50	57	33	43	26	26
Department of Agriculture—Discretionary	17	17	19	19	18	18
Export-Import Bank	1	1	1	1	1	1
Trade and Development Agency	4	3	4	4	5	4
Department of Energy	4	4	9	6	13	12
Department of Commerce	161	142	187	178	199	210
Small Business Administration	19	19	10	10	15	15
Department of State	12	12	13	13	14	13
Total	268	255	276	274	291	299
(4) Matching foreign export subsidies. These programs attempt to combat foreign export subsidies.						
Department of Agriculture—Mandatory	567	504	563	563	532	532
Department of Agriculture—Discretionary	1	1	1	1	1	1
Export-Import Bank	27	3	100	13	150	44
Total	594	507	663	576	682	576
(5) Other trade related expenditures (e.g., direct subsidies) that serve objectives other than those listed above.						
Department of Agriculture—Mandatory	665	637	631	673	582	582
Department of Agriculture—Discretionary	52	52	53	53	43	43
Department of State/Commodity Import Program	223	223	325	325	125	125
Total	940	912	1,009	1,051	750	750
Grand Total	**3,779**	**2,992**	**3,860**	**3,372**	**3,358**	**3,166**

3C. Delivering a Government that Works Better and Costs Less

3C. Delivering a Government that Works Better and Costs Less

> *The entire agenda of change depends upon our ability to change the way we do our own business with the people's money. That is the only way we can restore the faith of our citizens.*
>
> President Bill Clinton
> September 7, 1993

This Administration inherited a Government with a trust deficit. Americans don't believe that they—or their tax dollars—are treated with due respect. They also don't believe that Government can or will change.

The private sector has cut costs and raised quality to compete around the world. The Federal Government must do the same—to cut the deficit and free up capital for investment, and to keep up with and support our more efficient private sector, so that the whole economy can grow faster.

To be a vital partner in economic renewal and prosperity, then, the Federal Government must rise to three challenges:

- It must rebuild public trust.
- It must work better and cost less.
- It must stay in step with—not drag down—the private sector.

The Clinton Administration took swift action in its earliest days to begin putting the Federal house in order, launching the National Performance Review (NPR) under the leadership of the Vice President.

The National Performance Review Challenge

The NPR's intensive six-month effort was the first step in a long journey toward a reshaped government for the next century: a government that will emphasize results instead of rules; treat citizens more like customers, with respect; empower front-line employees to do their best; and strip away activities it can no longer afford.

That vision parallels the successful, and necessarily painful, transformation of America's private sector. To stay competitive in world markets, big corporations have redefined missions, reorganized for results, focused on customer service, and capitalized on advancing technology. While the Federal Government has tried to do more with less for years, it has not been forced to reexamine those fundamentals all at once.

The sheer size of the Federal Government, with annual expenditures of over 23 percent of the Gross Domestic Product, makes this a major challenge. The expenditures of each of the Federal Government's three biggest agencies—the Departments of Health and Human Services, Defense, and Treasury—nearly triple the revenues of the Nation's biggest corporation, General Motors Corp.; expenditures of mid-sized Federal agencies match revenues of Fortune 50 companies.

The NPR's principles for "reinventing" government yielded 384 recommendations—from systemic government-wide change to proposals for agencies—all following these four themes:

- *Cut red tape* by shifting from accountability for following rules to accountability for achieving results.
- *Put the customer—the citizen—first* by giving a voice and a choice. Restructure operations to meet the needs of individuals. Use competition, or where competition

150-001 O-94-6 (QL 3)

isn't feasible, use other market incentives for success.

- *Empower employees to get results* by decentralizing authority, permitting those who work on the front lines to make more decisions and solve more of their own problems. Employees responsible for results must be provided with the necessary tools, information, and training. Make full use of computer systems and telecommunications to reengineer activities and ensure that programs are run efficiently and effectively.
- *Go back to basics,* paring back programs by abandoning the obsolete, eliminating the duplicative, and ending special-interest privileges.

The recommendations will affect all sectors of the Federal Government. The Administration will reduce the Federal work force by 252,000 through 1999—or about 12 percent of the civilian non-postal work force—by rethinking not only what government does but how it does it, and by improving program delivery as well as streamlining procurement, personnel, financial management, and regulatory affairs.

From Rhetoric to Reality

As management reformers have learned, getting from rhetoric to reality requires a top-down imperative and a bottom-up stake in change. Under the leadership of the Vice President, this Administration has depended primarily on government employees, not outside consultants, to paint the vision and translate it into tangible next steps.

The NPR created a framework for action. The President's Management Council will coordinate and oversee critical management changes, such as streamlining and field office restructuring. Its members are the officials (mostly deputy secretaries) who have been designated Chief Operating Officers in their departments.

The President and the Vice President both have noted that implementing the NPR agenda will take eight to ten years. However, as a result of 16 NPR-based Presidential directives issued to date, as well as prior legislation and reform efforts, key administrative initiatives are already in progress throughout the Government. These agency-specific initiatives are highlighted throughout this budget. The key government-wide initiatives are discussed below.

REBUILDING PUBLIC TRUST THROUGH RESULTS AND SERVICE

PUTTING CUSTOMERS FIRST

> *We need to listen to our customers and hear clearly what they have to say to us.*
>
> Vice President Al Gore
> October 27, 1993

The quality revolution sweeping through American businesses has brought the issue of customer service front and center. The Government must seek to provide the service and results its customers, and American citizens and taxpayers, deserve. Long lines, busy signals, bad information, and financial errors are all too common, undermining public trust in Government to do anything right. Weary of promises, Americans need to experience a change for the better in the services they receive from the Federal Government.

Finding Out What Customers Want

> *Go to the places where your customers go and pretend you are a customer. Fill in the forms, apply for the grants, stand in the lines, call the 800 numbers. See if you like the service you receive.*
>
> SSA Commissioner Shirley S. Chater
> December 14, 1993

On September 11, 1993, President Clinton issued Executive Order No. 12862, "Setting Customer Service Standards." It requires Federal agencies to put customers first by regularly asking them how they view Government services, what problems they encounter, and how they would like services improved. The first step in responding to the Executive Order is to find out who a program's customers are and what they want.

Internal Revenue Service (IRS): In response to its customers, the IRS piloted a system in 1992 that enables most taxpayers who use a 1040-EZ tax return to file their returns over the telephone. With a touch tone telephone, the taxpayer enters all the necessary information into an entirely automated, probe-and-response system. After an expanded pilot in Ohio in 1993, IRS plans to make TELEFILE available to taxpayers in seven states in 1994. For the taxpayer, TELEFILE simplifies filing and improves access (24-hour availability, seven days a week) and timeliness of service (refund checks were sent to taxpayers on average within 22 days, compared to 29 days for paper filings).

Similarly, IRS began testing joint electronic filing of Federal and State tax returns in 1991. By 1993, 12 States had pilots and three States had fully implemented programs. In 1994, IRS expects to receive over 1 million jointly filed returns from 25 participating States. Joint electronic filing benefits: (1) taxpayers and tax practitioners by saving time and money since income tax data need only be filed with one taxing authority, not two or more; (2) State governments by saving substantial implementation and maintenance costs for an independent system; and (3) the IRS by encouraging the growth of electronic filing.

Social Security Administration (SSA): By talking to its customers, SSA has become increasingly sensitive to the problems caused by delays in processing disability claims. The number of SSA's initial disability claims increased 57 percent between 1990 and 1994, creating a serious backlog of cases. The 1995 budget proposes a substantial investment ($280 million) to reengineer the SSA claims process to alleviate the backlog, reduce processing and review delays, and improve SSA's overall delivery of service. SSA customer surveys also are helping to shape its reengineering of the disability process for appeals and continuing disability reviews as well as to guide its study of the recent growth in initial disability claims.

Department of Labor (DOL): By listening to its customers, DOL has learned that the public perceives the current Federal/State job training system as a confusing array of programs with multiple entry points. To respond to customers who seek job information and training, DOL proposes to establish a nationwide network of user friendly One-Stop Career Centers that will provide a single point of entry into the employment and training system. The 1995 budget proposes a significant increase ($200 million) over the 1994 base ($50 million) for the One-Stop Shopping initiative. In some cases, these resources are "seed money," helping States plan and implement programs that streamline access to the full range of employment and training services. In other cases, States may provide One-Stop services with their own resources, aided by waivers of Fed-

Highlights of E.O. No. 12862

"Setting Customer Service Standards," September 11, 1993

- The Government must be customer driven.
- The standard of quality for Government customer service is set equal to the best practices in the private sector.
- Agencies are to identify who their customers are and survey them to determine what they want.
- Agencies are to develop and publish performance standards and measure results against them.
- Employee ideas and actions are to be a big part of the solution.
- Agencies are to provide customers with choices in both the sources of service and the means of delivering them.
- Information, services, and complaint systems are to be easily accessible.

eral requirements that would otherwise constrain flexibility. Full implementation of the Administration's One-Stop Shopping initiative will provide all job seekers with easy access to job and career information as well as Federal training and employment programs.

Integrated Service Delivery Using Information Technology

Americans inside and outside the Government must deal with an incredibly complicated assortment of Federal agencies, organizations, processes, and forms—often resulting in slow, ineffective service and an aggravated public. Information technology can be a key to providing more timely, cost-effective and user-friendly Government services. The recent move toward electronic transfers of all collections and payments is illustrative.

Simplification of wage reporting: Initial steps will include fostering intergovernmental tax filing, reporting, and payments processing through wage reporting simplification. Currently a business prepares and submits the same financial data to a number of different Federal, State and local entities. Minimizing this duplication will allow a business owner to file wage information only once. Early recognition and correction of reporting errors will also lower costs. Participating agencies will begin the design phase and pilot limited facets of wage reporting simplification in 1994.

Electronic benefits transfer (EBT): An extension of electronic payment transfers first popularized in electronic banking, EBT is another example of how information technology may improve the delivery of government services. Though automated teller machines, access cards, and electronic networks are now commonplace, government benefits still are distributed primarily through paper-based systems of checks and food stamps. For the more than 26 million monthly recipients of food stamps, Federal and State governments spend several hundred million dollars annually just to print, distribute, and destroy coupons. EBT adopts commercial electronic payment practices for the delivery of government assistance services, improving efficiency and ultimately lowering costs. Building on commercial practices, Maryland implemented a State-wide pilot program in 1993, serving 200,000 recipients of Aid to Families with Dependent Children, food stamps, child support, and general assistance. OMB has established an interagency EBT Task Force to develop by March 1994 a plan for interagency cooperation among EBT users that will bring the benefits of the Maryland pilot to other States.

Facilitating Agency Customer Surveys

The President's Customer Service Executive Order requires surveys of Government customers and their levels of satisfaction on a scale unprecedented for most agencies. OMB has undertaken two initiatives to facilitate the development, review, and operation of customer surveys. First, in November 1993, it released the *Resource Manual for Customer Surveys* that outlines a general approach to customer survey planning and provides a directory of services available from statistical agencies. Second, in December 1993, OMB issued to the Social Security Administration and the Indian Health Service the first generic clearances for customer surveys under a new streamlined process. During 1994, OMB will continue to develop and disseminate regular updates to the *Resource Manual,* expedite generic clearance reviews for customer surveys, and coordinate group consultations and training in customer survey methods.

MOVING TOWARD A MORE RESULTS-ORIENTED GOVERNMENT

> *The law simply requires that we chart a course for every endeavor that we take the people's money for, see how well we are progressing, tell the public how we are doing, stop the things that don't work, and never stop improving the things that we think are worth investing in.*
>
> President Bill Clinton
> August 3, 1993

The President made these remarks as he signed into law the Government Performance and Results Act of 1993 (GPRA). This Act, complemented by other Administration actions, introduces a results-oriented focus for government managers and can transform how our government is managed. In the course of making these changes, the Federal Government will adopt many of the best practices used by business to improve operational and financial results.

The GPRA shifts attention from program inputs (such as resources, staffing levels, and rules) to program execution: what results (outcomes and outputs) are being achieved, and how well are programs meeting intended objectives? Emphasis will be given to improving program effectiveness, including service quality and customer satisfaction, and to increasing individual and organizational accountability for program performance and achieving pre-set goals.

Under GPRA, agencies are required to prepare: (1) strategic plans that define an agency's mission and long-term general goals; (2) annual performance plans that contain specific goals (targets) and are derived from the general goals (a government-wide performance plan will be prepared using the agency performance plans); and (3) annual reports that compare actual performance with the targets. Additionally, as Federal managers are to be more accountable for how programs perform, the Act allows managers to be given more flexibility and discretion in how they manage.

Implementation of GPRA will occur over the next six years. The first stage, already underway, consists of agency pilot projects during 1994–1996. In January 1994, 21 departments and agencies were designated as pilot projects for performance plans and reports. These pilot projects cover about 375,000 employees (nearly 20 percent of the Federal non-postal civilian work force) and programs, activities, and operations with aggregate annual spending of $48 billion. Additional pilot project designations for performance plans and reports are expected in the Spring of 1994.

Also, in early 1994, Cabinet Secretaries are drafting performance agreements, as recommended by the NPR. Cabinet Secretaries and agency heads will use the agreements to increase their focus on the accomplishment of organizational goals.

A second set of GPRA pilot projects involving managerial flexibility and accountability will be designated this year. These pilot projects will waive certain administrative requirements to provide this added flexibility; these waivers could significantly expand managers' authority to make decisions and spend administrative monies. Several of these pilots are expected to waive selected administrative requirements that are applied to state and local governments.

The second stage of GPRA implementation—full-scale and government-wide—commences in the Fall of 1997, with completion of agency strategic plans and submission of the first of the annual performance plans. Agencies

Examples of GPRA Pilot Projects

Pilot project covers entire organization: Defense Logistics Agency, Forest Service, Internal Revenue Service, Small Business Administration, Social Security Administration

Pilot project covers specific programs: Post-secondary Student Loan and Grant Programs, Department of Education; Organized Crime and Drug Program, FBI; Air Traffic Control and Navigation Facilities and Equipment, Federal Aviation Administration

Examples of Pilot Project Performance Goals and Measures

Bureau of Engraving and Printing	Reducing unit production cost, spoilage, and increasing productivity
Environmental Restoration and Waste Management, Dept. of Energy	Eliminating and reducing risks to human health and safety and environment at inactive and surplus sites and facilities.
National Oceanic and Atmospheric Administration	Building sustainable fisheries, reducing wasteful, incidental catch of recovered species.

are required to consult with Congress and other interested and potentially affected parties when preparing the strategic plans.

As a result of these efforts, starting next year, budgets will contain more information on what taxpayers are getting for their money. This information will provide the basis for the initial government-wide performance plan that is required to be submitted to Congress early in 1998 as part of the 1999 budget.

To encourage Government managers to think of new ways of how to get the best results for the public, under the aegis of the NPR, agencies established over 100 "Reinvention Labs." The reinvention laboratories are designed to accelerate the introduction of new ways of doing business, with particular emphasis on cutting "red tape", unleashing innovative improvement ideas from employees, encouraging risk-taking, and placing value on the customer. The "Reinvention Labs" and Executive Order 12861 (September 30, 1993)—which calls on agencies to eliminate half of their internal regulations within three years—complement provisions in GPRA for reducing certain types of controls and limitations imposed on managers and make Government more results oriented.

MAKING GOVERNMENT WORK BETTER AND COST LESS

REINVENTING FEDERAL PROCUREMENT

> *Our system is based on a premise that extensive controls will result in more efficient purchasing decisions. But these excessive controls, stemming from mistrust, tie the hands of government managers and produce tremendous inefficiencies and poor business decisions for the taxpayers.*
>
> President Bill Clinton
> October 26, 1993

Getting Value for Money

On October 26, 1993, the President and Vice President announced a major overhaul in the way the Federal Government buys its goods and services. Over the years, the Federal procurement system has evolved into a complex and burdensome maze of laws and regulations affecting both private sector vendors and Federal personnel. Furthermore, the procurement system fails to provide significant incentives for contractors to deliver quality. Both the NPR and the Acquisition Law Advisory Panel to the U.S. Congress on Streamlining Defense Acquisition Law (known as the Section 800 Panel) have documented the need to streamline procurement procedures to increase access to and competition in Federal procurement, provide the best technologies available, and save the government money. "American taxpayers have a right to expect that their Federal dollars are being put to the best possible use. The current Federal procurement system is inefficient and wasteful. It adds significant costs without providing extra value," President Clinton emphasized as he announced the major overhaul of government buying. "It's time the Federal Government viewed Federal purchasing as a major source of savings by creating a more efficient and responsive Federal procurement system."

Government-wide Initiatives

Legislative and administrative initiatives recommended by NPR and the Section 800 Panel comprise the basis of the Administration's procurement reform agenda. The Administration seeks to remove unnecessary or special burdens imposed by legislation and regulation, simplify acquisition procedures, encourage innovation to promote greater value, and allow the Government to buy commercial items more like a commercial customer.

Procurement Reform Legislation: Congress' commitment to procurement reform is clear. In 1993, two significant pieces of legislation were introduced. Both seek to streamline the process and encourage acquisition of commercial products. The Administration supports the principles behind these legislative proposals and seeks swift passage of a procurement reform bill in 1994.

Electronic Commerce: In an October 26, 1993, memorandum, the President ordered the Federal Government to move from the current

A Wake-Up Call

During Operation Desert Shield, the U.S. military placed an emergency order for 6,000 Motorola commercial radio receivers. Because Motorola's commercial unit lacked the record-keeping systems to show the Pentagon that it was getting the lowest available price, the deal reached an impasse. How was it resolved? The Air Force asked the Japanese to buy the radios for the U.S., so the U.S. could circumvent its own process. "When the government of another nation has to step in and buy something for the U.S. military because our procurement regulations are so crazy, that's a clear wake-up call that we have got to have the reforms that are being announced today," Vice President Al Gore said on October 26, 1993.

paper-based system to an electronic exchange of procurement information, including solicitations, bids and invoices. An interagency task force will develop the required system architecture by March 1994. When implemented, electronic commerce will improve access to Federal contracting opportunities for the more than 300,000 vendors currently doing business with the government, particularly small businesses. Initial electronic commerce capability is anticipated in 1995.

Making Supplier Past Performance Count: Considering past performance in making new contract awards provides a powerful incentive to improve the quality of goods and services provided by vendors. Judgments of suppliers' past performance are crucial in contract award decisions in the commercial world—but are minimally considered in government. The Administration seeks to change this. A number of Federal agencies (The Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Interior, Justice, Labor, State, Transportation, Treasury, and Veterans Affairs—and NASA, EPA, GSA, FEMA, the Bonneville Power Administration, and the Nuclear Regulatory Commission) are pledging to make past performance a major factor in the source evaluation of a number of specific contracts they will compete this year. Better guidelines will be developed for measuring supplier performance, and the use of this information will be pilot tested in these acquisitions. The results from the pilots will serve as the basis for changes in regulations, procedures and management practices government-wide.

Voluntary Cooperation to Improve Procurement Performance: The Office of Federal Procurement Policy (OFPP) in OMB has initiated a cooperative program with agency procurement executives to obtain from agencies voluntary joint "pledges" to take specific action to improve their procurement processes. The pledge to consider contractors' past performance is being signed by almost all major agencies. To reduce paperwork while maintaining accurate records, nine agencies pledged last October to boost use of government purchase cards (instead of purchase orders) this fiscal year for small purchases. Several agencies have estimated significant administrative savings when making a purchase card transaction, which could apply to millions of small purchases made each year. Pledges are being developed to help convert some of the $100 billion spent each year on contracting for services to performance-based contracting and, when appropriate, from a cost-based to a fixed price contract to generate significant savings.

Moving From Rigid Rules to Guiding Principles: Adequate guidance for Federal procurement officials should not require 1,600 pages of government-wide regulations and 2,900 more pages of agency-specific supplements. In 1994, a task force of procurement professionals and Federal managers, with the advice of Congress and industry, will begin rewriting the Federal procurement regulations to enable procurement personnel to meet the customer's needs and obtain the best possible deal for the government. This will end unnecessary regulatory requirements while still fostering competition and emphasizing best value in Federal procurement.

STREAMLINING THE FEDERAL GOVERNMENT

Beginning in 1993 and continuing throughout the decade, the Federal Government will identify and implement opportunities to reduce waste, eliminate unneeded bureaucracy, improve service to taxpayers, and create a leaner, more productive government. Overall, these reforms will result in the net elimination of 252,000 full-time equivalent (FTE) employment, reducing the civilian, non-postal work force by 12 percent.

Agencies are targeting administrative control and headquarters functions, such as budgeting, personnel, and procurement and unnecessary layers of middle management as the principal focus of "right-sizing." They are considering every opportunity for streamlining, including: reengineering work processes; elimination of certain programs; closing or consolidating field offices (over 75 percent of the Federal work force is located in 34,000 field offices across the country); making fuller use of new—especially information—technology; reducing regulation and red tape in administrative control areas; and enhancing employee training.

Much of the personnel reduction will be accomplished through normal attrition. The Office of Personnel Management will give agencies broad authority to offer early retirement and to expand their retraining, outplacement efforts, and other tools to accomplish right-sizing. In addition, the Administration will seek swift enactment of legislation permitting agencies to offer cash payments to those who leave Federal service voluntarily, whether by retirement or resignation. Right-sizing the Federal Government should save the taxpayer approximately $40 billion over five years.

"Right-sizing"—A Progress Report

On February 10, 1993, the President issued Executive Order 12839, "Reduction of 100,000 Federal Positions"—the first step toward reducing Federal employment by 252,000 by the end of 1999, as ordered in the subsequent September 11, 1993, Presidential memorandum. Actual employment in 1993 achieved the reduction targeted for that year, and the planned employment levels for 1994 and 1995 will meet the 100,000 reduction goal. (See Chapter 12, "Federal employment and compensation" in the *Analytical Perspectives* volume.

Federal Agencies Leading the Way

As a result of the declining force structure, the Department of Defense is making a major effort to reduce the defense infrastructure. (See DoD streamlining section in Chapter 6 of this volume.)

The Department of Agriculture (USDA), Department of Housing and Urban Development (HUD), Internal Revenue Service (IRS) in the Department of the Treasury, Bureau of Reclamation and U.S. Bureau of Mines in the Department of the Interior, Army Corps of Engineers and United States Agency for International Development (USAID) stand out as early leaders in the streamlining effort. These agencies are aggressively restructuring and reengineering services to create greater value for customers and taxpayers.

USDA: The Secretary has announced plans to restructure the Department along six mission lines, merging 42 separate agencies into 30, eliminating waste and administrative overhead, and consolidating the field structure. Over the next five years, these reforms are estimated to reduce staffing by at least 7,500 and save over $2 billion. Authorizing legislation for the headquarters reorganization is being actively considered by both houses of Congress.

HUD: The Secretary has announced plans to change all of its regional offices into field offices directly serving the states and metropolitan areas where they are located. This streamlining effort simultaneously reduces a level of review and gets more HUD employees closer to their customers.

IRS: The IRS has announced a major restructuring plan to improve service to taxpayers and increase voluntary compliance and tax collections. The plan, scheduled to be implemented fully by 2001, envisions a new IRS which will take full advantage of information technology to provide faster, more accurate service to customers, reduce taxpayer time and cost, and provide better targeted and more productive tax enforcement.

IRS plans to right-size its field structure, wherever possible redeploying agency financial and human resources to enhanced front-line operations. For example, the agency will consolidate the 44 geographical locations where it currently has telephone operations into 23 Customer Service Centers, with on-line access to comprehensive tax data bases, allowing taxpayers to resolve many issues concerning their tax accounts in a single call. In addition, headquarters and regional office restructuring is moving forward: the agency has collapsed Assistant Commissioner positions by more than 50 percent and will reduce its regional offices from seven to five. The IRS is committed to reinvesting its human resources by redeploying, as appropriate, affected staff to customer service and compliance activities.

Interior Department's Bureau of Reclamation and U.S. Bureau of Mines: The Bureau of Reclamation has removed a thick layer of bureaucracy that has long stood between the commissioner and the field offices. Two deputy commissioners and all five assistant commissioner positions have been abolished, and staff in Denver has been reoriented to provide fee-for-service support to the field. In addition, the size of the 2,000 person Denver staff will be reduced, both to reflect the end of an era of constructing large water projects and to move functions and personnel to regional and field offices closer to the customer.

The U.S. Bureau of Mines (USBM) recently completed a comprehensive review of its activities, organization, and facilities. The bureau has begun to build consensus with its customers and Congress to refocus USBM efforts, over a transition period of several years, into three program areas: environmental technology, health and safety research, and mineral data collection and dissemination. The bureau seeks to consolidate more than a dozen field offices into five Centers of Excellence, each specializing in a distinct research area.

Army Corps of Engineers: The Secretary of the Army is developing a streamlining plan to realign the Corps' organization structure—substantially unchanged since 1942—according to current needs. The Secretary will consider reorganizing the Corps' headquarters, reducing the number of division offices, and restructuring district functions to increase program and administrative efficiency.

USAID: Its streamlining plan includes closing 21 posts overseas—the first time since USAID programs were introduced with the Marshall Plan that the agency has reduced the overall number of countries with which it is working. The agency also has conducted right-sizing reviews of each of its 20 Washington bureaus and offices, identifying ineffective, wasteful management structures, systems, and processes. AID also has begun to streamline its procurement and personnel system.

REFORMING THE PERSONNEL SYSTEM

Over the years, the Federal personnel system has become so complex that no one person understands it and few can work efficiently within it. Ten thousand pages of guidelines from the Federal Personnel Manual are piled on top of 1,300 pages of regulations that put into effect 850 pages of personnel law. Managers face months of delay in hiring new employees from a central Office of Personnel Management register, while they are unable to hire a local well-qualified candidate who is not on the register.

A complex and rigid classification system that requires sorting Federal employees into one of more than 450 specific occupational series further delays hiring and reduces employee mobility. The performance management system, which was supposed to recognize and reward performance is widely viewed as burdensome and ineffective. The labor-management relations program is excessively adverserial and elevates form over substance and litigation over problem-solving.

To reform the system, the NPR recommended:

- Sunsetting the Federal Personnel Manual;
- Legislation to give agencies authority to conduct their own recruiting and examining and to abolish all central registers of job applicants;
- Legislation to simplify the classification system and give agencies greater flexibility in classification and pay decisions;

- Allowing agencies to design their own performance management and reward systems to improve performance of individual workers, managers, and organizations;
- Forming Labor-Management Partnerships to harness the energies of employees and management to work cooperatively across the government from the local to the national level.

Thus far, OPM has worked with employees, union representatives, and agency managers to identify the portions of the Federal Personnel Manual that should be abolished, retained, or issued in alternative formats. This "sunset" of the Federal Personnel Manual was accomplished on January 27, 1994, almost a year ahead of the NPR target. Legislation authorizing the discredited performance management system that previously applied to Federal managers was not renewed when it expired October 31, 1993. The President established the National Partnership Council by Executive Order. The Council, composed of employee representatives and management, has begun working to assure establishment of labor-management partnerships at the local level, and to develop the draft legislation for the President called for by the NPR.

The challenge to both labor and management is to put aside the old way of doing business and to work together to achieve a true partnership. The measure of success will be the creation of a personnel system that provides for cooperation and accountability and allows all employees—front-line workers, supervisors, and managers—to take pride in producing better public service.

Pay in the budget: An estimated $2.1 billion is included in agencies' budgets in 1995 to fund the locality pay raises granted to employees in January 1994. This budget provides $1.1 billion for additional civilian employee pay raises in 1995. This $1.1 billion would permit a raise of 1.6 percent across the board for all civilian employees effective January 1, 1995, but the Administration plans to consult with employee organizations and other interested parties on the best approach to distributing pay increases; i.e., a national pay raise, locality pay, or some combination of the two. The Department of Defense budget includes $0.7 billion for a January 1995 across-the-board military pay raise of 1.6 percent.

IMPROVING MANAGEMENT OF THE GOVERNMENT'S FINANCES

If a publicly-traded corporation kept its books the way the Federal Government does, the Securities and Exchange Commission would close it down immediately.

National Performance
Review Report
September 7, 1993

Sound financial management is indispensable to achieving the goals of efficient and effective government. This is no small task. The Government's assets amount to approximately $2.3 trillion. Its cash flow in 1993 amounted to almost $3 trillion.

In this era of increasingly scarce resources and shrinking budgets, it is essential for the Congress and Federal managers to know exactly how the Government's assets are being managed and where the money is being spent. Only then can they make informed choices and ensure the best return for taxpayer investment. Numerous improvements have been made following enactment of the Chief Financial Officers Act of 1990; however, much remains to be done.

Strengthen the Financial Management Infrastructure

The first step in improving financial management is to assure the existence of a strong framework, with the following key components.

Standards: Standards are important to ensure consistent and accurate Federal financial reporting so that Federal managers and the Congress can make informed decisions about program costs and resources, now and in the future. In 1993, the Administration adopted the first recommendations of the Federal Accounting Standards Advisory Board and is working toward the NPR recommendation that a complete set of Federal accounting standards be issued by March 1995.

Financial Management Organization and Qualified Personnel: The Administration developed and issued *Financial Management for Program Managers* to educate program managers on the importance of financial management. The Federal Credit Management Training Institute, established in 1991, will continue courses in accounting and financial statement analysis and add courses in appraisals during 1994. Coordinated training curriculums for financial staffs are in place in the Department of Energy and will be established in the Treasury Department in 1994.

Effective Financial Systems: Financial systems that work efficiently, communicate with one another, and contain accurate data are essential to provide information to Federal managers. The Administration is helping agencies to improve their financial management systems through updated guidance, on-site systems reviews, continued development of standard requirements and data standardization to enhance stewardship over budget and financial information.

Franchise and Innovation Funds: Following the NPR recommendations, legislation was introduced in Congress to create "franchise funds" that would permit agencies to purchase common administrative services, such as payroll, accounting or computer support, competitively from other Federal agencies. In addition, franchise funds would provide investment capital for administrative support innovations at a time when there is great pressure on Federal agencies to do their jobs better, cheaper and faster.

The NPR recommended, and legislation was introduced, creating program-related "innovation funds" which would provide a source for financing projects that improve program services and productivity at reduced cost. Programs that borrow from the innovation fund must repay on a schedule, with interest.

Manage Assets Effectively

The Government's assets include $310 billion of tax and non-tax receivables, of which $107 billion is delinquent, and $660 billion of guaranteed private sector loans. In 1993, non-tax delinquent receivables decreased from $47 billion to $44 billion—the first significant decrease since government-wide numbers became available in 1985. A significant portion of the delinquent debt is estimated to be uncollectible due to factors such as bankruptcy, inability to locate the debtor, and various legislative restrictions. However, efforts must be made to maximize the Government's recoveries, including the following initiatives:

Credit Screening: The Administration reduced the risk in loan origination through expansion of the Department of Housing and Urban Development's automated Credit Alert Interactive Voice Response System ("CAIVRS") for screening loan applicants for defaults on previous HUD loans. Expansion of this system to other agencies is ongoing.

Debt Collection Legislation: The Administration will continue to pursue passage of the Government Reform and Savings Act, which passed the House of Representatives in November 1993, in order to strengthen debt collection through the following provisions: (1) allow agencies to retain a small portion of delinquent debt collections for additional debt collection activities; (2) permit greater use of private collection contractors by Federal agencies; and (3) enhance the Department of Justice's ability to use private counsel in civil monetary litigation.

Tax Receivables: The Administration will seek legislation that would permit the IRS to use private collection agencies for locating delinquent taxpayers and allow payment of delinquent taxes by credit card.

Erroneous Payments: The Death Notification Entry (DNE), a new Automated Clearing House service, was implemented. With an estimated $100 million lost annually due to unrecovered payments to persons not entitled to benefits, usually due to death, Federal agencies are using the DNE to notify banks immediately when a direct deposit customer dies. The Social Security Administration, the first agency to use the DNE, estimates $500 million in outlays will be avoided over five years, leading to program savings of $49 million and 150 FTE.

Electronic Funds Transfer: The NPR recommended the Administration commit to a course of action that will lead to electronic transfer of all collections and payments. The initial steps will be to pay businesses with Federal contracts, State and local governments, Federal employees and retirees, and interagency transfers of funds via electronic funds transfer.

Improve Accountability

Empowerment requires accountability. Financial reporting provides accountability by demonstrating that government agencies are achieving the expected results and disclosing to taxpayers how their tax dollars are actually spent. The NPR recommended, and the Administration is planning, issuance of an audited consolidated annual report on Federal finances by 1997.

The Administration initiated a system in 1993 to report publicly the status of financial management in the 23 agencies covered by the CFOs Act. As Table 3C–1 indicates, significant challenges remain for agencies to make improvements in financial management activities.

In 1993, 95 reporting entities submitted audited financial statements, covering approximately $875 billion of gross budget authority; 37 were determined by independent audit to be in conformity with prescribed accounting standards. This is a marked increase from 1992 when 55 reporting entities submitted audited financial statements and only 19 were determined to be in conformity with prescribed accounting standards.

Another tool for public accountability is the High Risk Program, which focuses on correcting management control weaknesses that could result in major breakdowns in Government service, or in fraud, waste or abuse. A progress report on agency efforts to correct high risk areas appears in *"Analytical Perspectives."*

Finally, the Administration will revise agency guidance on internal control systems to eliminate prescriptive procedural requirements, and streamline the management control program. To reduce the NPR-identified burden of other mandated reports, the Administration has developed and submitted to Congress a phased program to consolidate duplicative reports and streamline the others.

Table 3C–1. CURRENT STATUS OF FINANCIAL MANAGEMENT IN THE U.S. GOVERNMENT [1]

Agency	1992 Budget Authority (in billions of dollars)	1992 Financial Statement Audits			Receivables			Cash Management	
		Percent Audit Coverage [2]	Unqualified Audit Opinions	Material Weaknesses in Accounting Controls	Percent Delinquent [3]	Percent Change in Delinquencies	Percent Change in Collections	Percent Timely Payments [4]	Percent Payroll by EFT
Goals	....	n/a	All	0	n/a	Decrease	Increase	95	90
HHS	559.6	51	1 of 5	10	28	69	**28**	95	85
Treasury[5]	295.7	**81**	4 of 10	24	81	0	–10	78	84
Defense	281.9	58	2 of 15	19	7	0	0	93	**87**
Agriculture	66.3	**100**	5 of 7	34	10	**–16**	**11**	99	75
Labor	48.2	**100**	0 of 1	5	53	9	**7**	94	74
Transportation	36.2	61	1 of 4	9	68	5	–6	85	**92**
OPM	35.8	20	0 of 4	5	68	13	–5	77	83
Veterans Affairs	33.9	**100**	0 of 1	5	72	**–7**	**18**	82	81
Education	28.8	**23**	1 of 2	3	81	**–13**	**4**	94	**93**
HUD	25.0	**100**	1 of 3	8	15	**–1**	**5**	81	88
Energy	17.2	**21**	10 of 11	11	61	5	–9	93	87
NASA	14.3	**100**	0 of 1	5	13	0	–3	97	**91**
Justice	10.0	**11**	4 of 5	6	42	**–22**	**15**	80	85
Interior	7.1	41	0 of 5	12	19	3	**32**	78	78
EPA	6.5	**26**	0 of 5	9	52	58	–14	98	89
AID	5.7	**2**	3 of 5	4	2	**–49**	–9	79	**96**
State	5.2	12	0 of 2	11	73	**–74**	–75	54	**93**
FEMA	4.8	**13**	2 of 4	2	12	0	**459**	91	83
Commerce	3.0	1	**1 of 1**	**0**	23	**–49**	–21	90	86

Table 3C–1. CURRENT STATUS OF FINANCIAL MANAGEMENT IN THE U.S. GOVERNMENT[1]—Continued

Agency	1992 Budget Authority (in billions of dollars)	1992 Financial Statement Audits			Receivables			Cash Management	
		Percent Audit Coverage[2]	Unqualified Audit Opinions	Material Weaknesses in Accounting Controls	Percent Delinquent[3]	Percent Change in Delinquencies	Percent Change in Collections	Percent Timely Payments[4]	Percent Payroll by EFT
NSF	2.6	**1**	**1 of 1**	**0**	58	**–70**	–17	n/a	**90**
SBA	1.9	**86**	0 of 1	3	24	**2**	**2**	51	85
GSA	0.4	**100**	**1 of 1**	1	71	5	**12**	**95**	83
NRC	0.02	**100**	0 of 1	4	20	23	**3**	52	**95**

[1] **Boldface** indicates the Agency is meeting financial management goals.

[2] Agencies that are not in **boldface** did not achieve the audit coverage required by the CFOs Act. The percent of audit coverage required varies by agency and includes spending authority from offsetting collections.

[3] A significant portion of the delinquent debt is believed to be uncollectable due to factors such as bankruptcy, inability to locate the debtor, and various legislative restrictions.

[4] Timely payment statistics in excess of 95 percent that are not in **boldface** could not be verified by a reliable quality control system.

[5] The percent audit coverage excludes Interest on the Public Debt.

n/a = Not applicable

STAYING IN STEP WITH THE PRIVATE SECTOR

REINVENTING REGULATORY MANAGEMENT

Regulations, like other instruments of government policy, have enormous potential for both good and harm. Well-chosen and carefully crafted regulations can minimize fraud, limit pollution, increase worker safety, discourage unfair business practices, and contribute in many other ways to a safer, healthier, more productive, and more equitable society. Excessive or poorly designed regulations, by contrast, can cause confusion and delay, give rise to unreasonable compliance costs in the form of capital investments and/or ongoing paperwork, retard innovation, reduce productivity, distort private incentives, and adversely affect living standards.

The importance of regulations in our society and the many challenges that regulators face make it imperative that the process for developing regulations be principled, professional, and productive. Regrettably, this Administration did not inherit such a process. On the contrary, the way Federal regulations were developed and reviewed in the recent past has been severely criticized for delay, uncertainty, favoritism, and secrecy. Improvement was clearly needed.

Improving Regulatory Integrity

To meet this responsibility, President Clinton issued Executive Order No. 12866, "Regulatory Planning and Review," and other instructions to help create regulations that "work for [the American people], not against them."

- The President affirmed the primacy of Federal agencies in the regulatory decision-making process. At the same time, he reaffirmed the importance of centralized regulatory review to ensure that, to the extent permitted by law, regulations are

> *We can't reject all regulations. Many of them do a lot of good things. They protect workers in the workplace, shoppers in the grocery stores, children opening new toys. But there are others that serve no purpose at all. This executive order will provide a way to get rid of useless, outdated and unnecessary regulations that are obsolete, expensive and bad for business.*
>
> President Bill Clinton
> September 30, 1993

consistent with his priorities and do not interfere with policies or actions taken or planned by another agency.

- In choosing among regulatory approaches, agencies were directed to select those approaches that maximize net benefits, and to base decisions on the best reasonably obtainable scientific, technical, economic, and other information concerning the need for, and consequences of, the intended regulation.
- Regulatory Policy Officers, reporting directly to the agency head, are to oversee regulatory affairs and examine ways to streamline internal clearance processes for regulations. The President's Regulatory Working Group ensures coordination among agencies and early discussion of regulatory issues affecting more than one agency.
- In Executive Order No. 12875, President Clinton directed agencies to establish a mechanism for intergovernmental consultation, and, in light of these consultations, to justify the need for any nonstatutory unfunded mandates they put into a regulation. The consultations are to occur as early as feasible, and should involve not only local program officials but also those more directly responsible for the funding of compliance with the Federal mandate.
- In Executive Order No. 12861, President Clinton directed agencies to reduce internal, nonstatutory regulations by not less than 50 percent, over the next three years.

Reducing Red Tape and Streamlining the Process

The Administration has taken a number of steps to improve cooperation among agencies involved in producing effective regulations and to streamline the regulatory review process.

- OMB and the agencies will decide early on which rules are "significant" (based on their economic, social, or legal importance), and OMB will review only those rules that are so characterized. This process is well underway and is resulting in significantly fewer rules being submitted for OMB review.
- The time for OMB review is strictly limited. Only in unusual circumstances will such review take more than 90 days.
- OMB staff and agency staffs are working together much earlier in the process to identify and resolve problems. Rather than waiting until the agency has virtually completed its work, potential problems are being raised to policy makers while there is still time to respond on the merits.

Openness and Accountability

Openness and accountability are essential to a regulatory process that works.

- Agencies are encouraged actively to seek the involvement of those affected by a regulation even before a proposed rule is drafted; to use consensus-based techniques in rulemaking; and to allow a 60-day comment period for proposed regulations.
- The Administrator of the Office of Information and Regulatory Affairs (OIRA) in OMB now meets quarterly with representatives of State, local, and tribal governments to discuss regulatory issues.
- As of July 1, 1993, OIRA began making available a list of agency regulations under review. OIRA also discloses contacts with those from outside the Executive branch, and has their views transmitted to the agency.
- Each regulatory agency now identifies for the public the substantive changes that it made to the regulatory action between the time it was submitted to OIRA for review and the time the action was publicly announced, indicating those changes that were made at the suggestion or recommendation of OIRA.

IMPROVING THE NATION'S ACCESS TO QUALITY INFORMATION

The ability of the United States to compete effectively in the world economy is dependent on its ability to manage and effectively use information as well as the vitality of the Nation's statistical infrastructure. How the Federal Government gathers, consolidates, and distributes this information determines how well the United States competes globally. Regrettably, the way the Federal Government manages its information is old-fashioned and outdated. As the Vice President noted when presenting the NPR report to the President: it's the Government using a quill pen in the age of word processing.

The budget proposes $3.7 billion for improvements in key Government information systems, supporting both NPR recommendations and the National Information Infrastructure.

Improved Information Management

Coordinating the management of information that serves more than one agency's programs can significantly improve the quality and timeliness of services delivered to the public as well as Federal decision making. Two recently completed pilot projects illustrate the benefits of sharing data across agencies.

- The Department of the Army began transferring medical records directly from military separation centers to the Department of Veterans Affairs' Service Medical Records Center, rather than holding them for storage. These medical records are needed to adjudicate veteran claims for service-connected disability compensation. They may also be required by the Army if the separating individual later joins a Reserve unit. A test conducted under the pilot showed that 98 percent of records requested by the Army were returned within 48 hours. The Army is therefore not disadvantaged by the early transfer, and months of delay under the old process can be eliminated from the time for adjudication of a veteran's disability claim.

- The Customs Service and the Food and Drug Administration (FDA) experimented with the electronic filing and distribution of shipping documents between the two agencies. The pilot system has resulted in over 65 percent of incoming FDA-regulated cargo shipments being approved for unloading prior to their arrival, rather than the previous average waiting time of 36 hours after arrival. The electronic filing of shipping documents allows better analysis of the shipments, expediting low-risk shipments and allowing FDA inspectors to focus on more risky cargos. This improved service results in reduced cost and paperwork burden for shippers.

"Best Practices" Project for Managing Information Technology

A consortium of Federal agencies has begun a project to improve Federal information technology management practices. The project is spotlighting "best practices" that improve the ability of Federal agencies to serve the public and increase the efficiency of program administration. To date:

- The Office of Personnel Management has streamlined the filling of certain Federal job vacancies by allowing candidates to begin the application process using a touch-tone telephone. Since August 1993, the system has processed over 1,500 applicants for nursing positions. The application process takes less than ten minutes. The improved process makes it easier to locate, screen, and hire candidates, quickly filling vacancies and improving agency performance.

- The General Services Administration has established three telecommuting centers in the Washington area. Between 400 and 600 Federal employees use these facilities to communicate electronically with their organization's main workplace from locations closer to their homes. Preliminary results indicate telecommuting improves worker morale, lowers energy consumption, reduces employee time lost to commuting, and reduces pollution.

Electronic Information Availability

> *I challenge you, the people in this room, to connect all of our classrooms, all of our libraries, and all of our hospitals and clinics by the year 2000. We must do this to realize the full potential of information to educate, to save lives, provide access to health care and lower medical costs.*
>
> Vice President Al Gore
> January 11, 1994

Thomas Jefferson said that information is the currency of democracy. Federal agencies are among the most prolific generators of this valuable national resource. Recent advances in information technology are now making it possible to dramatically improve the accessibility of Government information, helping to support Jefferson's democratic ideal.

The amount of Government information available on electronic bulletin boards, on magnetic and optical media such as CD-ROM's, and over the Internet has been rapidly increasing. One example is the "FedWorld" system established by the Department of Commerce's National Technical Information Service. In its first year of operation, FedWorld handled nearly a quarter million calls from over 45,000 users, who downloaded more than 600,000 files, including over one thousand copies each of the NPR report and the Administration's proposed Health Security Act. FedWorld also links the public with over 130 Federal bulletin boards and information centers.

The increasing power of information technology is reducing reliance on traditional printing technology in favor of computer-aided print-on-demand techniques to produce Government information in paper form. Based on the NPR recommendation, the Administration is seeking increased flexibility for agencies in meeting their printing needs while strengthening the role of the Federal Depository Libraries in dissemination of Government information in paper and electronic form.

A major challenge, however, is to develop methods to effectively manage the ever growing and increasingly diverse sources of Government information. To this end, OMB is sponsoring the development of an electronic Government Information Locator Service (GILS)—a virtual card catalogue that will indicate the availability of Government information regardless of its form. An initial GILS capability should be available in 1994. Ultimately, the GILS can serve as more than just a pointer to Government information, and will have the capability to link users directly to the underlying data bases.

Enhancing Information for Economic Competitiveness

The 1995 budget includes an integrated, government-wide effort that will fundamentally reorient statistical programs to recognize basic structural changes over the last thirty years. This initiative seeks to improve the quality of statistics in rapidly changing areas of the economy, where accurate information is most urgently needed to inform public and private responses to challenges facing the United States: national investment, savings, and wealth statistics, including the "Green GDP" initiative proposed by the President on Earth Day; net international investment statistics; construction, service sector, and corporate financial statistics; and output, price, and productivity estimates.

Cutting Costs While Improving Census Coverage

Escalating costs and the persistent differential under-coverage of certain population groups have brought growing criticism of the Decennial Census of Population and Housing. The NPR underscored concerns of the Administration, the Congress, and the public: the current approach to census-taking appears to have exhausted its potential for accurately counting the population at a reasonable cost. OMB is working on a continuing basis with the Bureau of the Census and representatives of virtually every Executive Branch department to develop, test and evaluate alternatives for the 2000 census that will yield quality improvements and cost savings. These include a variety of new approaches to census-taking, such as respondent-friendly designs of the census questionnaire, statistical sampling to follow up households that fail to respond, and innovative cooperative ventures with the U.S. Postal Service.

Eliminating Barriers to Efficient Operations

Specific statutory formulas that have been devised to protect the confidential relationship between statistical agencies and survey respondents have produced inconsistent treatment of the public and have created significant barriers to effective working relationships among these agencies. The NPR highlighted legislative barriers that currently impede the exchange of statistical data provided by businesses to various Federal agencies. A uniform confidentiality policy that substantially eliminates the risks of sharing confidential data for statistical purposes would permit significant improvements in data used for both public and private decisions without the current duplication of effort and without compromising public confidence in the integrity and security of reports provided to agencies. OMB currently is developing tools to establish the necessary statistical confidentiality policy within all Executive agencies and statutory language that would permit data sharing.

4. Reforming the Nation's Health Care System to Provide Health Security For All Americans

4. REFORMING THE NATION'S HEALTH CARE SYSTEM TO PROVIDE HEALTH SECURITY FOR ALL AMERICANS

> *Every American must have the security of comprehensive health benefits that can never be taken away. That is what the Health Security Act is all about.*
>
> President Bill Clinton
> transmitting the Health Security Act
> to the Congress, September 1993

Why We Need to Reform the Health Care System Now

The Moral Imperative

On September 22, 1993, President Clinton submitted the Health Security Act to the Congress. The central premise of the Act is that *all* Americans need health security—the knowledge that quality medical care will always be available and affordable.

Every year, many people lose their insurance for some period of time, usually because they work for small businesses that can no longer afford it. We all face the same predicament: the 85 percent of Americans who have health insurance do not have health *security,* because even the insured are often just one serious illness away from exhausting their health benefits and finding themselves unable to renew their coverage.

Another predicament we face is that although the U.S. has the best medical care in the world, that care is not always available to the 15 percent of Americans—38.5 million people [1]—who do not have coverage because they are sick or poor or because they work for businesses that cannot afford it. All Americans need medical care at some time, but uninsured Americans frequently are unable to pay for the care they receive. These costs are then shifted to those with private insurance. Health reform should make health care affordable for all.

The Economic Imperative

The cost of health care threatens America's economic future. Rising health costs drain resources away from other productive uses, threaten the competitiveness of American firms, add to the Federal deficit, and reduce national savings. The U.S. spends more of its economic output (as measured by Gross Domestic Product, or GDP) on health care than any other industrialized country. Today, 14 percent of U.S. GDP is devoted to health care, and by the end of the decade that number is projected to rise to slightly more than 18 percent. [2] By comparison, no other industrialized country spends more than 10 percent of its output on health care—and most of those countries insure all of their citizens. [3] We spend the most, insure the fewest, and rank 20th in the world in preventing infant mortality, 19th in fatal heart disease, and 16th in life expectancy. [4]

The Federal Government spends about 19 percent of its budget on health care. If current trends continue, that percentage will rise to 25 percent by 1998. Health care will consume almost 50 percent of Federal spending growth between 1993 and 1998.

[1] Employee Benefit Research Institute, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 1993 Current Population Survey,* Special Report and Issue Brief Number 145, January 1994, p. 4.

[2] Congressional Budget Office, *Projections of National Health Expenditures, 1993 Update,* October 1993, p. 3.

[3] Organization for Economic Cooperation and Development, *Annual Report, 1993.*

[4] Organization for Economic Cooperation and Development, OECD Health Data, 1960–1991.

The story is the same at the State and local level. In 1960, State and local governments spent 8 percent of their budgets on health; in 1992, that figure rose to about 15 percent.[5]

Health care spending is crowding out other important investments. Here's one example: In 1962, the Federal Government spent roughly the same amount on education and training as on health care—about $1.2 billion. In 1992, the Federal Government spent twice as much, or $90 billion, on health care, excluding Medicare, as on education. The situation is the same at the State and local level. While health costs are rising as a proportion of State and local government expenditures, transportation spending has fallen from 18 percent in 1960 to 10 percent in 1992.[6]

The rise in health care costs has meant lower wage growth for American workers. Businesses generally respond to higher health care costs by foregoing wage increases for employees. Similarly, the taxes required to finance government health care spending are borne by workers in the form of lower wages. If employer contributions to health insurance had remained constant at their 1975 share of compensation through 1992, and if employers had passed the difference on to workers in the form of wages, real wages per worker would have been more than $1,000 higher in 1992.[7]

The lack of health security hinders economic flexibility and hurts overall productivity. American workers with employer-based health insurance voluntarily change jobs 25 percent less frequently than do workers whose employers do not provide coverage—in part because widespread pre-existing condition clauses prevent workers from obtaining coverage from their new employers.[8] Others are discouraged from forming small businesses or becoming self-employed because of the difficulty of obtaining insurance. Many others stay on welfare because they fear they will lose Medicaid coverage for their children—and not be able to replace it—if they take a job.[9]

The growing portion of Federal and State budgets devoted to health care costs is reason alone for health care reform. When combined with health care's drag on the overall economy and personal economic status, health reform becomes an economic imperative.

Q. What is the relationship between universal coverage and cost containment?

Universal coverage is an essential tool for controlling health costs. Currently, the uninsured pay only 20 percent on average of the hospital costs they incur, while the privately insured pay 130 percent of their hospital costs, as hospitals pass on their unpaid bills in the form of higher prices to people with private insurance.[10] According to one recent estimate, the insured will pay for about $25 billion of uncompensated care in 1994.[11] Universal coverage will eliminate most uncompensated care, reducing costs to firms that now provide coverage and making resources available for higher wages, more jobs, investment in plant and equipment, or lower prices. Universal coverage will also mean that people who use emergency rooms as health care of last resort will be able to afford more appropriate care earlier, which will also help to restrain cost growth.

[5] Congressional Budget Office, unpublished data from HCFA National Health Accounts, November 1993. Also see *Survey of Current Business*, Vol. 73, No. 9, September 1993, Bureau of Economic Analysis, Department of Commerce. Also see *National Income and Product Accounts*, Vol. 2, 1959–1988, September 1992, Bureau of Economic Analysis, Department of Commerce.

[6] *Survey of Current Business*, Vol. 73, No. 9, September 1993, Bureau of Economic Analysis, Department of Commerce, Also see *National Income and Product Accounts*, Vol. 2, 1959–1988, September 1992, Bureau of Economic Analysis, Department of Commerce.

[7] OMB staff calculation based on data from the National Income and Product Accounts.

[8] Madrian, Brigitte, *Employment-Based Health Insurance and Job Mobility: Is There Evidence of Job-Lock?*, NBER Working Paper No. 4476, September 1993.

[9] One estimate is that as many as 25 percent of the 4 million welfare recipients would leave welfare for employment under health care reform. See Douglas Holtz-Eakin, *Health Insurance Provision and Labor Market Efficiency in the United States and Germany*, NBER Working Paper No. 4388, 1993.

[10] Prospective Payment Assessment Commission, *Medicare and the American Health Care System: Report to the Congress*, June 1993.

[11] OMB staff calculation based on 1991 data in S. Christensen, "Single Payer and All-Payer Health Insurance Systems Using Medicare's Payment Rates," CBO Staff Paper, April 1993.

Why We Must Act Now

There is a national consensus on the scope and severity of the health care problem. Across the country, Americans agree that the health care crisis cannot be ignored.

The costs of doing nothing are enormous. Without reform, health costs will consume an additional $56 billion of our national output in the year 2000—money that could more than double Federal spending on transportation or education and training. Put another way, these savings could also boost productivity and wage growth by increasing the resources available to lift capital invested per worker by roughly half.[12] If current trends continue, real wages will be further eroded by almost $600 per worker by the end of the decade. If we do not curb increasing health costs, we will not be able to continue bringing down the deficit or make the investments in jobs and infrastructure that we need to keep the U.S. economy healthy.

Americans recognize that without reform, health insurers will continue to drop coverage for people when they get sick and price others out of the market entirely. One in four Americans will lose their health insurance at some point in the next two years without health reform. Fewer jobs will be created and rapidly rising health care costs will continue to hinder productivity. Government and businesses alike will continue to spend ever-increasing amounts on health care, lowering the national saving rate and crowding out new investment capital. The longer we wait, the harder it will be to restrain increasing costs and the less we will have to leave to future generations.

The President's Six Principles of Health Care Reform

The Health Security Act is the most detailed, comprehensive, and responsible health care reform plan ever offered. The President's plan commits to six principles for reform; fixing what is broken, while preserving what works in our current system.

[12] Schultze, Charles L., *Memos to the President,* The Brookings Institution, Washington, D.C., 1992, p. 245.

1. Security

This principle speaks to the human misery, to the costs, to the anxiety we hear about every day ... when people talk about their problems with the present system.

President Bill Clinton
September 1993

Security means that those who do not now have health coverage will receive it; and those who do have coverage will never have it taken away. The Act will provide every American with a Health Security card and a comprehensive package of benefits guaranteed over an entire lifetime. The guaranteed benefits will be comparable to packages offered by most Fortune 500 companies today.

One important way the Act achieves security is through insurance reforms. Health plans will not be able to refuse or discontinue coverage to people with pre-existing conditions, nor will they be able to raise premiums for people who become sick. In addition, people will not see a break in their coverage when they change jobs or if they become unemployed.

2. Simplicity

A hospital ought to be a house of healing, not a monument to paperwork and bureaucracy.

President Bill Clinton
September 1993

To refer to the current health care delivery and insurance mechanisms as a "system" is a misnomer. "System" implies a coordinated effort—practically the opposite of how we provide and insure health care now. There are over 1,500 insurers in the U.S. with thousands of different forms, eligibility requirements, and reimbursement conditions. Myriad insurance forms, for example, are time-consuming for providers and consumers and require a byzantine overhead apparatus to process.

The Health Security Act will implement ONE standard claims form for physician office visits and will standardize other forms. Once we develop consensus standards for automation, administrative information will be transmitted electronically while protecting privacy. The goal of simplification is to move towards a paperless system as quickly as possible and to minimize the administrative burden on consumers and providers.

In addition, the President's plan will simplify the rules and regulations that have contributed to past inefficiencies. The Act seeks to streamline quality assurance regulations by setting minimum Federal standards that are performance-based; coordinating annual quality-related surveys; revising Medicare peer review organization activities; and changing Federal regulation of clinical laboratories by eliminating requirements for labs performing simple tests.

The principle of simplicity goes beyond reducing administrative costs—simplicity also means making health insurance choices more clear. Individuals and firms will no longer have to sort out the different plans, options, and limitations offered by various insurers. Instead, they will be able to look to their health alliance to provide the complete price and quality information they need to make sound decisions from a wider range of choices than most have access to today. The standard, comprehensive benefit package will give them a solid basis for comparison.

3. Savings

People may disagree over the best way to fix this system ... But we cannot disagree that we can find tens of billions of dollars in savings from what is clearly the most costly and the most bureaucratic system in the entire world.

President Bill Clinton
September 1993

The Health Security Act introduces a simple market force into the health care system: competition. Organized into large purchasing pools, consumers and small businesses will have the same bargaining power that large corporations have now to negotiate with health plans for lower rates on better health coverage.

The Health Security Act also saves health care dollars by giving consumers a financial stake in their choice of health plan (and information on which to base that choice). Experience has shown that employees choose lower cost plans when they are given adequate information and the financial incentive to do so.[13] Health plans will compete against one another on price and quality—not on their ability to select low risk enrollees. The Act also encourages providers to join together in groups that will provide care as cost-effectively as possible and use lower premiums to compete for consumers.

4. Choice

The choice will be left to the American citizen, the worker—not the boss, and certainly not some government bureaucrat.

President Bill Clinton
September 1993

One of the most dearly held features of health care in America is the right to choose one's own doctor and health plan. But under the current system, the employer often makes the initial choice of health plan. Rising costs have forced many employers to offer only one health plan, as 40 percent of those who offer coverage do now. Their employees have no real choice of plans and, frequently, a limited choice of providers.

The Health Security Act will give every American a choice among at least three plans and usually more. Individuals can stay with their current doctors, join a network of doctors and hospitals, or join a health maintenance organization. An annual open season will allow people to choose or change plans. Even those who do not sign up with a health plan prior to seeking care will be able to enroll at the point of service—when they visit their doctor. Further, the Act will ensure that doctors are free to apply to practice in the plan of their choice, and the Act allows doctors to participate in more than one plan.

[13] Feldman, R. and B. Dowd, "The Effectiveness of Managed Competition in Reducing the Costs of Health Insurance," in Robert B. Helms, *Health Policy Reform: Competition and Controls*, The AEI Press, 1993.

5. Quality

If we reformed everything else in health care, but failed to preserve and enhance the high quality of our medical care, we will have taken a step backward, not forward.

President Bill Clinton
September 1993

The United States enjoys medical care that is envied the world over, but in today's system doctors and hospitals get paid more to treat people after they become sick than to keep them healthy in the first place. The health system needs incentives that emphasize preventive care. The Health Security Act's comprehensive benefit package includes a wide range of preventive health services, which many health plans do not cover today. Many of these preventive services have no out-of-pocket costs, to encourage consumers to take advantage of them.

We also have to strengthen our system of monitoring and assuring quality. For too long, health care data have been collected with an eye toward counting health care dollars, not evaluating cost-effectiveness or success in treatment.

The Health Security Act will assure quality by requiring health plan performance reports so consumers will have the information they need to choose the highest quality doctors and hospitals. Minimum quality and performance measures will help consumers compare quality across plans. Plans and providers demonstrating the highest levels of quality at a reasonable cost will receive the most business, and other providers will have a financial incentive to keep improving quality to attract more customers.

6. Responsibility

Responsibility in our health care system isn't just about them, it's about you, it's about me, it's about each of us. Too many of us have not taken responsibility for our own health care and for our own relations to the health care system.

President Bill Clinton
September 1993

Americans must take responsibility for being part of the solution to a health care crisis that affects us all. Responsibility means that insurance companies should no longer be allowed to cast people aside when they become sick. It also means that all employers and employees will be asked to pay their fair share for health insurance. No longer will some "free riders" get health care while responsible employers pay their bills. Businesses that do not provide insurance will not be able to continue to shift costs onto those that do.

Responsibility must apply as well to laboratories that submit fraudulent bills, to lawyers who abuse malpractice claims, and to doctors who order unnecessary procedures.

Responsibility also means that people must change the behavior that contributes to rising health costs. Smoking, violence, excessive drinking, illicit drug use, and teen pregnancy all drive up health care costs. One important way the Act asks risk takers to pay for the extra costs they impose on the health care system is through increased excise taxes on tobacco products. The Congressional Office of Technology Assessment (OTA) estimates that smoking-related illness leads to $21 billion in direct medical costs and another $47 billion in economic costs associated with disability and death every year.[14]

What the Health Security Act Will Do

Health insurance that cannot be taken away. The first building block of the Health Security Act is health security for every American. **The Act guarantees that every individual will have continuous coverage for a comprehensive package of health benefits,** no matter whether the individual works for a large or small company, is self-employed or unemployed, or works full-time or part-time. This guarantee cannot be taken away under any circumstance. Changing jobs, leaving the work force, starting a business, going back to school—none of these changes will cause a break in coverage for any American.

The Act assures the security of universal continuous coverage by requiring all employers and all workers with sufficient income to contribute. All employers will pay 80 percent of the average premium for the standard, comprehensive benefit package (described

[14] Office of Technology Assessment testimony before the Senate Special Committee on Aging, May 6, 1993.

Table 4–1. **SMALL FIRM PREMIUM CAPS**
(As a percent of payroll)

Average wage	Firm Size			
	<25 workers	25–49 workers	50–74 workers	75+ workers
<$12,000	3.5	4.4	5.3	7.9
$12,000–$15,00	4.4	5.3	6.2	7.9
$15,000–$18,00	5.3	6.2	7.1	7.9
$18,000–$21,00	6.2	7.1	7.9	7.9
$21,000–$24,00	7.1	7.9	7.9	7.9
>$24,000	7.9	7.9	7.9	7.9

below) calculated on a per worker basis for full-time employees and a pro rata share for part-time employees. Individuals and families are responsible for the remaining 20 percent of their alliance's premium for the comprehensive benefit package. If they choose a plan that costs less than the average, they will pocket the savings. If they choose a higher cost plan, they will pay a little more.

Individuals and families with adjusted gross incomes (AGI) below $40,000 will be eligible for discounts that will ensure they pay no more than 3.9 percent of AGI for their share of the cost of health coverage. Individuals and families with income below 150 percent of poverty will receive extra discounts.

Employers in the regional alliance system will pay no more than 7.9 percent of payroll for insurance premiums; and small, low-wage firms will receive additional discounts to make their insurance affordable, consistent with the schedule in Table 4–1.

One responsibility of those proposing change in the health care sector is to minimize disruption wherever possible. Currently, 80 percent of all workers are offered insurance by their employers,[15] and 84 percent of the uninsured are in families that have at least one employed member.[16] Building on the employer-based system is the least disruptive way of achieving universal coverage.

Comprehensive benefits for all Americans. Although millions of workers have no choice of health plans, those workers fortunate enough to be able to choose are now confronted with plans that differ from one another according to benefits, cost-sharing, price, and the size and quality of provider networks—so many variables that it may be difficult to compare plans without actuarial and medical advice. The second building block of the Health Security Act is a standardized, comprehensive package of insurance benefits that all health plans will offer, allowing consumers to compare plans according to price and quality.

Consumers will choose among three different cost-sharing arrangements. Under the low cost-sharing option, enrollees will pay a $10 copayment for outpatient services, $25 for outpatient psychotherapy and some emergency room services, and $20 for some dental visits. Under the high cost-sharing option, enrollees will pay an annual deductible ($200 for individuals, $400 for families) and, after the deductible, coinsurance of 20 percent. Under the combination cost-sharing option, enrollees will pay the low cost-sharing charges for services received from providers within a network, and high cost-sharing charges for services from providers outside of the network. **All three cost-sharing options contain**

[15] Urban Institute's TRIM2 model, 1993.
[16] Employee Benefit Research Institute, p. 9.

an annual out-of-pocket limit of $1,500 for individuals and $3,000 for families.

The comprehensive benefits in the Health Security Act include:

- *Visits to doctors and other health professionals*
- *Hospital services*
- *Prescription drugs*
- *Preventive services*
- *Emergency medical and surgical services*
- *Mental illness and substance abuse services*
- *Family planning services and services for pregnant women*
- *Home health care*
- *Extended care services*
- *Ambulance services*
- *Outpatient lab, radiology, and diagnostic services*
- *Outpatient rehabilitative services*
- *Durable medical equipment*
- *Vision care*
- *Dental care*
- *Hospice care*

Benefits for services such as mental health and dental are fully phased in after January 1, 2001.

Health alliances. The third building block of the Health Security Act is the health alliance, a purchasing pool with a board of directors equally divided between consumers and employers. The purpose of the alliances is to improve competition by increasing the purchasing power of individual consumers and small businesses.

The alliance will include workers in firms with fewer than 5,000 full-time employees (as well as those in larger firms that choose to join the regional alliances), the self-employed, non-workers, and current Medicaid recipients. Each State will have at least one alliance; and in a State with multiple alliances, only one alliance will operate in a given geographical area. Each alliance must offer consumers at least one fee-for-service plan.

Alliances will streamline health bureaucracy and reduce overall administrative costs by reducing the administrative burden on individual plans, business, and consumers. Like large companies do now, alliances will solicit bids from potential health plans, review the bids to make sure the plans can offer all covered services, determine consumers' eligibility for premium and cost-sharing discounts, and collect premiums from employers and consumers.

Health alliances will collect detailed information from plans on the quality of care provided by the plans, including outcomes data. The alliances will then provide this information in an annual report card so consumers can more directly compare quality measures across plans. Examples of the type of information the alliances will collect include: access to care (e.g., time to next available appointment); appropriate use of medical care (e.g., immunization and mammography rates); and outcomes (e.g., survival rates for cardiac arrest).

Corporate alliances. The Act enables companies with more than 5,000 full-time employees to provide coverage to their employees through corporate alliances. Corporate alliances will function much like regional alliances, accepting bids from plans and collecting premiums from employees. They are also required to offer their employees a choice of at least three plans, one of which must be fee-for-service. Firms that choose to establish their own corporate alliances will be assessed 1 percent of payroll to finance their fair share of support for community-wide expenses such as academic health centers and graduate medical education. Large firms may also choose to join the regional alliance system.

Health plans and insurance reforms. The fourth building block of the Health Security Act is the individual health plan and the new environment in which it will operate. Once a health plan's bid has been accepted by the alliance, the plan will conduct open enrollment during which the plan must accept all enrollees, regardless of health status or history, employment, age, or income. Plans must offer each enrollee the comprehensive benefit package in its entirety, and may not limit coverage for any services in the comprehensive package because of an enrollee's health status or pre-existing condition.[17]

[17] During transition to the new system, health plans may exclude coverage for treatment of pre-existing conditions for not more than

Continued

Q. Will people be able to choose their own doctors?

Yes. The Health Security Act requires each regional and corporate alliance to offer its members at least one fee-for-service plan, where individuals can choose any doctor they want. Moreover, alliances must accept bids from all plans that offer the comprehensive benefit package at premiums within 20 percent of the per capita premium target and meet minimum quality, solvency, and grievance procedure standards. The typical enrollee will be able to choose from among many fee-for-service plans, staff HMOs, and plans that combine staff providers with a provider network.

Today, insurance companies charge what is called an experience rate—where individuals are charged according to their health experience and those with poor health experiences due to old age or chronic illness are charged more. Under the Health Security Act, all members of a community will pay the same rate—a community rate. Health plans will charge premiums based on the average expected cost of providing coverage to all enrollees for all the benefits in the comprehensive package.

Of course, open enrollment means that some health plans may enroll sicker (and more expensive) individuals than other plans in the same alliance. These plans will incur per-person costs higher than the community-rated premium. To protect plans that enroll sicker individuals, the alliance will assess the health risks for each plan's enrollees and adjust the premium the alliance pays to the plan. Thus, plans that enroll higher-risk individuals will receive higher per-person payments and plans that enroll lower risk individuals will receive lower per-person payments. Therefore, plans will have no incentive to avoid enrolling people with high medical expenses, as many do today. Note that the risk adjustment is made to the amount paid by the alliance to the plan and not to the amount paid by the enrollee. All enrollees will pay the same amount to the alliance; it is the alliance's responsibility, consistent with nationally-developed methods, to adjust the premiums for risk. The Act gives alliances the flexibility to use traditional reinsurance mechanisms during the transition and authorizes grants for further research in this evolving area.

6 months for individuals who have not had continuous health coverage for the 6 months preceding enrollment. See section 11005 of the Health Security Act.

Because the health plan will receive a fixed amount of money to provide all of the services under the comprehensive package to each enrollee, the plan will have an incentive to provide high quality care as cost-effectively as possible. Plans that cut quality to reduce cost will see their quality ratings decline, and with that, their enrollment. Plans that maintain and improve quality but do not contain costs may not remain solvent. Plans that maintain and improve quality and contain costs will make money and attract enrollees.

Premium Targets. The alliances and accountable health plans in the Health Security Act are designed to contain health costs and maintain quality by strengthening competitive forces within the health care market. But since the Act asks all employers and individuals to pay their fair share into the new health system, it also offers Americans an important guarantee: that their premiums will not spiral out of control, as they have in recent years.

Q. Will people be able to spend their own money to pay for additional health care?

Yes. Individuals may purchase any additional coverage they choose—for example, to assist with copayments or deductibles or services (e.g., cosmetic surgery) beyond the comprehensive benefit package. There are no limits whatsoever on how much people may choose to spend out of their own pockets for additional coverage.

Thus, the fifth building block in the Health Security Act is a system of premium targets that will provide American businesses, consumers, and taxpayers with another aspect of health security: protection against premiums that rise substantially faster than inflation. The Act allows the national per capita premium target to rise by the Consumer Price Index (CPI) plus 1.5 percentage points in 1996, CPI plus 1 point in 1997, CPI plus .5 point in 1998, and by the CPI alone in 1999 and 2000. After 2000, premiums are expected to grow no faster than the growth in real GDP per capita plus inflation. **The premium targets exclude payments by individuals for supplemental insurance policies or other out-of-pocket health costs.**

In the meantime, the premium targets work this way: The National Health Board will establish a per capita premium target for the comprehensive benefit package in 1996, and then use this national target to establish a per capita target for each alliance, adjusted initially to account for the number of uninsured and underinsured in an alliance area, demographics, health status, and other variables. Every year, the alliances will conduct a bidding process with the health plans in their area. The NHB will then compare the weighted average of the premiums submitted by each alliance to the alliance's target. If the actual premium is below the target, then the State will receive half of the discount savings.[18] If the weighted-average premium for the alliance is above the target, the alliance will invite plans above the target to submit new bids until the average premium equals the per capita target.

The most effective form of cost containment is to give producers and informed consumers free choice in a competitive marketplace. The targets in the Health Security Act for the growth of insurance premiums are backstop devices that will most likely never be needed once insurers, providers, and consumers respond to strengthened competition and incentives to become more efficient. The targets also provide the security of knowing that health care inflation will be contained, which must happen if we are to bring personal, business, and government health spending under control.

Moving To Universal Coverage: Transition to Reform

The Health Security Act will provide every American with universal coverage by January 1, 1998, at the latest. States may begin to phase in the new system on January 1, 1996, if they choose. However, because

[18] The lower the premium, the lower the discount the Federal Government will have to pay to make the premium affordable for low-income Americans. If the alliance's weighted-average premium is below its NHB target, the State receives half of the percentage reduction in health spending multiplied by the Federal payment to that State for discounts. The State can use this amount to reduce the State's maintenance of effort payment towards the discount cost for former Medicaid recipients. See Section 6005 of the Health Security Act.

Q. How will low-income families receive coverage under the Health Security Act?

To fulfill the promise of universal coverage for all, the Act provides premium discounts to those who cannot afford coverage. Individuals and families who have less than $1,000 in income will pay nothing towards their premiums. Those with income between $1,000 and 150 percent of poverty will pay on a sliding scale from zero to the lesser of 3.9 percent of their income or 20 percent of the weighted average premium.

The Act's method of financing coverage for low-income families breaks the link that now exists between health care coverage and welfare dependency. Individuals and families who are eligible for Federal cash assistance (Aid to Families with Dependent Children and Supplemental Security Income) will be full members of regional alliances and will pay nothing to enroll in any health plan with a premium at or below the weighted-average for the alliance. AFDC and SSI recipients will also receive discounts to help pay for their coinsurance. Severely disabled individuals who now receive coverage for long-term care through Medicaid can stay in the Medicaid program under the Health Security Act, or they may move to the new community-based long-term care program.

Q. How are the elderly treated under the Health Security Act?

While Medicare benefits expand substantially under the Health Security Act, the underlying structure of the Medicare program remains intact. In general, Medicare beneficiaries will continue to receive care through the program as they do now. Upon becoming eligible for Medicare, non-working individuals may choose to join the Medicare program, or they may choose to remain in the regional alliance system. Working Medicare beneficiaries will receive employer sponsored coverage through a regional or corporate alliance (although Medicare will continue to pay their cost-sharing requirements for Medicare-covered services). In any case, they will be able to take advantage of two important new benefits: long-term care for the severely disabled and prescription drugs. For the low-income elderly, Medicaid will continue to cover Medicare's out-of-pocket costs, as under current law, and to provide certain services not covered by Medicare.

38.5 million Americans need coverage now, the Act offers transitional coverage. The Act also includes provisions to help States prepare for reform.

Transitional Risk Pool for the Uninsured.—The Act establishes a transitional risk pool to make health insurance coverage available to people who lose coverage or are unable to obtain coverage because of health status. The transitional pool will be coordinated with States and build on their existing health insurance risk pools. It will offer benefits, conditions of coverage, and cost-sharing comparable to benefits and terms available in existing State pools. The transitional pool will be financed through premiums and contributions by insurers and self-funded plans.

Helping the States Prepare.—Recognizing that many States have already begun reform on their own, the Act builds on these efforts by allowing States to start alliance systems as early as January 1, 1996. To help States prepare for reform, the Act will also make available planning grants to assist in planning and startup of State systems.

Insurance Reforms.—To protect consumers from breaks in coverage during the transition to reform, the Act establishes interim insurance regulations. These regulations will prevent insurers from terminating coverage of the currently insured, moderate growth in premium increases, prevent plans from imposing preexisting conditions on new employees who were insured in the 90 days prior to employment, and prohibit plans from reducing existing coverage for medical conditions that cost more than $5,000 to treat.

How the Health Security Act is Financed: Sources and Uses

A key question about any health care reform proposal is how it is financed. About

Q. How will the Act affect the private sector and jobs?

After an initial phase-in period, the Health Security Act will gradually lower aggregate business spending on health insurance, and many employers who currently offer health insurance will see their costs fall. By the end of the decade, aggregate business spending on services covered by the Health Security plan will be $28 billion less than it is expected to be without reform. In addition, eliminating the cost-shifting caused by uncompensated care will lower costs to businesses that provide coverage. Businesses will be able to do many things with the cost savings: hire more workers; raise wages; invest more in plant, equipment, training, and research and development; lower prices, and increase dividends to shareholders. Each of these will stimulate the economy and help increase employment.

The Health Security Act will also give workers the freedom to move to jobs where they might be more productive without the risk of losing their health insurance. In particular, this will help small businesses, which have had difficulty in the past attracting highly skilled workers. More firms will be able to hire workers with pre-existing conditions, allowing for more efficient matches between employers and employees.

three-quarters of health insurance spending under the Health Security Act comes from the same places it comes from now—businesses and households paying insurance premiums. This section describes the sources and uses of the additional financing called for in the Health Security Act.[19]

Sources of Funds

Medicare will realize savings of $118 billion over 1995–2000 under the Act, which proposes a set of 29 policy changes that will reduce Medicare's average growth rate from its current 11 percent per year to less than 9 percent over 1995–1999 (which is still nearly three times the rate of inflation) by the end of the decade. The policy changes include changes in certain payment rates to some providers, extensions of certain current law provisions, and some increased beneficiary cost-sharing to reduce excess utilization.

Medicaid will realize savings of $61 billion over 1995–2000. Medicaid beneficiaries who are not AFDC or SSI cash recipients will obtain coverage through a regional alliance rather than through Medicaid. As many of these people are employed, Medicaid will not finance their premiums; however, these individuals may receive Federal premium discounts. AFDC and SSI cash recipients will also obtain coverage through alliances. Medicaid payments for alliance premiums for cash recipients will grow at the same rate as private sector premiums, producing significant savings for States and the Federal Government. Additional savings accrue because the Act nearly eliminates uncompensated care, enabling the replacement of Medicaid disproportionate share hospital payments with a much smaller program of targeted payments. Finally, States will have an opportunity to reduce administrative expenses in response to reduced responsibilities in enrollment, oversight, rate-setting, and claims processing.

An increase in the tobacco products excise tax will raise $67 billion. Billions of dollars of health care costs are related to smoking, and this increase may help pay for some of these costs. This tax increase may also reduce the number of young people who begin smoking in the first place as well as encourage some current smokers to cut back or quit.[20]

Other Federal programs will realize increased receipts and savings of $29 billion over 1995–2000. New sources of revenues will be available to the Departments of Veterans Affairs, Defense, and Health and Human Services as their programs are coordinated with the reformed health care system. For example, VA will receive new revenues from now uninsured veterans, and HHS-supported grantees will receive revenues from now uninsured low-income Americans. Premiums paid by Federal employees and retirees

[19] These estimates were calculated using the economic assumptions in the 1995 budget. Estimates released in November 1993 were based on the economic assumptions in the 1993 Midsession Review.

[20] *Smoking and Health in the Americas, A 1992 Report of the Surgeon General, in collaboration with the Pan American Health Organization,* U.S. Department of Health and Human Services, p. 129.

Q. How can we guarantee coverage for all Americans?

The Act entitles every American to comprehensive coverage. It relies on individuals to enroll in a health plan, as well as on the corporate and regional alliances to ensure that eligible individuals enroll and that enrollment procedures are simple and accessible. In turn, every health plan offered through a regional or corporate alliance must accept every eligible person seeking enrollment. The Act prohibits the current practice of insurance companies of attracting or limiting enrollees based upon personal characteristics such as health status, age, anticipated health needs, occupation, or affiliation with any person or entity.

Even persons who do not enroll in a health plan prior to seeking care will be able to get coverage. Alliances will maintain point-of-service enrollment procedures. At the point of service, the provider will notify the alliance of an unenrolled patient's identity and the patient can enroll in a health plan at that time. Every American will be able to walk into a hospital or doctor's office knowing that he or she will have coverage for a comprehensive set of services.

now enrolled in the Federal Employees Health Benefit Program will be lower.

Other Federal revenues will rise by $93 billion. For example, health reform will reduce the growth in insurance premiums, which will raise taxable income. Money now spent by employers on non-taxable premiums will be available as taxable profits or wages, and the $28 billion in additional taxes that will result should continue to finance a portion of our health care system.

Contributions from corporate alliances in the form of a 1 percent of payroll assessment will raise $24 billion. Large corporations will benefit from reduced cost-shifting under health reform and share responsibility for funding a share of the public health system from which all benefit.

Uses of Funds

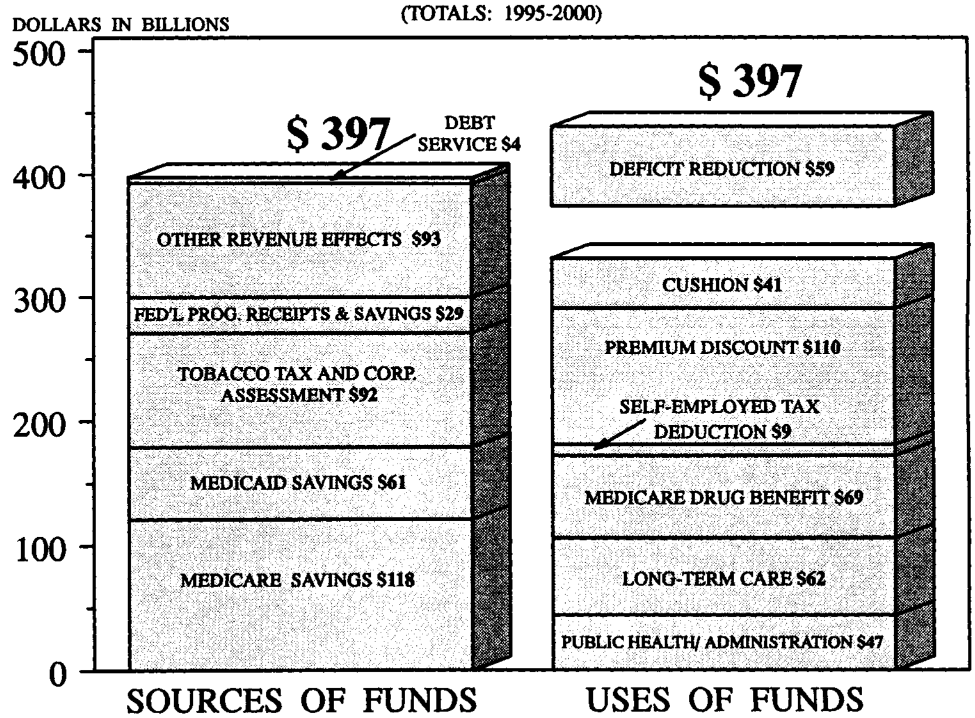
Premium discounts for businesses and families ($151 billion over 1995–2000)—To assist those businesses and families who

Q. How does the Act address malpractice reform?

The Health Security Act includes several provisions to reform medical malpractice. It encourages consumers and providers to resolve disputes through more informal and less costly mechanisms before litigating. Every health plan will develop at least one alternative dispute resolution process, and every malpractice claim will first go through that process before a suit can be filed. The Act also makes other changes, such as limiting the amount of lawyers' fees to no more than one-third of the amount recovered, requiring lawyers to submit a "certificate of merit" (an affidavit by a qualified medical specialist before filing a suit), and preventing plaintiffs from receiving "windfall" recoveries where insurance is already available to compensate victims for economic damages.

Chart 4-1. FINANCING THE HEALTH SECURITY ACT

(TOTALS: 1995-2000)



NOTE: These estimates were calculated using the economic assumptions in the 1995 budget. Estimates released in November 1993 were based on economic assumptions in the 1993 Midsession Review. Numbers may not add due to rounding.

ref. 1GRAPH95.BUDCHAP4-A 01/26/94

Table 4–2. **FINANCING THE HEALTH SECURITY ACT**

Sources of Funds (billions of dollars)

	1995	1996	1997	1998	1999	2000	1995–2000
Medicare	**2.1**	**9.0**	**14.3**	**22.1**	**31.6**	**39.2**	**118.3**
Part A Savings	0.0	3.3	7.0	12.0	16.4	20.4	59.1
Part B Savings	1.9	2.4	2.7	5.3	8.7	11.5	32.4
Parts A and B Savings	0.2	1.5	2.2	2.6	4.2	5.0	15.8
HI Tax Extended to all State & Local Government Employees	0.0	1.6	1.6	1.5	1.5	1.5	7.6
Income Related SMI Premium with outlay and premium effects	0.0	0.2	0.9	0.7	0.8	1.0	3.6
Medicaid	**0.0**	**0.8**	**3.5**	**9.2**	**20.1**	**27.1**	**60.8**
Cash-Eligible Beneficiaries in Alliances	0.0	0.3	1.2	3.7	6.6	9.7	21.5
Reduced Disproportionate Share Hospital Payments	0.0	1.0	3.7	10.4	15.2	17.4	47.7
Less Supplemental Services for Children	0.0	–0.1	–0.4	–1.1	–1.6	–1.6	–4.8
Payment Lag, Administrative Savings, and Other Changes	0.0	–0.4	–1.0	–3.8	–0.1	1.6	–3.6
Other Federal Programs	**0.0**	**0.4**	**1.2**	**6.9**	**9.8**	**10.9**	**29.2**
Veterans Affairs: Third Party Receipts	0.0	0.6	1.7	4.4	5.8	6.1	18.5
Defense Department Health (a)	0.0	0.1	0.2	0.7	0.8	0.8	2.6
Federal Employees Health Benefits	0.0	–0.2	–0.7	1.8	3.2	4.0	8.2
Tobacco Tax/Corporate Assessment	**12.0**	**15.0**	**16.2**	**16.2**	**16.1**	**16.1**	**91.6**
Tobacco Tax	12.0	11.3	11.2	11.1	11.0	10.9	67.4
Corporate Assessment	0.0	3.8	5.0	5.1	5.1	5.2	24.2
Other Revenue Effects	**0.1**	**0.8**	**8.4**	**20.0**	**28.8**	**34.5**	**92.6**
Exclusion of Health Insurance from Cafeteria Plans	0.0	0.0	5.3	8.1	8.7	9.3	31.4
Effects of Mandate, Cost Containment, and Discounts	0.0	0.1	0.9	4.4	9.3	13.7	28.4
Dedicated Revenues for Academic Health Centers	0.0	0.5	1.6	4.3	5.5	5.8	17.7
Assessment on Employers for Retiree Discounts	0.0	0.0	0.0	2.4	4.3	4.7	11.4
Anti-Abuse Rule—Certain S Corp. Shareholders	0.0	0.2	0.5	0.5	0.5	0.5	2.2
Modify Tax Treatment of Certain Health Care Organizations	0.0	0.0	0.1	0.2	0.2	0.2	0.7
Reporting Penalties—Non-corp. Ind. Contractors	0.1	0.1	0.1	0.1	0.1	0.1	0.5
Modify Tax Treatment Retirement Funding Accounts	0.0	0.0	0.0	0.0	0.1	0.1	0.3
Recapture Retiree Discounts High-Income Recipients	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Incentives for Health Providers in Shortage Areas	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.1
Debt Service	**0.3**	**0.6**	**0.5**	**0.2**	**0.6**	**2.0**	**4.2**
TOTAL	**14.5**	**26.7**	**44.0**	**74.7**	**107.0**	**129.8**	**396.8**

(a) Under the proposed legislation, the Secretary of Defense is to decide when the military system will be coordinated with national health reform. The table shows the estimated budgetary effects on the Department of Defense if the military system were to be fully coordinated with national health reform by 1998.

Notes:

These estimates were calculated using the economic assumptions in the 1995 budget. Estimates released in November 1993 were based on the economic assumptions in the 1993 Midsession Review.

The numbers in this table for the years 1994–1999 are drawn from the budget database, except that they include the Vulnerable Population Adjustment and a Medicare adjustment based on more recent data than were available at the time the budget database was completed.

are unable to pay their full share, the Health Security Act includes discounts for small and low-wage businesses and low-income families. The Administration's estimates include a 15% "cushion" (another $41 billion on top of the estimated discounts) to cover behavior changes and economic uncertainties.

Medicare prescription drug benefit ($69 billion over 1995–2000)—To help elderly Americans afford the cost of prescription drugs, the Health Security Act establishes Medicare coverage of prescription drugs similar to that which is included in the comprehensive benefit package for Americans under age 65. Medicare will begin to cover outpatient prescription drugs in 1996. The benefit includes a $250 deductible and 20 percent coinsurance with a $1,000 annual out-of-pocket limit.

Long-term care benefit ($62 billion over 1995–2000)—To help ease the burden of caring for elderly and disabled family members, the Health Security Act establishes a new

Table 4–3. FINANCING THE HEALTH SECURITY ACT

Uses of Funds (billions of dollars)

	1995	1996	1997	1998	1999	2000	1995–2000
Veterans, Public Health, New Administration, and Other	**3.0**	**5.2**	**9.6**	**8.9**	**10.0**	**10.3**	**47.0**
Veterans Health Care Investment Fund	1.0	0.6	1.7	0.0	0.0	0.0	3.3
New Public Health Initiatives	0.4	1.1	1.6	1.3	1.2	1.1	6.7
Net New Spending on Acad. Health Ctrs. and Grad. Med. Educ.	0.3	1.8	3.8	4.9	6.2	6.5	23.5
Advance Practice Nurses (Medicare)	0.0	0.2	0.4	0.5	0.6	0.6	2.2
New Federal Administrative and Start-Up Costs	1.3	0.9	1.2	0.9	0.6	0.6	5.4
Special Supplemental Food Program (WIC)	0.0	0.5	0.6	0.6	0.7	0.7	3.1
Vulnerable Population Adjustment	0.0	0.1	0.3	0.7	0.8	0.8	2.7
Long-Term Care	**0.0**	**5.1**	**8.8**	**12.2**	**16.0**	**20.1**	**62.2**
Home Based Care for the Disabled	0.0	6.0	10.2	13.9	18.2	22.8	71.1
Medicaid Offset	0.0	−1.5	−2.4	−2.9	−3.5	−4.1	−14.4
Liberalized Medicaid Eligibility and Personal Needs Allowance	0.0	0.4	0.5	0.5	0.5	0.5	2.4
Tax Incentives for Long-term Care	0.0	0.2	0.5	0.7	0.8	0.9	3.1
Medicare Drug Benefit	**0.0**	**6.9**	**14.0**	**15.0**	**16.0**	**17.2**	**69.1**
100% Tax Deduction for Self-Employed Health Insurance	**0.5**	**0.6**	**0.9**	**1.7**	**2.5**	**2.8**	**8.9**
Discounts	**0.0**	**5.8**	**17.5**	**41.8**	**44.3**	**41.8**	**151.1**
Discounts—Net of Cushion	0.0	4.5	13.6	31.4	31.7	28.8	109.9
Total Discounts	0.0	10.2	31.6	82.7	100.0	103.0	327.4
Employers (net of cushion)	0.0	3.0	9.2	23.7	28.4	28.7	93.1
Non-retired Households (net of cushion)	0.0	4.4	14.0	36.8	45.0	46.7	146.9
Retirees—low income discounts (net of cushion)	0.0	0.7	2.1	5.5	6.7	7.0	21.9
Retirees—added discounts (net of cushion)	0.0	0.4	1.4	3.7	4.5	4.8	14.8
Out-of-Pocket	0.0	0.3	1.0	2.6	2.7	2.8	9.4
Cushion	0.0	1.3	4.0	10.4	12.6	13.0	41.2
Offsets Made Possible by Health Reform	**0.0**	**−4.4**	**−14.1**	**−40.9**	**−55.7**	**−61.2**	**−176.3**
Medicaid	0.0	−3.4	−12.1	−34.9	−47.7	−53.2	−151.3
States' Required Maintenance of Effort	0.0	−2.0	−6.4	−18.1	−22.4	−23.4	−72.3
Discontinued Medicaid Coverage	0.0	−1.4	−5.7	−16.8	−25.3	−29.8	−79.0
Basic Benefits	0.0	−1.3	−5.2	−15.2	−22.9	−26.9	−71.5
Wrap-around Benefits	0.0	−0.1	−0.5	−1.6	−2.4	−2.9	−7.5
Medicare Offset for Employed Beneficiaries	0.0	−1.0	−2.0	−6.0	−8.0	−8.0	−25.0
Total Spending	**3.5**	**23.5**	**50.9**	**79.4**	**88.8**	**92.1**	**338.3**
Deficit Reduction	**11.0**	**3.2**	**−6.9**	**−4.8**	**18.2**	**37.7**	**58.5**
Total	**14.5**	**26.7**	**44.0**	**74.7**	**107.0**	**129.8**	**396.8**

Notes:
These estimates were calculated using the economic assumptions in the 1995 budget. Estimates released in November 1993 were based on the economic assumptions in the 1993 Midsession Review.
The numbers in this table for the years 1994–1999 are drawn from the budget database, except that they include the Vulnerable Population Adjustment and a Medicare adjustment based on more recent data than were available at the time the budget database was completed.

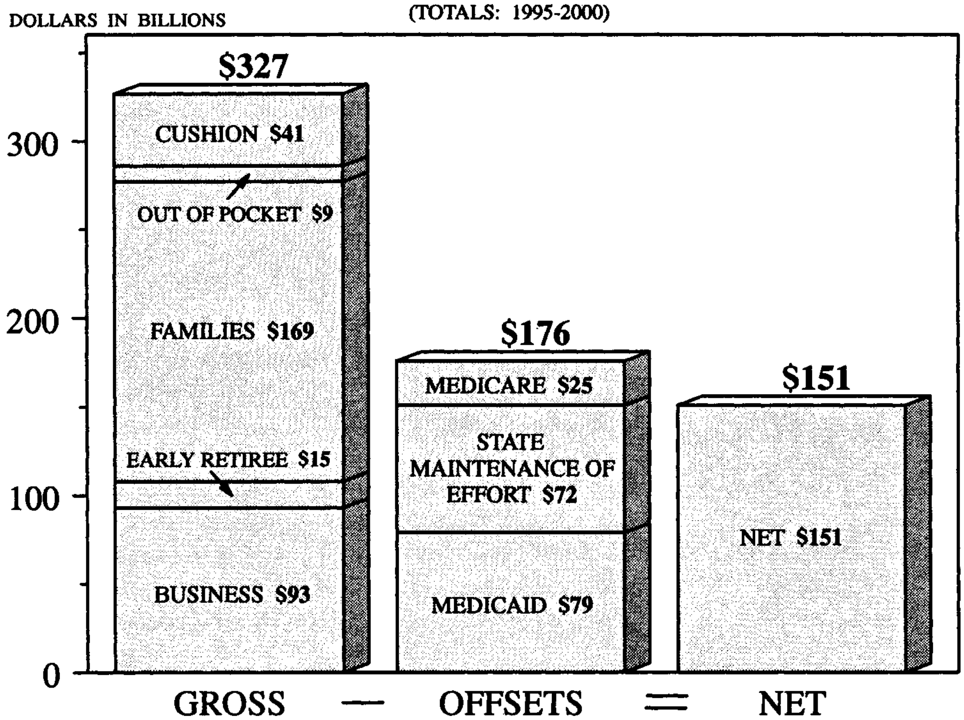
Federal-State long term care benefit for disabled persons of all ages and income levels. This new benefit includes three major components: a new home and community-based service program for the disabled; liberalized spend-down rules for the Medicaid-eligible institutionalized; and tax incentives for the purchase of long term-care insurance.

100 percent tax deduction for self-employed health insurance ($9 billion over 1995–2000)—The Act "levels the playing field" by allowing full deduction of self-employed health insurance premiums, similar to the tax treatment of premiums paid by most businesses today.

Transitional support for public health activities ($1.6 billion over 1995–2000)—To ensure that the uninsured have adequate access to quality health care during the transition, the Health Security Act authorizes transitional support for selected services. Such support includes funding for community and migrant health centers, an expanded National Health Service Corps, qualified community

Chart 4-2. COST OF PREMIUM DISCOUNTS

(TOTALS: 1995-2000)



NOTE: These estimates were calculated using the economic assumptions in the 1995 budget. Estimates released in November 1993 were based on economic assumptions in the 1993 Midsession Review.

ref. 1GRAPH95.BUDCHAP4-B 01/26/94

> ***Capped Entitlements.**—The Federal payments to alliances for the discounts in the Health Security Act for businesses and low-income families are not open-ended. Instead, these payments are capped at specific levels. For any year in which Federal payments to alliances are less than the capped amount specified in the Act, the surplus will be accumulated and made available in future years.*
>
> *We believe the capped amounts in the Act were estimated conservatively and will not likely be breached. If the President anticipates that the amount of the cap will not be sufficient, he will submit to Congress specific legislative recommendations to eliminate the shortfall. Congress will consider the President's recommendations under an expedited up-down procedure similar to that in the Defense Base Closure and Realignment Act of 1990. The Act enforces accountability by requiring the President and Congress to take specific actions before they can to spend more on discounts.*

health plans, and school-based clinics. To ensure that providers who now serve underserved populations (e.g., in community health centers) are brought into the new system, the Act allows HHS to designate these providers temporarily as "essential community providers" with which plans would be required to contract to target underserved populations.

Investments in biomedical and health services research ($5.1 billion over 1995–2000)—To ensure that American medical technology and innovation continue to advance under reform, the Act authorizes additional support for biomedical research. To evaluate health reform as it is implemented and to find ways to improve it, the Act also authorizes funds for health services research.

Development of Cost Estimates

The underlying cost estimates of the Health Security Act were carefully developed by experts both inside and outside government using methods that typically reflected a conservative fiscal outlook.

Experts From Inside and Outside Government.—In estimating the effects on existing government programs, the Office of Management and Budget worked closely with the Department of Health and Human Services and the Council of Economic Advisers. The Department of Treasury estimated the revenue effects and tax-related Medicare provisions. The Administration also sought the expertise of government agencies, think tanks, and consulting firms in developing the premium discount estimates, the most complex component of the Act's costs. A team of private actuaries and health economists also examined and validated the estimation methods and data sources.

Conservative Fiscal Outlook.—The estimates reflect a fiscally conservative approach in assessing the new system. For example, the premium cost estimates are based on the higher of two separate estimates. The phase-in assumptions reflect a realistic view about the speed at which States will enter the new system. Such adjustments and assumptions—including the $41 billion premium discount "cushion" described above—are typical of the prudent approaches taken in developing the Act's cost estimates.

Treatment of Health Reform in the Budget.—The 1995 budget reflects savings to and expenditures by the Federal Government under the Health Security Act. Specifically, the Budget includes Medicare and Medicaid savings, and spending on new Medicare benefits and public health activities; premium discounts for small, low-wage firms and low-income families; and revenues from tobacco taxes and corporate assessments. The net total of all the savings and new spending is a $11 billion reduction in the deficit in 1995 and a $58 billion reduction over 1995–2000. (See Table 4–3)

When the Health Security Act is enacted, the budget will include information on estimated total premium contributions by employers and consumers. Information on premium payments will be reported much the same way the budget reports financial information on government-sponsored enterprises (GSEs). Alliances, like GSEs, are subject to Federal oversight but otherwise operate *independently* of the Federal Government. Thus, while the National Health Board will approve initial State plans for organizing the alliances and will set alliance premium targets, the Board will not oversee individual alliance budgets, negotiations, or operations. Since the alliances are not Federal entities, premiums paid to the alliances are not Government receipts, and expenditures by the alliances are not Federal expenditures. Therefore, the financial transactions of the alliances are not used to calculate the budget of the Federal Government.

Table 4–4. HEALTH INVESTMENTS IN THE 1995 BUDGET

(Budget authority; dollar amounts in millions)

	1993 actual	1994 enacted	1995 proposed	Dollar change: 1994 to 1995	Percent change: 1994 to 1995
National Institutes of Health	10,326	10,956	11,473	+517	+5%
Ryan White Act HIV/AIDS Treatment	348	579	672	+92	+16%
Immunizations*	341	528	693	+165	+31%
Drug Treatment for Heavy Users	717	813	1,018	+205	+25%
High Performance Computing	47	58	82	+24	+41%
WIC	2,860	3,210	3,564	+354	+11%
Veterans Medical Care**	14,646	15,622	16,122	+500	+3%

* Includes mandatory vaccine purchase and Medicaid offset

** Excludes $1 billion in 1995 funding from the Veterans Health Care Investment Fund.

Investments in the 1995 Budget

The 1995 budget contains a number of investments that are building blocks to comprehensive health reform.

National Institutes of Health.—The 1995 budget contains $11.5 billion for NIH, an increase of $517 million (4.7 percent) over 1994. NIH supports a number of high priority research areas—including HIV/AIDS, women's health, and high performance computing—that may provide new therapeutic strategies for diseases that are now difficult to treat.

Ryan White Act HIV/AIDS Treatment.—The Health Security Act will provide all Americans—including the sickest and most vulnerable—with community-rated, comprehensive coverage that can never be taken away. Those who are infected with the human immunodeficiency virus (HIV) will, for the first time, have guaranteed coverage for treatment.

In the meantime, the 1995 budget includes $672 million for programs authorized under the Ryan White Act, an increase of $92 million (16 percent) over 1994. These funds help people with HIV/AIDS receive HIV testing and counseling services, as well as early treatment. This funding level will be sufficient to provide assistance to an estimated 3 to 7 cities that may become eligible for Title I relief grants in 1995.

Drug Abuse Treatment for Hard-Core Users.—The Health Security Act provides all Americans with coverage for substance abuse treatment services. Substance abuse benefits will be fully phased in after January 1, 2001.

Because heavy drug users are taking an enormous toll on society through violent crime, health costs, and lost productivity, the 1995 budget includes a $355 million initiative to expand treatment services for heavy users.

Childhood Immunizations.—The Act's comprehensive benefits package covers all recommended childhood immunizations. In the meantime, to ensure that low-income and uninsured children are immunized prior to the implementation of health reform, the 1995 budget reflects a recently enacted $424 million program that will purchase vaccine for eligible children and provide it to them free of charge. The vaccine purchase program is designed to sunset upon enactment of comprehensive health reform.

The 1995 budget also includes an additional $46 million to keep clinics open longer and at more convenient hours, hire more health professionals, and support outreach and education campaigns.

WIC.—The 1995 budget requests almost $3.6 billion for the Special Supplemental Food Program for Women, Infants, and Children (WIC), a $354 million increase (11 percent) over 1994. WIC has been shown to play a key role in health promotion by providing nutritional supplements to pregnant women and young children. Fully funding WIC is a priority of the President and will be achieved by the end of 1996 under the 1995 budget and health care reform. (See Chapter 3B for more detail on programs that serve young children.)

Veterans Medical Care.—The 1995 budget includes $16.1 billion for Veterans Medical Care, an increase of $500 million over 1994. With these funds, the Department of Veterans Affairs (VA) will maintain its 1994 level of effort and open new medical facilities, including one new hospital and five new nursing homes.

In addition to the amount requested for Medical Care, $1 billion in 1995 will be provided to VA by the Veterans Health Care Investment Fund established by the Health Security Act. This Investment Fund will provide $3.3 billion over three years to allow the VA medical care system to make an effective transition to the reformed health care system.

Next Steps: One of the Most Important Debates of the Century

Reform Must Achieve Health Security

> *On this journey, as on all others of true consequence, there will be rough spots in the road and honest disagreements about how we should proceed. After all, this is a complicated issue. But every journey is guided by fixed stars. And if we can agree on some basic values and principles, we will reach this destination, and we will reach it together.*
>
> President Bill Clinton
> September 1993

When President Clinton traveled across America, he heard one concern over and over again: Americans want health coverage that cannot be taken away. The plan the Administration presented to Congress responds to Americans' most basic concern about health care, and it reflects the principles to which the President is committed: security, simplicity, savings, choice, quality, and responsibility.

To survive the critical appraisal of the American people, a successful health care reform plan will have to address each of these principles. The Administration has offered one way; others in Congress, to be sure, have different formulations with different priorities. We are flexible on the particulars, but steadfast on the one "fixed star" that we *must* achieve: the security of health insurance for all Americans that can never be taken away.

Security means that those who do not now have health care coverage will have it, and those who do have it will not have it taken away.

A National Debate

The President has launched a national debate that will allow everyone to learn about the choices necessary to design an American solution. Through continued leadership in the executive and legislative branches, this debate will produce a national consensus on reforming our health care system—and a bill the President can sign this year to make an historic improvement in the health security of all Americans.

5. Personal Security: Crime, Illegal Immigration, and Drug Control

5. PERSONAL SECURITY: CRIME, ILLEGAL IMMIGRATION, AND DRUG CONTROL

The first duty of any government is to try to keep its citizens safe, but clearly, too many Americans are not safe today. We no longer have the freedom from fear for all our citizens that is essential to security and prosperity.

President Bill Clinton
August 1993

The 1995 budget marks a new beginning in America's fight against crime, illegal immigration, and drugs. It holds the line on the growth of our Federal crime control bureaucracy, invests in the communities and the people most affected by crime and drugs, and commits the resources required to ensure that violent criminals and serious drug traffickers serve stiff sentences behind bars. It proposes initiatives to put more police on our streets, provides innovative programs to prevent non-violent first-time offenders from becoming hardened criminals, and attacks hard-core drug use directly and with substantial new spending for treatment programs. The 1995 budget, together with the provisions and funding offered by the pending Violent Crime Control and Law Enforcement Act, will begin the shift in emphasis from a wholly Federal response to a response which empowers States and communities to fight crime and drug abuse locally. Finally, the budget will significantly improve border security and will upgrade efforts to restrain illegal immigration.

CONTROLLING CRIME

The Administration's request to control crime in 1995 is $18.3 billion, an increase of $3.2 billion or 21 percent over 1994. As Chart 5–1 shows, the largest share of the proposed increase for controlling crime goes to assist State and local law enforcement.

Table 5–1. **ASSISTANCE TO STATE AND LOCAL LAW ENFORCEMENT GROWS SIGNIFICANTLY**

(Discretionary budget authority; dollar amounts in billions)

	1990 Actual	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Law Enforcement	5.2	7.1	7.1	7.3	+0.1	+2%
Litigative and Judicial	3.8	4.8	5.1	5.6	+0.5	+11%
Corrections	2.6	1.9	2.2	2.6	+0.4	+17%
State and Local Assistance	0.8	0.8	0.7	2.8	+2.1	+304%
Total Fighting Crime	12.4	14.6	15.1	18.3	+3.2	+21%

This contrasts with recent years, in which State and local assistance has been essentially static.

Identifying A New Strategy

The President has often referred to the damaging effect of violent crime on our society and has pledged to support tough new laws that put violent criminals behind bars. Reducing violent crime must therefore be among our highest priorities, especially reducing its appalling increase among our youth. It is a tragedy both for its victims and its perpetrators.

The Federal Government has traditionally responded to a growing public awareness of violent crime by expanding its law enforcement role. But even our expanded Federal law enforcement infrastructure must be put in perspective. Federal spending accounts for only about 10 percent of all law enforcement resources. It is State and local governments that have always played the central role in controlling crime, particularly violent crime.

There are, however, crime control functions that should be performed by the Federal Government. Federal law enforcement agencies are required to enforce laws that are peculiarly within Federal jurisdiction, such as forgery and espionage; are best positioned to encourage cooperation among State and local governments; and can act cooperatively with foreign governments to curb the spread of drug-related and organized crime.

The Federal Government is also best able to collect national crime statistics and disseminate crime control information. Federal resources help to develop and promote new technologies to improve law enforcement. Federal crime databases, fingerprint facilities, DNA testing laboratories, and other technical and training facilities serve local law enforcement as well as Federal needs.

Most important, only the Federal Government can articulate a national strategy for controlling crime—a strategy that recognizes that most crime fighting is done at the local level and puts resources in the hands of local law enforcement.

Where We Are in the Fight Against Crime

The Federal Government uses two sources of data to track the level of violence in our society: a compilation of crime information reported to police and surveys asking the public whether they have been victims of particular types of crime. When compared, these data suggest that while the rates of homicide, aggravated assault, robbery, and rape per 100,000 residents appear to have remained stable in recent years, the number of violent crimes and murders reported has reached intolerable levels.

Chart 5–1 shows the homicide rate and the growth in Federal, State, and local spending for police, jails, and prisons. While real spending has increased four times in constant dollars, the homicide rate has remained at roughly historical levels. This suggests that we need to consider new strategies to reduce violent crime, strategies that will improve the effectiveness of these resources.

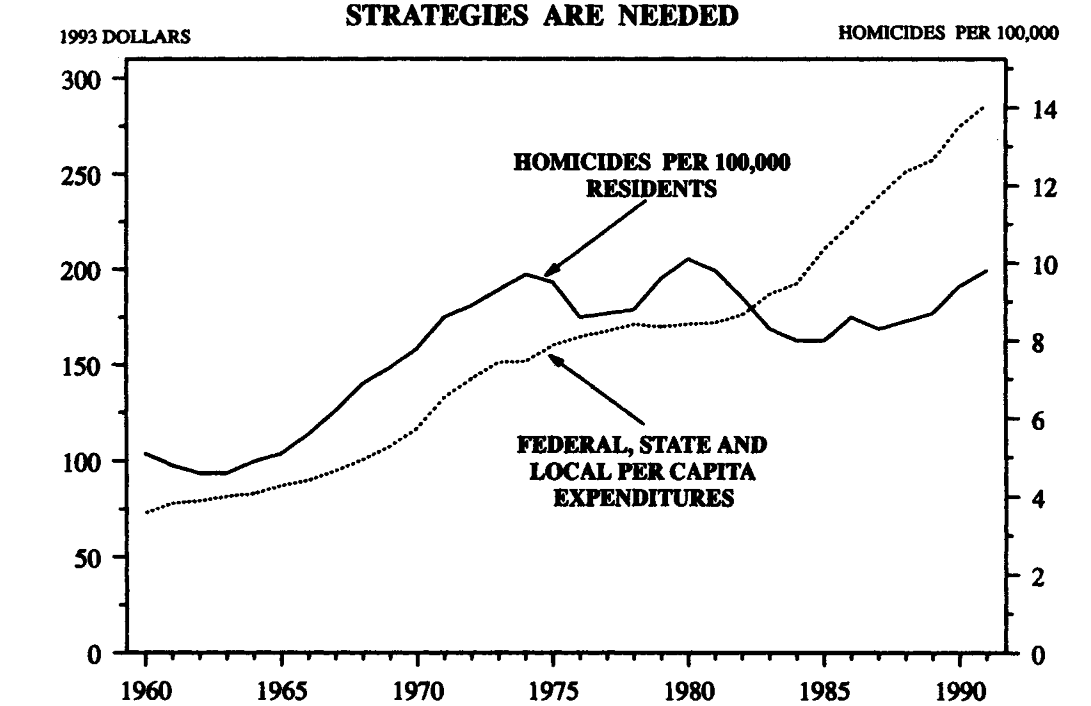
While the overall rate of violent crime in American society has remained stable in recent years, its nature has changed dramatically. It has become increasingly concentrated among our youth, particularly young males. Between 1971 and 1991, the percentage of homicide victims ages 15 to 24 rose by 24 percent, while the rate of homicide committed by young men, ages 14 to 17, more than doubled.

Violence has become especially tragic for young African-American males. Between 1985 and 1990, the likelihood of a black male between the ages of 20 and 24 being killed almost doubled. For black males, ages 15 through 19, it more than doubled. Virtually all of the increase in homicides for these age groups was attributable to firearms.

Growth in Federal Prison Population

For decades, Federal and State governments have sought to remove violent offenders and major drug traffickers from the society they prey upon. The level of resources devoted to our Federal prison system reflect this commitment and has made prison spending a growing portion of our total law enforcement budget. Federal prison system funding has grown from roughly $600 million in 1986

Chart 5-1. POLICE AND CORRECTIONS SPENDING HAS INCREASED BUT VIOLENT CRIME REMAINS A PROBLEM – NEW STRATEGIES ARE NEEDED



SOURCE: Federal Bureau of Investigation for homicide data. Bureau of the Census for expenditure data.

to over $2.2 billion in 1994. It is estimated that the current system will need to accommodate a net increase of 7,000 inmates in each of the next five years.

To address prison population growth, the 1995 budget request is $2.6 billion for the Bureau of Prisons, an increase of almost $400 million, or 17 percent over 1994. Stronger laws will shut down the revolving door of law enforcement. In the future, if you commit violent crime, you will do the time.

Controlling Violent Crime—A New Direction

The Administration's strategy for controlling violent crime takes a new direction by focusing on the need to put Federal resources to work supporting local law enforcement, rather than by simply expanding Federal involvement in local crime fighting.

As shown in Table 5–1, discretionary Federal crime control spending will grow by $3.2 billion, or 21 percent, from 1994 to 1995. Not only is this increase greater than the growth rate of prior years, but it also reflects a new direction. In previous years, almost all budget increases were for Federal law enforcement agencies, e.g., the FBI, U.S. Attorneys, and the Bureau of Prisons. While these bureaus will receive funding increases in 1995, the majority of additional funding will be for grants to States and localities. This will help State and local criminal justice systems perform their function as the primary agents of law enforcement.

Adding 100,000 New Police Officers

One of the cornerstones of the President's program to combat crime, particularly violent crime in our urban communities, is increasing the number of police officers on our streets. For 1995, $1.7 billion in new funding is requested to provide State and local grants to begin hiring these officers. These grants will assist States and localities in establishing community policing programs across the Nation. A total of $6 billion more will be provided for 1996–1999 to ensure that as many as 100,000 new police officers are

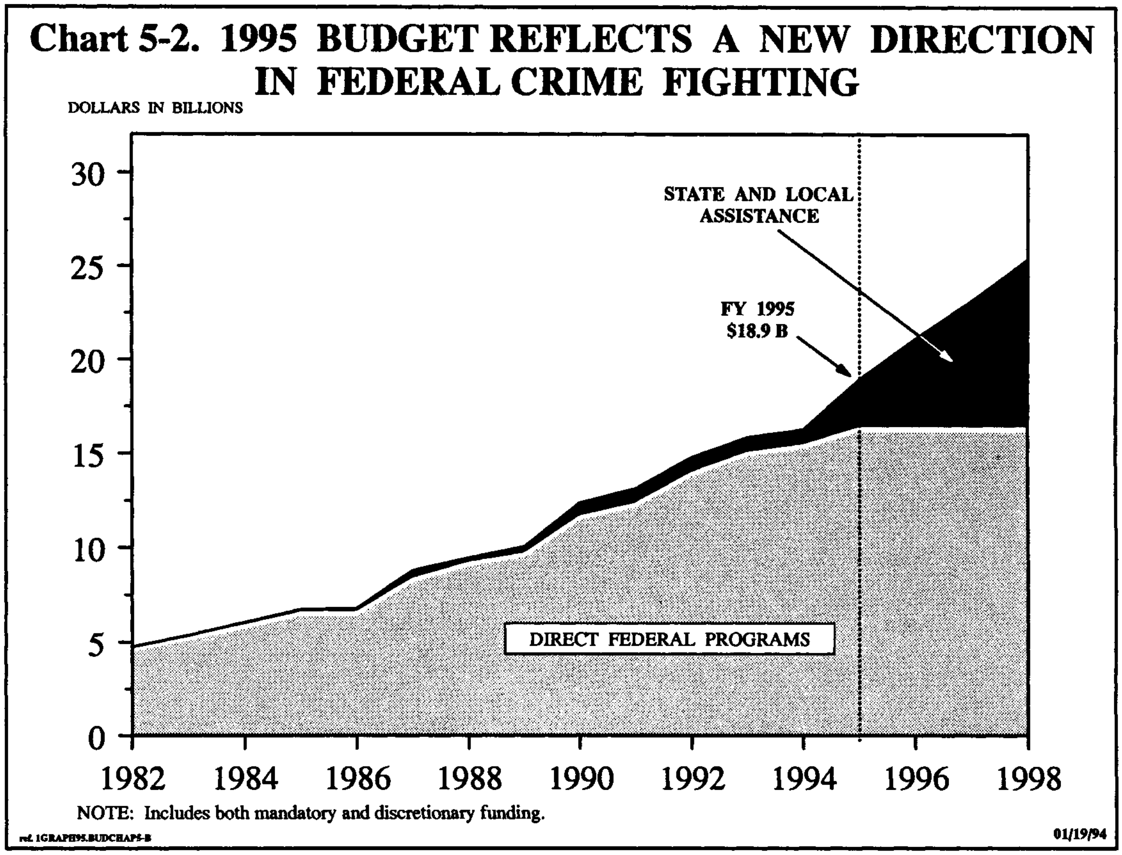


Table 5–2. **MAJOR CRIME CONTROL INITIATIVES**

(Increased budget authority in millions of dollars)

New Police Officers	1,720
Criminal Records Upgrade (Brady Bill)	100
Juvenile Crime Prevention	69
Total	1,889

added to the State and local police rolls. This program will ultimately increase the number of police officers by over 15 percent.

The 1995 budget proposes to eliminate the formula portion of the Byrne drug law enforcement grant program. While saving over $300 million, this funding will be replaced in large part by the President's new community policing initiative and various other new grant programs supporting State and local law enforcement authorized by the pending House- and Senate-passed crime bills. Also, the budget proposes an increase of $50 million for the discretionary portion of the Byrne grant program, effectively doubling those projects that target specific needs.

Implementing the Brady Handgun Violence Prevention Act

The recently enacted Brady Handgun Violence Prevention Act requires a five-day waiting period for the purchase of a handgun and a criminal records check of potential purchasers. This Act will make America's neighborhoods safer by limiting access to guns for felons and those psychologically unable to use handguns responsibly. The 1995 budget provides $100 million for grants to States to improve their criminal records identification systems, facilitate records checks, and fund the FBI's national instant record check system. Within a few years, this system will allow the immediate processing of criminal records information.

Upgrading Gun Licensing Procedures

The Administration is taking steps to ensure compliance with gun dealer licensing requirements. The 1995 budget includes nearly $6 million to fund a number of new initiatives to ensure that the President's commitment is realized. First, over $2 million is requested for the Bureau of Alcohol, Tobacco and Firearms (BATF) to obtain more information from dealer license applicants, including fingerprints and photographic identification. This information will help ensure that only authorized gun dealers receive licenses. Second, over $2 million is requested to automate multiple handgun sales reports and to enhance firearms enforcement databases. These steps will increase BATF's ability to access additional databases to trace firearms used in the commission of crimes. Third, over $1 million is requested to automate the records of gun dealers who have gone out of business, thereby expediting the tracing of firearms used in illegal activities.

In addition, the Administration will address the proliferation of Federally licensed gun dealers. Currently, there are over 280,000 gun dealers paying a license fee of $66 a year, though it costs the taxpayer about $600 each year to award the license. Before the President signed the Brady Handgun Violence Prevention Act, a license had cost only $10 a year. As part of this budget, the President will submit a legislative proposal that the licensing fee for Federal firearms dealers be increased to $600 annually. This increase could eliminate up to 200,000 gun dealers and will end the taxpayer subsidization of the gun business.

Improving Law Enforcement Technology

The 1995 budget requests $93 million to support the FBI's Integrated Automated Fingerprint Identification System (IAFIS). IAFIS will be a rapid response, paperless system that will receive and process electronic fingerprint images, criminal histories, and related data on convicted felons. The system will be a major new component of our national law enforcement information system. This system, coupled with the FBI's DNA identification program and improved wiretap technology, will provide the Nation's law enforcement community with the most effective law enforcement technology available.

Targeting Juvenile Crime Through Prevention Strategies

Violent juvenile crime has increased sharply during the last decade. In response the 1995 budget proposes $172 million in grants to aid in the prevention and reduction of juvenile crime and the treatment of youthful offenders. This request is $69 million above 1994 levels and builds upon strategies to strengthen the family, support core community institutions in their work with youth, emphasize the prevention of delinquency and gang-related activity, and control violent youth.

Passing Effective Crime Control Legislation

Several important crime control initiatives are funded contingent upon enactment of a strong crime bill, such as that passed by the Senate. During the past year, the Administration has worked with the Congress to develop a comprehensive crime bill that will provide much needed relief in the fight against crime. The Senate bill includes a number of initiatives strongly supported by the Administration, including grants for community policing, boot camps and drug courts for youthful and non-violent offenders, as well as drug treatment in prisons and jails. The Administration also supports a ban on semi-automatic firearms; limitations on access to handguns by juveniles; and the creation of a crime control fund to pay for eligible crime control initiatives. The Administration will continue to work for the earliest possible passage of a crime bill.

The Administration is specifically requesting that the fund support the community policing initiative which would put 100,000 new police officers on the street, the criminal records upgrade program authorized in the Brady Bill, and several of the immigration control initiatives described below. Allocation of the remaining spending from the Fund will await final Congressional action on crime legislation. Other types of activities that will be supported by the Administration include programs like boot camps and drug courts, which are described below.

Table 5–3. **LAW ENFORCEMENT SPENDING BY AGENCY**

(Discretionary budget authority; dollar amounts in billions)

	1990 Actual	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Crime Control Fund	....	....	....	2.4	+2.4	N/A
Bureau of Prisons	2.6	1.9	2.2	2.6	+0.4	+17%
Drug Enforcement Administration	0.5	0.7	0.7	0.7	+*	+*
Federal Bureau of Investigation	1.7	1.9	2.0	2.1	+0.1	+5%
Immigration and Naturalization Service	0.8	1.0	1.1	1.1	+0.1	+9%
General Legal Activities	0.3	0.4	0.4	0.4	+*	+6%
U.S. Attorneys	0.5	0.8	0.8	0.8	+*	+1%
U.S. Customs	1.3	1.5	1.5	1.5	+*	+1%
Bureau of Alcohol, Tobacco, and Firearms	0.3	0.4	0.4	0.4	+*	+2%
U.S. Secret Service	0.4	0.5	0.5	0.5	+*	+2%
Judiciary	1.6	2.4	2.6	2.9	+0.3	+13%
All Other Law Enforcement	2.4	3.2	3.1	2.8	–0.2	–8%
Total Crime Control	12.4	14.6	15.1	18.3	+3.2	+21%

* Less than $50 million.

IMPROVING BORDER SECURITY AND CONTROLLING ILLEGAL IMMIGRATION

Illegal immigration is a continuing problem which threatens this country's immigrant traditions and reduces the ability of State and local governments to provide quality human services. The public has lost confidence in the Federal Government's ability to handle this problem. It is, therefore, imperative that the Federal Government take its responsibility for controlling the border seriously. In order to maintain fiscal and economic security, and turn the rising tide of negative sentiment against all immigrants, the Federal Government must take aggressive measures to secure the border and curb illegal immigration.

This Administration pledges to continue its leadership in finding solutions to this important and controversial problem. The President's goal for reforming the immigration system is straightforward: rebuild and revitalize the Immigration and Naturalization Service (INS), the agency which has primary responsibility for immigration control.

The 1995 budget proposes $2.1 billion for the INS. This represents a 22 percent increase over its 1994 level. The Administration's 1995 Border Security and Illegal Immigration Control initiative will cost $368 million, which includes an investment of $327 million for critical immigration control programs and $41 million for other Justice bureaus to support INS activities.

Pressing Immigration Problems—The President's Border Security and Illegal Immigration Control Plan

Approximately 3.2 million undocumented persons currently live in our communities.

Table 5–4. **MORE SPENDING REQUESTED TO COUNTER ILLEGAL IMMIGRATION**

(Budget authority; dollar amounts in billions)

	1990 Actual	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Immigration and Naturalization Service (includes Crime Control Fund and mandatory funding)	1.2	1.6	1.7	2.1	+0.4	+22%

The INS estimates that this population increases by almost 300,000 illegal aliens annually. The majority of these illegal migrants enter through the Southwest border.

Past attempts to curb illegal immigration have had limited success. The Immigration Reform and Control Act of 1986 (IRCA), which included employer sanctions, was intended to reduce the attraction of employment in this Nation for illegal migrants. The Act also authorized substantial increases in Border Patrol strength to prevent unauthorized entry. However, these and other well-intentioned enforcement measures have not been forcefully implemented. In large part, the INS has lacked the leadership and resources to fulfill its missions.

The President has a comprehensive plan which will "reinvent" the INS so that it can solve its problems and produce visible results. This past summer the President sought new authority to control illegal immigration. He asked for:

- $45 million and up to 600 agents to deter illegal entry across the border;
- $45 million to fully upgrade visa processing technology to exclude terrorists and other ineligible aliens;

The President also proposed:

- legislation to exclude and remove fraudulent asylum seekers who attempt illegal entry through air, sea, and land ports; and
- legislation to toughen criminal penalties for convicted smugglers of aliens.

Increasing Border Controls

The border control initiative requires $181 million to strengthen our ability to apprehend and return illegal aliens to their country of origin. This prevention strategy provides necessary resources for the Border Patrol to take better command of the current illegal

Table 5–5. **INITIATIVES IN THE PRESIDENT'S BORDER SECURITY AND ILLEGAL IMMIGRATION CONTROL PLAN**

(Increased budget authority in millions of dollars)

Border Control	181
Expedited Deportation (for criminal aliens)	55
Asylum Reform and Deportation (for those denied asylum)	64
Increased Enforcement (employer sanctions)	38
Promote Naturalization (for eligible aliens)	30
Total	368

flow. The success of the pilot *Special Operation* in El Paso is exemplary of this targeted approach. More agents will provide a visible presence at high-risk border areas to deter illegal entry. This initiative also contains a significant technology enhancement that will enable most of the INS components to analyze intelligence, dismantle alien smuggling operations, and reduce illegal immigration generally. With the proper combination of sophisticated technology and people, the INS should be able to reduce illegal entry more effectively and regulate border admissions fairly and efficiently.

As another part of this initiative, significant resources will be devoted to upgrading the capability of the INS to communicate electronically with the State Department and other Government agencies so that it can control admissions at ports of entry more effectively. In addition, with implementation of the Administration's plan to improve management coordination between the INS and the Customs Service (a National Performance Review recommendation) we can more effectively reduce illegal alien and drug entries.

Deporting Criminal Aliens

Foreign-born nationals represent approximately 11 percent of the inmate population in the five largest immigration-affected states and 25 percent of the Federal inmate population. Those foreign-born non-resident aliens who have committed aggravated felonies are subject to deportation. However, many illegal immigrants who are convicted felons are released into local communities. This problem is intolerable and the Administration is committed to removing these deportable criminal aliens as expeditiously as possible. This budget includes $55 million to enable the INS to deport up to 20,000 more criminal aliens annually, once fully operational.

Reforming Asylum and Deporting Fraudulent Applicants

The 1995 budget requests $64 million to implement the President's pledge to reform the asylum system. This proposal will complement the Justice Department's efforts to streamline asylum procedures. It will more than double the capability of asylum officers, immigration judges, and attorneys to handle the backlogged cases as well as the significant number of new cases received annually. The current, overwhelmed asylum system has no prospects for adjudicating these cases in a timely fashion. As a result, virtually anyone who applies for asylum receives work authorization, while the case is pending. The asylum system is increasingly vulnerable to abuse by ineligible applicants. Enactment of the Administration's reform proposal will permit deportation of those fraudulent applicants whose cases are adjudicated and denied.

Implementing Employer Sanctions and Anti-Discrimination Laws

The budget proposes $38 million to enforce the employer sanctions and anti-discrimination provisions of existing law. This is almost double what is currently spent on this activity. Sanctions will discourage the illegal employment of undocumented aliens, thus reducing the U.S. employment "magnet effect." The INS will increase investigation and prosecution of fraudulent document vendors who undermine the effectiveness of employer sanctions. The INS will conduct a national campaign to investigate industries that have been the worst violators of the sanctions law. In addition, the budget provides resources to streamline the employment document verification process.

Government must be sensitive to the civil rights of employees. Reducing discrimination against citizens and legal aliens and protecting their rights are integral parts of this initiative. Resources will be available to provide grants to community-based organizations for anti-discrimination education. In addition, the Office of Special Counsel for Immigration-Related Unfair Employment Practices will expand its efforts to prosecute those employers who discriminate against "foreign-sounding" and "foreign-looking" individuals in the hiring process.

Promoting Naturalization Benefits

Finally, the President's comprehensive plan calls for $30 million to increase the naturalization of eligible immigrants. The majority of immigrants do not naturalize when eligible. Within the next several years, about three million people will become eligible for citizenship. There are potentially five million other legal aliens who have immigrated to the United States since 1965, but have not taken advantage of naturalization benefits. This initiative will bolster the integration of newcomers into society and help counteract anti-immigrant sentiment. With these new resources, the INS will ensure that the naturalization benefits are provided correctly, courteously, and compassionately to all persons eligible. Furthermore, the INS will distribute grants for the first time to community-based and educational organizations to assist applicants in completing the applications, instruct them in civics and language proficiency, and conduct certified testing on behalf of the INS.

These investments in the immigration system will increase the security of our borders against the detrimental effects of illegal immigration. This 1995 budget is an important step forward in the President's efforts to pursue an aggressive and comprehensive immigration control program.

CONTROLLING ILLICIT DRUG ABUSE

The cost of illicit drug use in America is staggering, both in economic and human terms. It destroys the lives and futures of thousands of Americans, breeds crime and corruption worldwide, and facilitates the spread of AIDS and other deadly diseases. It also costs our economy an estimated $67 billion in direct costs and lost productivity each year.[1] The Nation's fight to eliminate illicit drugs focuses on two areas: reducing demand for illicit drugs by providing treatment and prevention services to the users and potential users of illicit drugs; and reducing the supply of available drugs through domestic law enforcement, border enforcement, and international cooperation.

The Administration's National Drug Control Strategy provides the details of how this Nation can respond to the imperative of reducing illicit drug use in America. The Strategy's demand reduction formula is straightforward: reduce drug use by focusing on eliminating hard-core drug use; rebuild communities ravaged by drug use and drug-related crime; and deliver a consistent and continuing prevention message to our youth both in and out of schools. The strategy's approach to supply reduction is to increase community police presence, focus Federal law enforcement efforts on large drug trafficking organizations, and provide assistance to fight drugs in source countries.

The Administration's 1995 drug control budget requests $13.2 billion, an increase of $1.0 billion, or 9 percent more than in 1994. This budget departs from former spending plans by placing new emphasis on drug treatment and prevention programs, while keeping most drug law enforcement spending relatively constant. Chart 5–3 shows the relationships of selected categories of drug control funding. By emphasizing growth of treatment and prevention programs, the 1995 drug budget defines a new role for the Federal Government and significantly changes how the Nation deals with illicit drug use.

Improving and Targeting Drug Treatment

The 1995 drug control budget requests over $2.9 billion to treat drug abuse, an increase of $360 million, or 14 percent over 1994. It is estimated that the Nation will have the capacity to treat approximately 1.4 million addicts in 1994. Investing in treatment makes good public policy and good economic sense. Of the approximately one million persons infected with HIV, about one third were infected as a result of injection drug use, at a cost of $85,000 to $150,000 per patient for medical services.[2] When compared with an average cost of treating drug users of $5,000 to $12,000 per patient, drug treatment can be significantly more cost effective. By every standard, it is far cheaper to treat drug users and return them to a productive life than to pay for the health

[1] Rice, D.P., Unpublished Data, Institute for Health and Aging, University of California at San Francisco; cited in *Substance Abuse: The Nations's Number One Health Problem, Key Indicators for Policy*, prepared for the Robert Wood Johnson Foundation, Princeton, New Jersey, October, 1993, p. 16.

[2] Department of Health and Human Services. *Surgeon General's Report to the American Public on HIV Infection and AIDS* (Washington, D.C.: GPO), 1993.

Table 5–6. **TREATMENT AND PREVENTION SPENDING SHOW GREATEST GROWTH**

(Budget authority; dollar amounts in billions)

	1990 Actual	1993 Actual	1994 Enacted	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
Treatment	1.6	2.3	2.5	2.9	+0.4	+14%
Prevention and Education	1.2	1.5	1.6	2.1	+0.4	+28%
Criminal Justice	4.2	5.7	5.7	5.9	+0.2	+4%
Interdiction	1.8	1.5	1.3	1.2	–0.1	–7%
International	0.5	0.5	0.4	0.4	+0.1	+22%
Intelligence and Research	0.4	0.6	0.7	0.7	+*	+4%
Total	9.7	12.1	12.1	13.2	+1.0	+9%
Supply Reduction	6.6	7.9	7.6	7.8	+0.2	+3%
	68%	65%	63%	59%		
Demand Reduction	3.2	4.4	4.5	5.4	+0.8	+18%
	32%	35%	37%	41%		

* Less than $50 million.

Chart 5-3. IN 1995, DEMAND PROGRAMS GROW FASTER COMPARED TO OTHER PROGRAMS

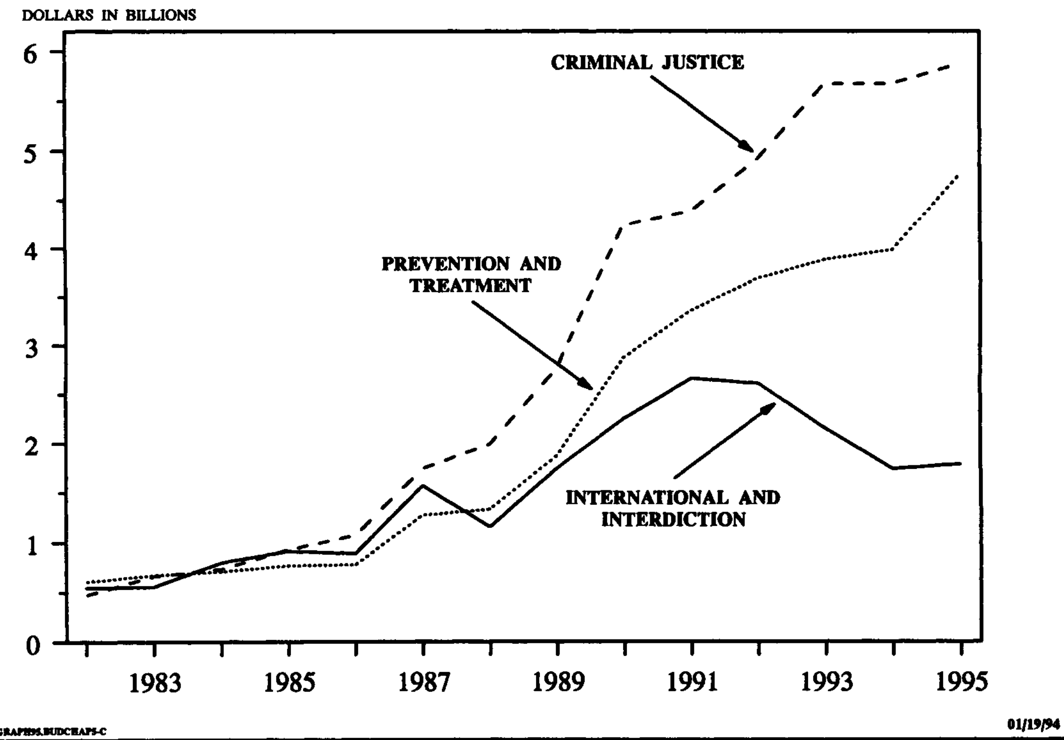


Table 5–7. **MAJOR INITIATIVES IN THE NATIONAL DRUG CONTROL STRATEGY**

(Increased budget authority in millions of dollars)

Hard-Core Drug Treatment	355
Safe and Drug Free Schools	172
Community Policing	568
International/Source Countries	76
Total	1,171

and crime expense resulting from their drug abuse. The Administration is requesting funding for several initiatives that implement programs for expanding treatment:

- ***Targeting the Hard-Core User.***—The budget requests $355 million for new grants to treat hard-core drug users. A total of $310 million in Health and Human Services treatment grant funds will be augmented with $45 million from the Office of National Drug Control Policy's Special Forfeiture Fund. These funds will go to those most in need and the hardest to reach. While treating this hard-core population presents serious difficulties, no comprehensive effort to fight drug abuse can succeed without reaching those who are costliest to society, have suffered the longest, and are the hardest to help.
- ***Treating Incarcerated Addicts.***—Over 200,000 drug addicts enter U.S. correctional facilities each year. Many of these addicts are released without receiving drug treatment. Nearly 80 percent of those leaving such institutions become repeat offenders and return to the prison system. This revolving door can be shut down, in part, through in-prison programs to treat prisoners before release and by providing transitional treatment services after release. To this end, the Bureau of Prisons will spend $22 million for prison treatment programs, and the Department of Health and Human Services grants for jail-based treatment programs will provide $39 million for such programs. Jail-based programs have proven particularly useful in motivating prisoner involvement in treatment by separating them from the general population at the same time offering treatment, counseling, and early release options.

Providing Help For Non-Violent Drug Offenders

The pending Violent Crime Control and Enforcement Act of 1993 is likely to authorize promising, innovative programs which offer ways to help non-violent youthful drug offenders. If authorized, programs such as the following will be supported:

- ***Boot Camps For Youthful Offenders.***—Boot Camps have demonstrated that they can work for a select group of non-violent offenders. Such programs offer rigorous discipline, physical conditioning, job training, and education. Typical jail sentences for drug offenders average five years, while successful participants often leave boot camps after six months.
- ***Drug Courts Provide An Alternative To Incarceration.***—Drug Courts offer an alternative to costly litigation and incarceration of non-violent drug offenders. They provide treatment, testing, and counseling services for arrestees in lieu of trial and incarceration. Participants who comply with court mandates and pass periodic drug tests avoid a trial and incarceration, while saving courts and penal systems significant time and expense. Those who don't, return to serve their sentence.

Building Community-Based Prevention

The 1995 drug control budget provides $2.1 billion for drug prevention programs, an increase of $448 million over 1994. Prevention programs have proven successful in reducing casual drug use, but recent Monitoring The Future Survey statistics suggest that continued efforts are needed.[3]

- *Community Policing As Drug Prevention.*—Approximately $285 million of the 1995 community policing initiative described earlier is attributed to drug abuse prevention. Such community law enforcement efforts that place "cops on the streets." These programs can help to reduce both the supply and demand for illegal drugs; they can help close down open-air drug markets, while also helping to identify hard-core drug users in need of treatment. They can also increase public awareness, improve community pride, and foster community involvement.
- *Safe and Drug-Free Schools.*—The 1995 drug budget requests $660 million, or $172 million more than 1994, for Federal activities and grants to States for programs supporting the prevention of drug-related crime and violence in our schools as well as comprehensive drug prevention education and services for school children. These programs are the foundation of our Nation's drug prevention effort. They provide teacher training and curriculum development that allow for the integration of drug resistance training into school life; student assistance programs that offer drug-free activities; and security services to address weapon and drug-related security problems on school grounds.

Changing Direction of Drug Law Enforcement

The 1995 drug control budget request for domestic drug law enforcement is $5.9 billion, an increase of $225 million, or four percent over 1994. It keeps spending on Federal law enforcement constant and increases resources for corrections and grants to States and localities.

The drug law enforcement budget reflects a change in emphasis from a growing Federal presence towards a policy centered on community-based enforcement. This policy defines the Federal role in terms of providing leadership and training, fostering inter-governmental cooperation, and providing incentives to States and localities to adopt innovative drug control methods.

- *Community Policing As Drug Law Enforcement.*—An additional $285 million is attributed to the community policing initiative. The presence of new police officers on the streets of high crime and drug areas should significantly deter street drug crime, and help solve long-term drug crime problems.
- *High Intensity Drug Trafficking Areas (HIDTA).*—The 1995 drug control budget requests $98 million for the HIDTA program, an increase of $12 million, or 15 percent over 1994. This reflects the addition of one new metropolitan area to the list of HIDTAs, bringing the total to six. These areas receive resources specifically targeted to dismantling large drug trafficking organizations and the reduction of hard-core drug use, which is one of the HIDTA operating objectives.

Controlling The Flow of Drugs

The 1995 drug control budget requests $1.2 billion for drug interdiction, $94 million less, or 7 percent below 1994. This saving is due to a shift in emphasis from counterdrug operations in the vast transit zones to host country operations. Other savings will come from a consolidation of intelligence gathering facilities.

Since 1993, spending for drug interdiction has declined by almost $300 million, reflecting the growing realization that the best long-term approach to reducing the flow of drugs across our borders is to reduce the demand for drugs within our borders.

Care has been taken to ensure that our capabilities remain available should cultivation, production, or trafficker activity require a change in our level of response. Savings have resulted from proposing the consolidation of certain Customs/Coast Guard intelligence centers and Department of Defense interdiction command and control facilities. In part, better use of intelligence has enabled the Coast Guard to reduce the size of its patrolling

[3] The Monitoring The Future (MTF) Survey shows an increase in drug use. The MTF Survey found that illicit drug use is up with marijuana, stimulants, inhalants, and hallucinogens presenting the largest increase.

effort, and the Customs Service to reduce the size of its air and marine assets.

Improving International Cooperation.

The 1995 budget requests $428 million for international drug programs, an increase of $76 million, or 22 percent more than in 1994. This reduced level of effort is consistent with the Administration's decision to shift emphasis from interdiction efforts in the transit zones to assisting host countries. Assistance programs provide support for conducting law enforcement activities, building judicial and other necessary institutions, and creating an economic and social environment that supports alternatives to drug cultivation and trafficking.

The cocaine cartels of South America have the capacity to produce 1,000 metric tons of cocaine annually—virtually the entire world's supply. Their wealth fuels corruption that threatens the existence of democratic institutions throughout the region. International drug control efforts, funded by the Department of State and supported by in-country anti-drug operations, provide law enforcement training and economic assistance to foreign governments in efforts to resist the influence of drug trafficking cartels.

6. National Defense and International Affairs

6. NATIONAL DEFENSE AND INTERNATIONAL AFFAIRS

I took this office on a pledge that had no partisan tinge to keep our nation secure by remaining engaged in the rest of the world. And this year, because of our work together, enacting NAFTA, keeping our military strong and prepared, supporting democracy abroad, we have reaffirmed America's leadership, America's engagement, and as a result, the American people are more secure than they were before.

President Bill Clinton
January 25, 1994

This Administration came into office facing a host of new international and national security challenges. The Cold War tensions had begun to subside, and the first rays of opportunity in the post-Cold War world were gaining strength. Yet the United States was still pursuing policies formulated during a 40-year period of hostility and mistrust that existed between the two superpowers. We also maintained a military establishment sufficient to deter our principal adversary and, if necessary, to defeat that adversary in what could have been a global conflict.

This Administration now faces the task of redefining our national security policies and reshaping our programs and institutions to fit the realities of the post Cold War era. Moreover, this new approach must have the strong support of the American people and be clearly understood by the international community.

Table 6.1 **DISCRETIONARY FUNDING SUMMARY FOR NATIONAL DEFENSE AND INTERNATIONAL AFFAIRS**
(Dollar amounts in billions)

	1993 Actual	1994 Estimate	1995 Proposed	Dollar Change: 1994 to 1995	Percent Change: 1994 to 1995
National Defense (050):					
Budget Authority	276.1	261.7	264.2	+2.4	+1.0%
Outlays	292.4	280.6	271.1	–9.5	–3.4%
Department of Defense—Military (051):					
Budget Authority	(262.4)	(250.0)	(252.8)	(+2.9)	(+1.1%)
Outlays	(280.1)	(268.3)	(259.8)	(–8.5)	(–3.2%)
International Affairs (150):					
Budget Authority	33.3	20.8	20.9	+0.1	+0.5%
Outlays	21.6	21.8	20.8	–1.0	–4.6%
Total					
Budget Authority	309.4	282.5	285.1	+2.6	+0.9%
Outlays	314.0	302.4	291.9	–10.5	–3.5%

150-001 O-94-8 (QL 3)

In addressing these new issues, we confront two contradictory trends. On the one hand, we live in a world made smaller by growing economic interdependence and communications. Satellites, television, fiber optic cables, international financial flows, and the globalization of production all expand the understanding of global human values and the importance of cooperation and collaboration. On the other hand, the end of the Cold War has brought to the surface ethnic and national tensions that undermine regional security and threaten to divide communities in heart-rending conflict.

Neither of these trends provides the clear and present threat we once faced. Each new problem forces us to redefine and rethink our national interest—the core mission of our national security strategy. Not surprisingly, in these new conditions, the importance of our continued international engagement has been unclear to the American people. National security strategy and foreign policy are again subjected to a familiar debate: withdraw from the world, or remain engaged?

In the Administration's view, this is a false choice. We cannot disengage from the world. U.S. exports (which alone constitute over 10 percent of the U.S. Gross Domestic Product) make withdrawal no choice at all. Global issues such as environmental pollution, the migration of refugees and the flow of narcotics directly concern our nation.

More fundamentally, the sobering lessons of history illustrate the dangers of isolationism. At the end of World War I, the United States made a political decision to withdraw from the world only to have to reenter a global conflict at a very high price once the international system failed. After World War II, the United States debated its international commitments intensively, and made a fundamental decision to engage internationally. We held that course against a global adversary with successful results.

Today, as a new era begins, the Administration is committed to engagement and international leadership. The United States is the remaining superpower; those who say otherwise sell America short. We have the world's strongest military, its largest economy and its most dynamic society. We are setting a global example in reinventing our government and restoring our economy. Around the world, our power, authority and example provide unparalleled opportunities to lead, but in this new era, we must be prepared to lead in new ways.

This mission of international leadership continues to advance our national interests. Today, however, the defense of the national interest requires a more subtle examination of the dangers and opportunities in a new world.

Our strategy for promoting our values and defending our national interests has four basic objectives:

- integrating a healthy American economy into a healthy global economy;
- creating and expanding democratic governance and free markets overseas;
- defending our national security through skilled diplomacy and a strong, ready military; and
- shaping cooperative solutions to such transnational problems as the degradation of the global environment, population growth, refugee migration and the flow of narcotics.

U.S. foreign policy and defense planning during the Administration's first year have pursued these objectives. Our budget for the second year sharpens this focus, based on our reexamination over the past twelve months of our foreign and defense policies and of the institutions that make and implement those policies.

Our review has led to fundamental changes in our foreign policy, putting trade, competitiveness and market expansion front and center. It has also led to a basic restructuring of foreign assistance programs. The new international affairs budget focuses on:

- Promoting U.S. Prosperity through Trade, Investment and Employment;
- Building Democracy;
- Promoting Sustainable Development;
- Promoting Peace;
- Providing Humanitarian Assistance; and

• Advancing Diplomacy.

At the same time, the Administration has carried out the first fundamental post-Cold War reexamination of U.S. defense policies and institutions—the Bottom-Up Review (BUR). Focusing on new threats and opportunities—nuclear security and counter-proliferation, regional conflict, the expansion of democracy and economic security—the BUR is reshaping a smaller U.S. military to be ready, flexible and technologically superior. Preparing for the new roles and missions of the post-Cold War era, these forces remain capable of deterring and if necessary, prevailing in two nearly simultaneous, major regional conflicts. Our defense budget provides full support for that force structure.

This basic reexamination of our national security policy and institutions gives us the tools to exercise leadership as we move toward a new century. This budget recognizes that high-priority international challenges and opportunities involve the full range of governmental institutions, including many concerned primarily with domestic policy. In particular, these new challenges and opportunities require increasingly close cooperation and coordination between the defense and foreign affairs agencies of the government.

We will use these redefined, reshaped and newly coordinated policies and institutions and the resources proposed in the 1995 budget to tackle the highest priority international and national security policy issues:

—Our first priority is the health of the American economy and its *competitiveness* in a healthy global economy. We have invested in education, technology and defense conversion to bolster American competitiveness. Our efforts to empower our people, revive our economy, reform our health care, welfare and worker training programs, reduce the deficit and reinvent government enhance our global strength and our ability to lead and to compete in the global economy. In an increasingly integrated world economy, the strength of our economy and the standard of living of all Americans are closely linked to our international economic agenda. We seek to open new markets and level the trade playing field for all nations. Trade policy is the centerpiece of our international economic policy—including successful implementation of the GATT and NAFTA agreements and further market opening through the Japan Framework negotiations, the Asian Pacific Economic Cooperation (APEC) process, negotiations with China, and wider free trade agreements with our Latin American neighbors.

—The clearest link between the *expansion of democracy and free markets* and the U.S. national interest is in *Russia and the other newly independent states (NIS) of Eurasia and central and eastern Europe.* The Cold War, which bought security at a great price, has been replaced by the struggle to create and strengthen institutions of representative government and private sector economies in this diverse region. If the people of Russia build a free society and a market economy, the payoffs for the United States will be large: a permanently diminished threat of nuclear war, vast new markets, and cooperation on the global and regional issues that once divided us. Helping democracy prevail in Russia remains the wisest and least expensive security investment that we can make. The United States has led in shaping bilateral and international assistance programs to achieve these objectives. These programs continue in the 1995 budget for both international affairs and defense agencies.

—The defense of American security focuses increasingly on the *proliferation of weapons of mass destruction (WMD).* With the end of the Cold War, the risk of proliferation of weapons and delivery systems has become one of the most serious threats to the security of the United States and our allies. The 1995 budget provides continuing support for the Nunn-Lugar program in the Department of Defense (DOD) in order to achieve the safe and secure dismantling of nuclear weapons in Russia, Belarus, Ukraine and Kazakhstan, and to safeguard those weapons and materials. It also increases voluntary funding for the International Atomic Energy Agency for nuclear safeguards and inspections and provides for additional DOD activities to stem WMD proliferation. Funding for intelligence nonproliferation activities also grows significantly. Throughout DOD, steps are being taken in the areas of policy, military doctrine and planning, acquisitions and research, intelligence, and international cooperation to prevent WMD proliferation as well as to prepare to protect U.S. forces and interests. At the same time, the Administration is also relieving unnecessary burdens on U.S. business by eliminating unilateral controls on the export of technologies with dual military and civilian uses—unless they are of critical importance to national security.

—The Administration is enhancing U.S. national security through *arms control*—turning the promises of existing agreements into reality. A critical step was made at the recent Summit meeting, where the President helped Russia and Ukraine fashion an agreement that will allow Ukraine to satisfy the conditions it had set for START I ratification. This creative agreement compensates Ukraine for forgoing nuclear weapons, provides assurances on the integrity of its borders, and supplies reactor fuel. START I's implementation will provide the basis for U.S.-Russian ratification of START II.

In the non-strategic arena, the Administration has submitted the Chemical Weapons Convention (CWC) to the Senate for its advice and consent to ratification and is working with other CWC signatories to prepare for the treaty's implementation. Also, the U.S. is participating in international efforts to identify and examine potential verification measures for the Biological and Toxins Weapons Convention (BWC) and is supporting convening a special conference to strengthen the BWC. The United States continues to observe a moratorium on nuclear testing, and has begun to negotiate a Comprehensive Test Ban. Finally, the U.S. strongly supports indefinite extension of the Non-Proliferation Treaty (NPT) and is undertaking vigorous diplomatic efforts to achieve this outcome at the 1995 NPT Conference.

—The United States will seek *stability in regions important to our interests* through diplomatic and economic means as our first line of defense, while above all remaining prepared to deter or defeat major aggression, unilaterally when necessary. However, we are also prepared to participate in multinational operations sanctioned by the UN Security Council for enforcement of UN resolutions, or at the request of another country for its self-defense when it is in our interests to do so.

—This budget supports *international peacekeeping and peace enforcement operations,* which promote U.S. national security interests and regional peace and security. Effective peacekeeping can have great benefits for the United States. If we permit regional conflicts to spin out of control the cost to restore order is higher and the danger to America greater than halting conflicts before they spread. At the same time, the United States cannot and should not shoulder a disproportionate share of the human and economic costs of maintaining international peace and security.

—Therefore the Administration has undertaken a basic review of its peacekeeping policy, paying special attention to command and control arrangements for U.S. combat forces, to reforming United Nations peacekeeping operations and to securing adequate funding. This budget proposes a new policy of "shared responsibility" between the Departments of Defense and State for managing and funding peacekeeping. Specifically, the Departments will share responsibility for day-to-day support and funding of UN peace operations in a manner consistent with the Departments' principal areas of competence. State will have lead responsibility for and fund traditional peacekeeping operations mandated under Chapter VI of the UN Charter which do not involve U.S. combat units. These operations are unlikely to involve significant use of force and their objectives are primarily political. The Department of Defense will have lead responsibility for and fund those Chapter VI peacekeeping operations that involve U.S. combat units and all Chapter VII peace enforcement operations. In these operations, military imperatives tend to predominate. In all cases, key decisions on U.S. support for or participation in UN peace operations will continue to be made on an interagency basis at senior levels.

—Finally, the budget makes good on the President's promise to fund assessed payments for peacekeeping for which the U.S. has fallen behind.

—U.S. security will also be enhanced by peace in the Middle East. Our greatest asset in advancing our interests in this region is our security relationship with key regional states. Through forward positioning, prepositioning of equipment and military exercises with our allies, we deter potentially hostile powers and can respond quickly to crises in that region. In addition, our diplomatic contribution to peace negotiations gives us a central role in what could become one of the most successful conflict resolution efforts in recent decades. This budget provides critical support for both of those efforts, as well as for the rebuilding that must now begin in the region.

—Our ability to export, and to expand overseas investment is directly linked to the growth of market-based economies and democracy. This budget makes a strong commitment to *sustainable development, population programs and democratization* in these emerging economies, both through meeting our commitments on U.S. contributions to multilateral development institutions like the World Bank and through a strong program of bilateral development assistance.

—Our security is increasingly threatened by problems which transcend national frontiers, such as the degradation of the *global environment, starvation, refugee flows,* and the growth of the *international trade in narcotics.* This budget devotes significantly increased resources to dealing with such problems: new bilateral and international initiatives on the environment, funding for humanitarian assistance and refugee programs, and an increase in funding to reduce the flow of illicit drugs to the United States.

INTERNATIONAL AFFAIRS

> *As we take [these] steps together to renew our strength at home we cannot turn away from our obligation to renew our leadership abroad.*
>
> President Bill Clinton,
> January 25, 1994

In reshaping foreign policy and foreign assistance programs to fit post-Cold War realities, the Administration has proposed new legislation for reform of foreign assistance and related programs. That legislation and the budget that supports it divide international affairs programs into six major categories that reflect U.S. goals in this new era.

PROMOTING U.S. PROSPERITY

The highest-priority foreign policy goal of the Administration is the growth of the U.S. economy and employment. One of the most effective ways to achieve this goal is to open foreign markets through trade agreements and related negotiations.

This budget supports a more focused strategy to promote and facilitate U.S. exports. The Administration has reviewed export promotion programs through the Trade Promotion Coordinating Committee (TPCC), and this budget acts on several TPCC recommendations.

Table 6–2. 1995 INTERNATIONAL AFFAIRS—FUNCTION 150 DISCRETIONARY

(Budget authority in millions of dollars)

	1994 Estimate	1995 Proposed	Dollar Change: 1994 to 1995
Promoting U.S. prosperity through trade, investment and employment	**1,037**	**1,038**	**+1**
Export-Import Bank Financing (net)*	718	796	+78
Food Export Promotion (Public Law 480 Title I)	395	312	–83
Trade and Development Agency	40	45	+5
Overseas Private Investment Corp. credit activities	17	20	+3
Overseas Private Investment Corp. non-credit programs	–133	–135	–2
Building Democracy	**3,677**	**2,853**	**–824**
New Independent States of the former Soviet Union (NIS)*	891	900	+9
NIS Assistance (Defense transfers to USAID)	919	....	–919
Central and Eastern Europe	390	380	–10
Countries in Transition	124	143	+19
Information and Exchange	1,353	1,430	+77
Promoting sustainable development	**4,375**	**4,974**	**+599**
Multilateral Development Banks, IMF, and debt reduction	1,485	2,109	+624
State/USAID Programs	(2,621)	(2,591)	(–30)
Broad-Based Economic Growth (including Public Law 480 Title III)	1,664	1,477	–187
Protection of Global Environment	292	350	+58
Stabilization of World Population Growth	502	585	+83
Support for Democratic Participation	163	179	+16
Peace Corps, Inter American and African Development Foundations	268	274	+6
Promoting Peace	**6,844**	**6,431**	**–412**
Regional Peace and Security	5,430	5,460	+30
of which: Middle East Peace Process	(5,176)	(5,225)	(+49)
of which: military loan subsidy	(47)	(60)	(+13)
Peacekeeping Programs	477	608	+131
Peacekeeping supplemental	670	....	–670
Non-Proliferation and Disarmament	94	111	+17
Narcotics, Terrorism, and Crime Prevention	172	252	+80
Providing Humanitarian Assistance	**1,703**	**1,626**	**–77**
Refugee Assistance	720	683	–37
Disaster Assistance (including Crisis and Transition Initiative)	161	170	+9
Food Assistance (Public Law 480 Title II)	822	773	–49
Advancing Diplomacy	**4,004**	**4,146**	**+142**
State Department Operations	2,535	2,623	+88
USAID Operating Expenses	559	567	+8
State Dept small programs	49	42	–7
UN and Other Affiliates (Assessed Payments)	861	914	+53
Other	**–825**	**–208**	**+617**
Other programs	73	74	+1
Enacted Rescissions and Special Defense Acquisition Fund	–474	–282	+192
Proposed Rescissions	–424	....	+424
Total Discretionary Programs**	**20,817**	**20,861**	**+44**

* 1994 appropriations of $300 million for Export Import Bank for export financing in the New Independent States is shown under "New Independent States of the former Soviet Union."
** Total may not add due to rounding.

Export-Import Bank.—The Bank, which administers a major U.S. program for financing exports, provides loans, loan guarantees and insurance to U.S. firms primarily for capital-goods exports. In 1994, the Bank received a significant one-time amount of $300 million to support credit for exports to the former Soviet Union. Some of these resources remain available in 1995.

In addition, the Administration requests a net $796 million for the Export-Import Bank in 1995. This includes resources at the level appropriated for 1994 for the Bank's regular credit programs ($650 million, excluding the amount for the former Soviet Union) and could subsidize as much as $17.6 billion in loans, guarantees and insurance. This budget also includes a new initiative recommended by the TPCC—a $150 million "tied aid" fund. Many developed countries use foreign aid grants or concessional loans to finance capital-goods export sales. While international agreements have limited this practice, a significant amount of "tied aid" persists. The tied aid fund administered by Export-Import Bank permits the United States to deter other countries' use of tied aid and to compete with other countries selectively, when they use such aid.

P.L. 480 Title I Export Credits.—Loans under Title I of Public Law 480, managed by the Department of Agriculture (USDA), promote the export of selected agricultural commodities primarily to developing countries and Eurasian markets where export prospects appear promising. Budget authority for this program would decrease from $355 million in 1994 (after rescissions) to $312 million in 1995. A number of other federal programs continue to support U.S. farm exports, including over $5.5 billion annually in USDA guaranteed loans for export financing and about $1 billion annually for USDA export subsidies for US farm commodities.

Trade and Development Agency.—TDA promotes U.S. exports by funding feasibility studies and other activities for potential industrial and infrastructure projects in middle-income and developing countries. This provides U.S. business involvement in the early stages of project development and helps them to establish a position in markets otherwise difficult to penetrate. In 1995, TDA's resources would increase 12 percent to $45 million. TDA also will receive $17.5 million in 1994 in additional funding, transferred from the State Department, for programs in Russia and the other NIS. The agency has responsibility to conduct all U.S. government-funded feasibility studies for export promotion.

Overseas Private Investment Corporation (OPIC).—Foreign investment by U.S. firms benefits the recipient countries and also generates substantial U.S. exports. The Overseas Private Investment Corporation provides insurance, loans and loan guarantees for foreign investment in developing countries, Eastern Europe, Russia and the other NIS. OPIC has undertaken new initiatives in Russia (the Russia country fund) and in the Middle East (the Israel Growth Fund), and is planning a new fund for Africa, which will devote a significant amount of resources to projects in South Africa.

BUILDING DEMOCRACY

New Independent States of the Former Soviet Union.—Perhaps the most significant political event of the late 20th century is the effort by the states of the former Soviet Union to become democracies and develop market economies. The United States has provided substantial bilateral assistance in support of these efforts, and has encouraged other bilateral aid donors and the major international financial institutions to support this transition. For 1995 the budget calls for $900 million in assistance to the NIS to consolidate their gains and continue reform.

Central and Eastern Europe.—Countries in Central and Eastern Europe have made remarkable progress toward democracy and market-oriented economies. Poland, Hungary and the Czech Republic, in particular, are rapidly integrating into the world economy, realizing economic benefits that also promote political stability. The pace of this transition offers hope to reformers in the former Soviet Union. The progress of some Eastern European countries permits a shift of some U.S. support to other nations in the region within total budget authority of $380 million in 1995.

Countries in Transition.—The democratic revolution is taking place in many other countries. A modest investment can support free elections in Africa and foster truly democratic governments in Central America and elsewhere. $143 million in budget authority has been requested for this purpose.

Information and Exchange.—The U.S. Information Agency (USIA) constitutes a key element of U.S. efforts to promote democracy by increasing foreign understanding of American society, democratic values, processes, and policy. USIA conducts exchange programs for foreign leaders and scholars, distributes books and operates resource, information and cultural centers. The consolidation of U.S. international radio broadcasting under the Agency's management in 1995 will reduce costs and increase flexibility to meet the information needs of a rapidly changing world. One time consolidation costs and the integration of all broadcasting funds under USIA will increase budget authority for the Agency to $1.4 billion. Outlay savings from this consolidation will total about $400 million by the end of 1997. USIA is also restructuring internally to streamline core programs, consistent with the National Performance Review, leading to budget savings of over $15 million in 1995.

PROMOTING SUSTAINABLE DEVELOPMENT

Multilateral Development Banks (MDBs).—The Administration proposes $2 billion for the MDBs in 1995. The United States has long been a major contributor to the World Bank Group of institutions and to the Asian, African and Inter-American development banks and more recently the European Bank for Reconstruction and Development. These institutions provide loans on terms ranging from highly concessional interest rates and repayment periods to terms close to what developed country governments pay. U.S. support is leveraged, because many other developed countries contribute to the MDBs and because the banks increase their resources by borrowing funds on world capital markets. Total lending by these banks in 1993 is estimated to be $45 billion, which also translates into procurement opportunities for U.S. exporters.

Because of the magnitude of their resources, the banks, particularly the World Bank, can strongly encourage economic reform in recipient countries, including budget stability and privatization. Moreover, the MDBs can quickly bring large scale resources to bear in such areas as South Africa, Eastern Europe and the New Independent States, where development and free markets are of major importance to the United States. U.S. contributions to the Banks have, in recent years, fallen behind the level of commitments previously negotiated, leading to arrears of $819 billion by 1994. The budget would halt the accumulation of arrears and would begin a four-year process of paying off previously accumulated arrears. The 1995 budget proposes:

- $1.6 billion for scheduled payments on commitments previously negotiated.
- $275 million for new capital for the African Development Fund, the Inter-American Development Bank (IDB) and the Global Environment Facility (GEF), a major new multilateral environmental initiative (all currently in negotiation).
- $87 million to the IDB, World Bank group and the African Development Fund to start clearing existing MDB arrears.

Enhanced Structural Adjustment Facility (ESAF).—The ESAF, managed by the International Monetary Fund, offers highly concessional loans to developing countries that are carrying out economic reform and privatization. The budget proposes a U.S. contribution of $100 million in 1995.

State/USAID Programs Under Sustainable Development.—USAID is changing as a "reinvention lab" in the Administration's National Performance Review. USAID's philosophy and program mix of bilateral development assistance is being altered to increase its effectiveness and to fit post-Cold War needs. Bilateral assistance will have a lasting impact only if it:

- is provided to countries moving toward market economies,
- involves in its design and implementation not only recipient country governments but also the people served by the assistance and, where appropriate, non-governmental organizations, and
- conserves scarce natural resources and counters environmental degradation.

Sustainable development funds will also pay for U.S. voluntary contributions to UN and related development organizations such as the UN Development Program and UNICEF.

USAID's reshaped program has four main components to meet its new priorities:

- *Broad-Based Economic Growth.*—USAID provides grants to developing countries to support sustainable economic growth. Activities include technical assistance on economic reforms, and projects in such areas as agriculture, education and housing. Budget authority of $1,477 million is proposed in 1995.
- *Protection of the Global Environment.*—The 1992 United Nations Conference on Environment and Development in Rio de Janeiro heightened awareness of the need for environmentally sound development programs. Programs for the environment will have high priority in USAID's sustainable development activities. The budget provides a significant increase in budget authority for environmental programs from $292 million in 1994 to $350 million in 1995. This will provide $57 million to the UN Environment Program and the Montreal Protocol Multilateral Fund. The $293 million of direct USAID projects includes support for biodiversity, reduction of greenhouse gasses and expanding markets for U.S. environmental products.
- *Stabilization of World Population Growth.*—Through USAID, the Administration will also emphasize programs that reduce the growth of world population, and will provide leadership at the International Conference on Population and Development in Cairo later this year. Proposed budget authority grows 17 percent to $585 million in 1995. This revitalized program will focus on voluntary family planning and related activities. The United States will also provide $60 million to the UN Population Fund (UNFPA) from these funds.
- *Support for Democratic Participation.*—The Administration will work, in part through USAID, to support the enlargement of the community of democratic nations. USAID will continue its support for free elections, for human rights programs and for improving the administration of justice. The budget requests $179 million for this program category.

Peace Corps, Inter-American and African Development Foundations.—The Administration will continue to support grassroots development activities around the world by providing trained Peace Corps volunteers and by supporting indigenous self-help efforts through the Inter-American Foundation and the African Development Foundation. The budget includes $274 million for these programs in 1995.

PROMOTING PEACE

U.S. foreign policy also places high priority on reducing the risk of regional conflict in the post-Cold War world.

Regional Peace and Security.—This activity—requested at $5.46 billion—supports primarily regional security and the peace process in the Middle East. It provides the current level of assistance for Israel and Egypt, new aid to programs on the West Bank and in the Gaza strip, and modest assistance for other countries supporting the peace process. The program also provides Greece and Turkey with direct loans to buy U.S. military exports, and provides Turkey with economic aid grants. Several other countries also receive assistance for military training, but direct military aid is deemphasized.

Peacekeeping and Related Programs.—The 1995 budget requests $608 million of budget authority for Department of State-funded voluntary and mandatory financial contributions to peacekeeping operations including $288 million for arrears anticipated on 1994 assessments. For 1995 these contributions pay for operations involving peaceful settlement of disputes mandated by Chapter VI of the UN Charter that do not involve U.S. combat units. A fully offset supplemental appropriation of $670 million is proposed to pay assessed contributions for current peacekeeping operations that will come due in 1994. Failure to meet these obligations would seriously impair, if not shut down, ongoing operations in regions such as the Middle East, Latin America, Europe and elsewhere that are important to U.S. national interests.

Non-Proliferation and Disarmament.—The State and Defense Departments and the Arms Control and Disarmament Agency, among other departments and agencies, share responsibility for reducing the spread of nuclear and other weapons of mass destruction. Budget authority of $111 million is requested for the international affairs portion of this effort to support a revitalized ACDA, to finance innovative State Department non-proliferation activities, and to increase voluntary contributions for the increasingly important activities of the International Atomic Energy Agency (IAEA) by 33 percent over 1994 to $40 million.

International Narcotics Trafficking, Terrorism and Crime Prevention.—The Administration is shifting the primary emphasis of international narcotics control activities from interdicting the flow of illegal drugs into the United States to assisting major source and transshipment countries, particularly in the Andean cocaine growing region, to prevent growth and export of those drugs. The budget increases funding from $157 million in 1994 to $232 million. Anti-terrorism assistance will remain at the 1994 level of $15 million. Also, a new $5 million anti-crime program will be initiated to help countries and international organizations cope with international lawlessness (e.g., trafficking in arms or endangered species, and financial and computer crimes).

PROVIDING HUMANITARIAN ASSISTANCE

The budget reflects continued U.S. leadership in humanitarian assistance, particularly for refugees and victims of disasters.

Refugee Assistance.—In addition to resettling the largest number of refugees (110,000 refugee admissions to the United States are planned for 1995), the United States is also the largest contributor to UN and other multilateral efforts to assist refugees abroad. The budget proposes $683 million in 1995 for refugee admissions and assistance.

P.L. 480 Title II Humanitarian Food Aid.—Under this longstanding food aid program, agricultural commodities and products are donated to needy people abroad through U.S. private and voluntary organizations and through the UN World Food Program. The budget proposes $773 million to continue the highly effective emergency feeding component of Title II and slightly reduced non-emergency regular feeding activities.

Disaster Assistance.—The Agency for International Development aids the victims of natural and man-made disasters with non-food assistance complementing the P.L. 480 Title II program. Budget authority in 1995 would increase to $170 million. This would finance a new element (Crisis and Transition Initiative) of the program to bridge the gap between immediate responses and long-term reconstruction.

ADVANCING DIPLOMACY

Department of State and USAID Operations.—The effective use of diplomacy—through reporting, crisis prevention and membership in the UN and other international organizations—is critical to success in achieving all U.S. foreign policy goals. The foundation of an assertive American diplomacy is a strong Department of State that can support a worldwide network of over 260 embassies, missions and other posts in a constantly changing world. The 1995 budget reflects restructuring and new investments in agency operations to conduct foreign affairs more effectively. Budget authority of $2.6 billion is requested for Department of State programs to maintain global operations, restructure and improve communications and information management systems, and accommodate facility requirements worldwide including a new embassy office building in Ottawa. The budget also reflects the major organizational streamlining recently begun by the Agency for International Development (USAID) including the phasing out of 21 overseas missions. The budget provides $567 million for USAID's operating expenses.

UN and Other Affiliates.—Recognizing the growing role of the United Nations (UN) and other international organizations, the budget requests $873 million to pay the U.S. share of those organizations' budgets, as required by treaty. The budget also reaffirms the U.S. commitment to eliminate arrearages owed to the UN and other international organizations; it includes $41 million as the next installment on the arrearage-elimination schedule begun in 1991. Under this plan, U.S. arrearages will be paid off by 1997. As in past years, arrearage payments will be used for activities agreed upon by the United States and the international organizations, and payments will be conditional upon such agreements.

NATIONAL DEFENSE

Our forces are the finest military our Nation has ever had, and I have pledged that as long as I am President, they will remain the best equipped, best trained and best prepared fighting force on the face of the earth.

President Bill Clinton
January 25, 1994

The dramatic changes in the military threat to the United States, combined with the demonstration of U.S. military capabilities in Operation Desert Storm, have led to major changes in U.S. defense planning. The 1995 defense budget continues the process of both downsizing and reshaping U.S. military forces and defense technology for the challenges of the post-Cold War world.

The Department of Defense and the military services face major new challenges. From a force designed to meet a global Soviet threat, we must shape one which has the size, training, flexibility and technology to deal with threats large and small in any part of the world. The first step in this reshaping was the Bottom-Up Review (BUR). A key premise of the BUR was that the United States, in concert with its allies, must field forces capable of fighting and winning two nearly simultaneous major regional conflicts. With this capability, the United States, its allies and its potential adversaries can all be certain that involvement in a single regional conflict will not threaten the interests of the United States or its allies in other regions.

The 1995 defense budget provides the force structure needed to accomplish this mission, and, if not engaged in two major regional conflicts, lesser missions such as peacekeeping, smaller-scale conflicts and humanitarian operations. These lesser missions, however, would have to be significantly curtailed in the event of two nearly simultaneous major regional conflicts. The budget continues to transform U.S. Reserve and National Guard forces to reshape and strengthen their contribution to national defense. Most important, the budget underwrites the Administration's strong commitment to maintain the high level of readiness needed to confront, in a timely way, any contingencies where U.S. interests require military action.

The budget emphasizes U.S. technological superiority, through investment in research and development. It will acquire key capabilities to arm U.S. forces through the end of the decade and into the next century. It also continues to reshape intelligence capabilities to provide the knowledge necessary for defense planners to anticipate, deter and combat new threats.

The budget reflects the Defense Department's commitment to ease the economic impact of defense "downsizing" through dual-use technology programs and policies to create a smaller, more responsive defense industrial base; through transition support for civilian and military personnel leaving the Department; through community planning assistance; and through major investment by both the Department of Defense and the Department of Energy to identify, resolve and prevent harm to the environment from defense and nuclear activities.

The budget reflects the role of the Department of Defense in a number of ongoing programs concerning counter-proliferation, humanitarian assistance, disaster relief and peacekeeping. Through the Nunn-Lugar program, DOD is pursuing cooperative threat reduction with the former Soviet Union aimed at the safe and secure dismantlement of nuclear and chemical weapons and preventing the spread of weapons of mass destruction. All of these programs will be fully coordinated with other agencies to ensure a comprehensive approach to these issues.

This budget also reflects a commitment to provide a dollar of defense for a dollar of budget. As part of the National Performance Review and with Congressional cooperation, the Department is undertaking a significant restructuring of defense acquisition policies and practices, is improving its business operations and financial accounting systems, and is reforming its health-policy programs to control costs and enhance benefits in anticipation of national health reform. Finally, the Department and the services are implementing the three previous rounds of base closures through an accelerated program for quick cleanup and rapid disposal of property, and are preparing for the next round of base closure commission decisions due in 1995.

Overall, the Administration is committed to supporting a properly sized, balanced, flexible, technologically dominant military capability for the 21st Century. The Administration will provide this capability while meeting the needs of the men and women in the military, the requirements for a responsive public and private defense infrastructure, and the impact of these changes on America's economy and communities.

DEFENSE BUDGET LEVEL

The 1995 defense budget request and the 1995–1999 projected defense plan continue the reduction of defense resources since the end of the Cold War. The budget requests discretionary funding of $264.2 billion in budget authority and $271.1 billion in outlays for programs in the National Defense Function (050). This includes functions of the Department of Defense-Military (051), Atomic Energy Defense Activities (053) and Other Defense-Related Activities (054). Table 6–3 shows budget authority and outlay funding levels for these functions through 1999.

For the military functions of the Department of Defense, the budget requests discretionary funding of $252.8 billion in budget authority and $259.8 billion in outlays in 1995. In real (inflation-adjusted) dollars, the budget levels projected for DOD by the end of the five-year planning period are 35 percent below the last Cold War (1989) budget level, and 42 percent below the 1985 peacetime defense spending peak. Historical budget authority trends since 1950 are shown in Chart

Table 6–3. **FUNDING SUMMARY FOR NATIONAL DEFENSE**

(Discretionary funding in billions of dollars)

	1993 Actual	1994 Estimate	Proposed				
			1995	1996	1997	1998	1999
Department of Defense-Military (051):							
Budget Authority	262.4	250.0	252.8	244.2	241.0	247.5	253.8
Outlays	280.1	268.3	259.8	249.9	245.4	245.5	246.3
Atomic Energy Defense Activities (053):							
Budget Authority	12.1	10.9	10.6	11.0	10.9	11.0	11.2
Outlays	11.0	11.2	10.5	10.8	10.9	11.0	11.1
Other Defense Related Activities (054):							
Budget Authority	1.7	0.9	0.7	0.7	0.7	0.7	0.7
Outlays	1.3	1.1	0.8	0.9	0.7	0.7	0.7
Total National Defense (050):							
Budget Authority	276.1	261.7	264.2	255.9	252.6	259.2	265.7
Outlays	292.4	280.6	271.1	261.6	257.0	257.1	258.1

6–1. As a share of the GDP, DOD spending will fall from 3.7 percent in 1995 to 2.8 percent in 1999. This compares to an average DOD share of 8.5 percent of GDP during the mid 1950's to mid 1960's.

The budget request also includes a proposed 1994 emergency supplemental of $1.2 billion for the incremental costs incurred by the Department of Defense related to peacekeeping and peace enforcement operations in Somalia, Bosnia, Iraq and Haiti. These incremental costs result from special military pay for hazardous duty, operation and maintenance of equipment, transportation of personnel and equipment, and force support expenses not included in the 1994 budget.

FORCES RESTRUCTURED FOR REGIONAL SECURITY AND CONTINGENCIES

U.S. military forces are being downsized and restructured to meet the requirements identified in the Bottom-Up Review, building on the experience and success of Operation Desert Storm. Core military capabilities will be preserved and active and reserve forces will be better integrated for regional contingencies. Although the primary focus of the budget is on conventional forces for regional defense, the budget also continues to support a strong strategic deterrent.

The new force structure will be smaller than the Cold War force. Main force trends are shown in Table 6–4.

A military force sized for two major regional contingencies is expected to be capable of undertaking likely peacekeeping and humanitarian missions in the post-Cold War world. Reflecting a shared responsibility approach between DOD and the Department of State, the Administration now proposes that the Department of Defense assume lead management and funding responsibility for such missions. The Administration proposes that the Department of Defense assume responsibility for those Chapter VI peacekeeping operations that involve U.S. combat units and all Chapter VII peace enforcement operations.

Chart 6-1. DOD-MILITARY BUDGET AUTHORITY TREND

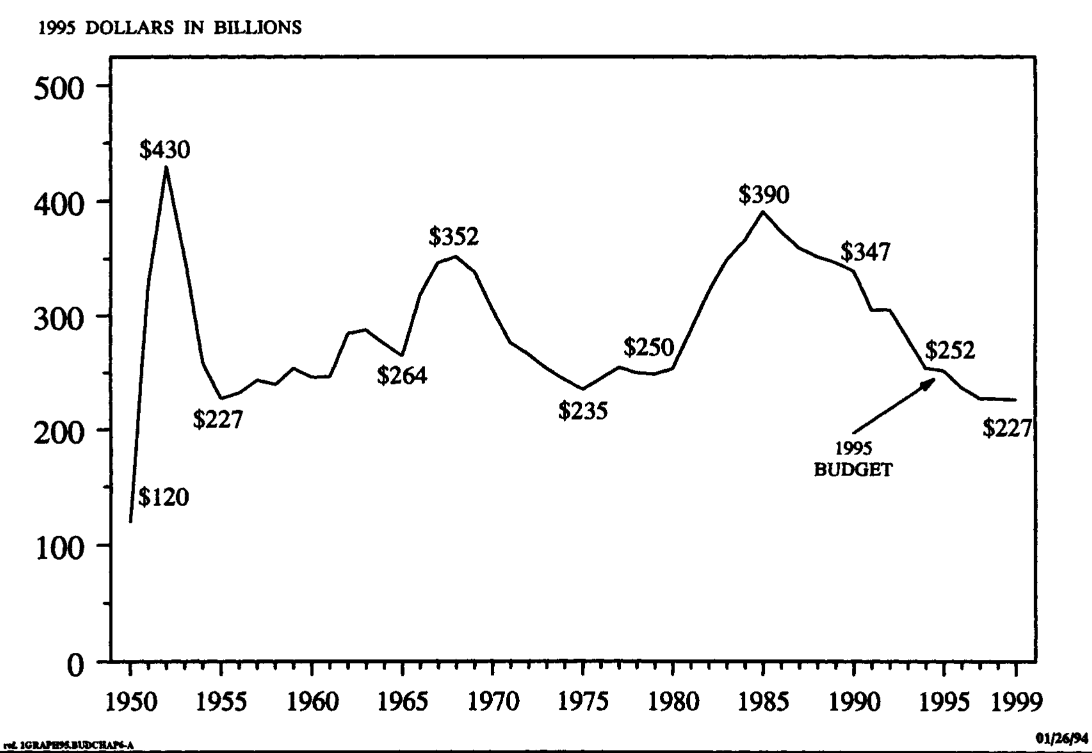


Table 6–4. **MILITARY FORCE TRENDS**

	1989	1994	1995
Active Forces:			
Army Divisions	18	12	12
Navy Aircraft Carriers	16	12	11
Navy Air Wings	13	11	10
Navy Surface Combatants and Attack Submarines	287	196	198
Marine Divisions and Air Wings	3	3	3
Air Force Tactical Wings	25	13	13
Reserve Forces:			
Army Combat Brigades	56	48	46
Navy Air Wings	2	1	1
Navy Aircraft Carrier	—	—	1
Navy Ships	26	16	17
Marine Divisions	1	1	1
Marine Air Wings	1	1	1
Air Force Tactical Wings	12	9	8
Nuclear Deterrent:			
Intercontinental Ballistic Missiles	1,000	642	550
Ballistic Missile Submarines (Missiles)	34(608)	15(352)	15(360)
Bombers	268	152	107
Mobility Forces:			
Strategic Airlift Aircraft	367	356	365
Sealift Ships [1]	163	174	178
Military Personnel (in thousands):			
Active Forces	2,130	1,611	1,526
Guard and Reserve Forces	1,171	1,025	979

[1] Includes ships in the Ready Reserve Force funded by the Department of Transportation.

The budget requests $300 million in funding for the Defense Department to pay UN assessments for such operations in 1995.

Military Personnel

Active military end strength will decline to 1.526 million by 1995—28 percent below the 1989 level and the lowest level since before the Korean War. An active force level of about 1.45 million will be achieved by 1999, as shown in Chart 6–2. Guard and Reserve personnel levels will also decline. In 1995, Guard and Reserve end strength are estimated at 979 thousand, or 16 percent below the 1989 level. By 1999, Active forces will be about 1,453 thousand and the Reserve forces will be 906 thousand. As Active and Reserve forces decline, our armed services must continue to place high priority on recruiting and retaining highly motivated and well-trained personnel.

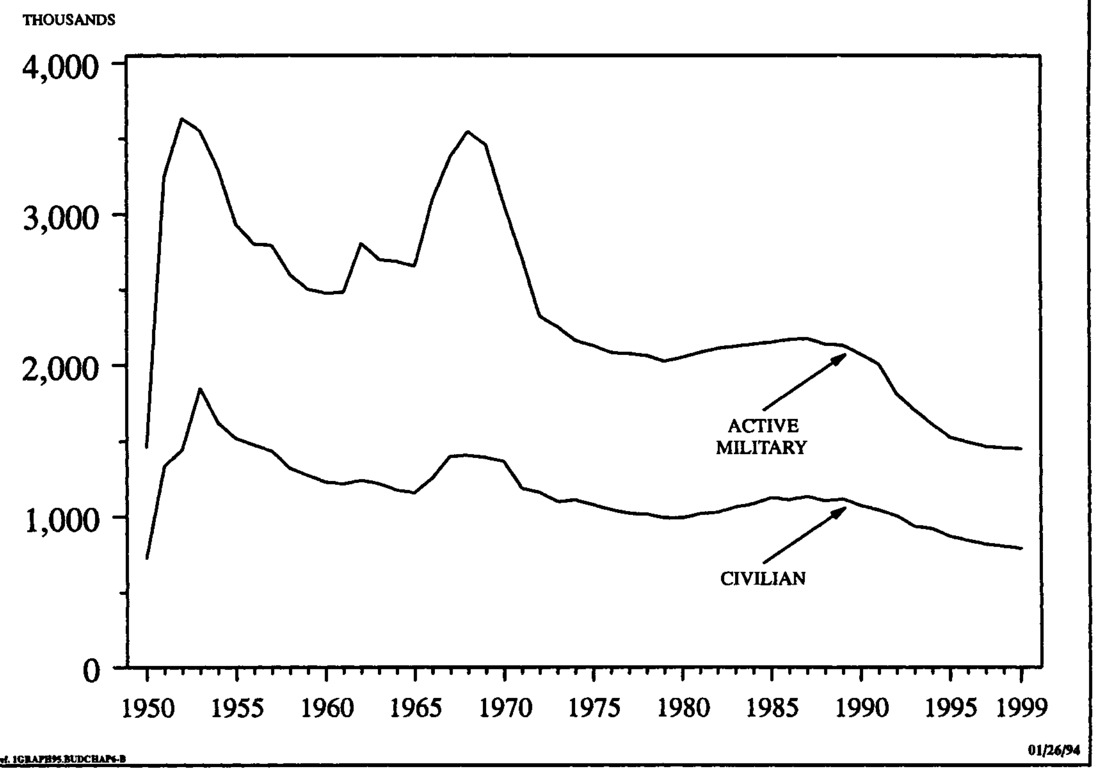
Army National Guard and Reserve Reform

The Army National Guard and Army Reserve forces are being downsized and restructured consistent with the Bottom-Up Review. Army National Guard units will focus on wartime combat and peacetime domestic emergency missions. Army Reserve units will support wartime combat forces. Consistent with these missions, some combat missions currently assigned to the Army Reserve will be transferred to the Guard while some support functions in the Guard will be transferred to the Reserve. As a result of these changes, Army Reserve elements will decline from 670 thousand personnel in 1994 to 575 thousand in 1999.

READINESS IS THE TOP PRIORITY

The first priority of the Department of Defense is to maintain high levels of readiness in the smaller U.S. military force. Readiness

Chart 6-2. HISTORICAL DEFENSE PERSONNEL LEVELS



is fundamental to the morale and job satisfaction of men and women in uniform and to the ability of the forces to carry out their missions. The budget supports training programs at levels that will keep forces ready to fight. Proposed funding for repair and replacement of equipment will provide U.S. forces the tools they need. The budget proposes full funding for personnel programs and high operating tempos for 1995. The budget provides for the operating rates, a key indicator of force readiness, shown in Table 6–5.

EMPHASIS ON TECHNOLOGICAL SUPERIORITY

As stealth aircraft and precision weapons vividly demonstrated during Operation Desert Storm, advanced technology employed by well-trained forces can be decisive and save lives. U.S. defense technology is dominant today, and the 1995 budget gives high priority to Research, Development, Test, and Evaluation programs to ensure dominance in the future.

To maintain a clear technological edge for future U.S. forces, the budget proposes funding of $9.3 billion for defense science and technology programs.

The Administration's defense technology strategy ensures that new capabilities enter the forces quickly through improved operational military systems, while new systems are developed. Providing $23.6 billion for development of defense systems, the budget strikes a balance between development of new systems ($12.7 billion) and improvements to existing systems ($10.9 billion). For example, upgrades are being developed for the E–3 Airborne Warning and Control System (AWACS) aircraft now in operational units. At the same time, work continues on the development of a new generation of combat aircraft, including the Army's RAH–66 helicopter and F/A–18E/F and F–22 multi-role tactical aircraft for the Navy and Air Force.

Funding for the major categories is shown in Table 6–6.

Table 6–5. **MILITARY OPERATING RATES**

	1985	1990	1993	1994	1995
Army:					
Annual tank miles	833	733	600	800	800
Flying hours per crew month	13.1	14.2	13.5	14.5	14.5
Navy:					
Flying hours per crew month	25	24	24	24	24
Ship steaming days per quarter:					
Deployed forces	53.6	54.2	54.9	50.5	50.5
Non-deployed forces	27.4	28.1	28.3	29	29
Air Force:					
Flying hours per crew month:					
Fighters	19.0	20.4	20.7	20.3	19.7
Bombers*	NA	NA	21.8	18.0	19.9

* Bomber flying hours were not separately identified prior to 1993.

Table 6–6. **DOD RESEARCH, DEVELOPMENT, TESTING, AND EVALUATION**

(Budget authority in billions of dollars)

	1994	1995
Technology:		
Basic research	1.2	1.2
Applied research	2.7	3.0
Advanced technology development:		
Ballistic Missile Defense	2.6	1.2
Other Technology Development	3.6	3.9
Total Science and Technology	10.1	9.3
System Development:		
New system development	10.1	12.7
Development of modifications for existing systems	11.4	10.9
Total	21.5	23.6
R&D management support	3.2	3.3
Total RDT&E	34.8	36.2

DEPARTMENT OF ENERGY R&D ACTIVITIES

The primary post-Cold War defense missions at the Department of Energy's laboratories are to sustain the safety and reliability of the nuclear weapons stockpile without nuclear testing and to provide technology to prevent the spread of nuclear weapons, materials, and expertise. The former will be carried out through a comprehensive Stockpile Stewardship Program, using above-ground non-nuclear (hydrodynamic) experiments, computer simulations, weapons physics experiments, nuclear weapons effects simulations, and review and analysis of historical data, in place of underground nuclear testing. The budget provides $1.3 billion for RDT&E in support of Stockpile Stewardship and $315 million for non-proliferation and arms control.

MAJOR MODERNIZATION PROGRAMS CONTINUE

The budget continues a trend of the past five years to procure fewer new systems as forces shrink. By retaining technological dominance, fewer new models of systems need to enter production.

The budget proposes $43 billion to procure new systems and perform upgrades in 1995. Important modernization programs include enhancements in strike capabilities of aircraft carriers, lethality of Army firepower, the ability of long-range bombers to deliver conventional smart munitions, and the continuing ability to project military power over long distances.

Strategic mobility modernization will improve capabilities for rapid deployment of U.S. forces worldwide through more prepositioning and enhancements to airlift and sealift. The 1995 budget funds procurement of six C–17 aircraft and two large-capacity sealift ships, and improves rail transportation and port facilities within the United States.

Prominent procurement programs include the E–8 Joint Surveillance Target Attack Radar System (Joint STARS) aircraft ($564 million for 2 aircraft), the Navy's F/A–18C/D tactical aircraft ($1,117 million for 24 aircraft), modifications to install the Longbow radar on the Army's AH–64 Apache attack helicopter ($118 million) and the CVN–76 aircraft carrier ($2,447 million).

REFOCUSED INTELLIGENCE ACTIVITIES

The post-Cold War era is clearly characterized by a dispersal of threats, problems and opportunities, and significant uncertainty about world events. An intelligence apparatus focused for decades principally on a single major military threat must now deal with a wide variety of targets and issues. To respond to this diversity and uncertainty, the 1995 budget continues the process of refocusing U.S. intelligence programs and capabilities on new priorities:

Monitoring threats to regional stability

The proliferation of weapons of mass destruction and their means of delivery, terrorist activities, ethnic conflicts and trafficking of illegal drugs pose significant threats to regional peace and U.S. security interests. Monitoring these activities and providing information on these threats will be primary tasks of U.S. intelligence in 1995 and beyond.

Supporting military operations

Intelligence will increasingly provide a real-time picture of the battlefield. Restructuring tactical reconnaissance, increasing interoperability, and improving the timeliness and reliability of imagery dissemination receive increased emphasis in the 1995 budget.

Enhancing economic security

Intelligence on democracy and reform abroad and on international factors affecting U.S. economic well-being is also increasing. The community will monitor international compliance with economic sanctions and international trading practices, including unfair foreign competition and foreign government efforts to acquire sensitive U.S. commercial information.

Streamlining infrastructure and support

Management and implementation of intelligence programs and capabilities are being improved through consolidations and streamlining. A civilian personnel drawdown of about 3 percent in National Intelligence programs will be implemented in 1995. Further annual reductions are planned through 1999 resulting in more than a 20 percent reduction during the 1990's.

NON-PROLIFERATION, COUNTER-PROLIFERATION, AND THREAT REDUCTION ACTIVITIES

Funding is included in the Department of Defense budget both to prevent proliferation of weapons of mass destruction (WMD) and to develop U.S. military capabilities to protect U.S. forces in case prevention fails. The budget includes $400 million for the Nunn-Lugar program to help with the safe and secure dismantlement of nuclear weapons in Russia, Belarus, Ukraine, and Kazakhstan, and the conversion of defense industries in these countries to the civilian sector. The Intelligence Community is increasing its non-proliferation funding by 21 percent. This will help to improve the information available for formulating military and diplomatic options to prevent proliferation. Recognizing that prevention may fail, the budget provides for the development of a wide range of needed military capabilities to counter the WMD threat. Finally, the budget includes $30 million for DOD support of the activities of the U.N. Special Commission on Iraq, nuclear safeguards programs of the International Atomic Energy Agency, effective export control systems in areas of proliferation risk, and analyses of proliferation issues.

MAJOR INITIATIVES IN THE DEFENSE TRANSITION

The Department of Defense and the military services face new internal challenges from the end of the Cold War. As budgets decline and production dollars shrink, DOD uniformed and civilian personnel, the defense industry, communities and the workforce face a transition. The 1995 budget addresses these problems to assist the necessary transition and ensure the maintenance of a defense industrial base that can meet future needs.

Defense Reinvestment, and Conversion

The Department of Defense is a key player in the Administration's commitment to reinvest defense resources productively. DOD provides almost 60 percent of the funding and many of the program initiatives in the Defense Reinvestment and Conversion Program. A key program is the Technology Reinvestment Project (TRP), which promotes technologies with both military and civilian applications (or "dual-use"). Funding for the TRP will grow to $625 million. Projects supported by the TRP will be selected competitively from private-sector proposals, and will be jointly funded by DOD and the private sector. Among these projects is the $40-million MARITECH initiative to increase productivity of the American shipbuilding industry.

In addition to the TRP, the Defense Department is investing to bring the dynamism of the commercial sector to the development of defense systems. Recognizing the rapid advances in commercial products, particularly electronics, the Administration has given high priority to such technologies. Such dual-use programs include $1.4 billion for defense conversion initiatives, and $.7 billion of other continuing technology developments. Important dual-use programs include development of high performance computers and communications ($397 million) and support of SEMATECH to develop advanced equipment to produce semiconductors ($90 million).

Industrial Base Programs and Policies

The Department has provided funding in a small number of exceptional cases to maintain defense-unique industrial capabilities, including nuclear propulsion for ships and submarines. Procurement of the third Seawolf submarine in 1996 is an example of this policy.

Department of Energy Laboratory Conversion Activities

The primary Department of Energy mechanism for defense technology conversion is cooperative research and development between DOE laboratories and the private sector on technologies that provide dual-benefit for defense and civilian purposes. The Cooperative Research and Development Agreements (CRADAs) that govern the joint research require that at least 50 percent of the resources come from the private sector. The CRADAs also allow private-sector participants to retain rights to all patents and other intellectual property resulting from the joint research. The 1995 budget includes $216 million for the DOE weapons laboratories for dual-benefit CRADAs.

Initiatives for Personnel and Communities

The Department of Defense provides personnel separation benefits and administers an aggressive job search program to help military and civilian personnel find careers in the private sector. For communities, DOD is implementing the Administration's five-point plan for revitalizing the towns and cities hard hit by base closures. The Department is working to speed low-cost or no-cost transfer of closed bases to communities for economic redevelopment by expediting environmental clean-up and facilitating community planning. In 1995, as part of the Defense Reinvestment and Conversion Program, DOD will spend nearly $1.2 billion for personnel and community assistance programs. The Department of Energy will spend $125 million on its program to assist workers and communities.

Environmental Programs

The Department of Defense and the Department of Energy both face serious environmental problems as their activities are reduced.

The Department of Defense continues to make significant progress in environmental cleanup, compliance, conservation, pollution prevention, and related research and development. The 1995 budget provides a total of $5.7 billion, an increase of 6 percent above the 1994 enacted level. This includes funding for cleaning up past contamination, complying with Federal, State and local environmental laws, conserving natural and cultural resources, and reducing pollution. DOD is also pursuing research and development to reduce cleanup and compliance costs. (see also DOD section in the "Investing in the Quality of Life" section of Chapter 3B).

In 1994, Department of Energy funding for environmental activities surpassed funding for research and production of nuclear warheads for the first time. DOE faces one of the nation's most complex environmental challenges. The mission of its Office of Environmental Restoration and Waste Management (EM) is to manage the generation, handling, treatment, storage, transportation, and disposal of DOE waste. Key areas are waste management, environmental restoration, facility transition, and technology development. The budget provides $5.2 billion, an increase of 1 percent over 1994, for these important programs (see also DOD section in the "Investing in the Quality of Life" section of Chapter 3B).

REFORMING DEFENSE MANAGEMENT

With shrinking forces and changing missions, the Department of Defense is working to be a National Performance Review leader as a better customer, with reformed management practices and streamlined infrastructure. With smaller budgets, every dollar must contribute to the central mission of the Department: the delivery of its combat capabilities.

Acquisition Reform

The Administration is committed to reforming the way government contracts for goods and services. As the largest single purchasing agency (spending 67 percent of all government procurement dollars), DOD has a major stake in this effort. Success means cost savings and access to the most advanced technologies of the commercial marketplace. Working closely with the National Performance Review, the Department helped to develop the Administration's proposals for improving the acquisition system. There are now two major acquisition reform bills in Congress incorporating many of the Administration's ideas. These bills would raise the threshold under which simplified purchase procedures can be used (from $25,000 to $100,000), and encourage the acquisition of more commercial items by Federal agencies.

The Department will continue to seek efficiencies in acquisition and to reform its contracting practices.

Defense Business Operations Fund

One of the key DOD management reforms continues to be the Defense Business Operations Fund (DBOF), which promises to bring greater efficiency to defense support services. Military commanders purchase supplies, equipment maintenance, and other services through the DBOF. Resources for the DBOF are greater than those for many government agencies. For 1995, DBOF sales of goods and services are estimated at about $80 billion, and 311,000 military and civilian personnel conduct these activities.

DBOF was created in 1992 to establish a more business-like relationship between military commands and support activities. The goal was better control over support costs. This approach is consistent with key National Performance Review goals of "Giving Customers a Voice—and a Choice," "Making Service Organizations Compete," and "Creating Market Dynamics."

Problems remain. Inadequate accounting systems have contributed to DOD's financial management problems. In 1993, the Department undertook a major review of the DBOF and has already begun to implement changes. The Department has developed a new action plan and established a defense-wide DBOF Corporate Board, led by the DOD Comptroller, to resolve these problems.

Financial Management

The DBOF problems stem, in part, from weaknesses in DOD financial and accounting systems. DOD currently operates over 280 financial and accounting systems—80 financial and accounting systems and about 200 ancillary systems that feed financial information to these systems. These systems do not always produce accurate and reliable information. General Accounting Office, military department, and DOD Inspector General audits continue to identify serious weaknesses in these systems. In addition, the requirements of the Chief Financial Officers Act of 1990 make it imperative that DOD develop the capability to produce auditable financial statements. Correcting the problems of DOD's financial management systems requires the development of integrated financial accounting systems and procedures. The Department is moving aggressively to improve its financial operations, including centralizing financial functions in the Defense Finance and Accounting Services (DFAS).

Health Program

The Department continues to reform and streamline its health operations within the framework of the Administration's national health reform program. The DOD health program is available to an estimated 8.3 million beneficiaries. These are active duty military personnel, retired military personnel, and their dependents. The program consists of the military services' medical facilities and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). In 1995, the military services will operate 133 hospitals and medical centers and 504 medical clinics at a cost of $15.3 billion.

Streamlining Infrastructure and Support

The Administration is making a major effort to reduce defense infrastructure (bases, depot facilities, and related civilian employment) as forces are reduced. The final round of closures under the current Base Realignment and Closure process is due in 1995. Activities in 1988–90, 1991, and 1993 will close 70 major domestic installations. Depot maintenance is another area where greater use of the private sector could result in savings and help with the maintenance of the industrial base. Finally, the Department is pursuing an aggressive policy to reduce civilian personnel levels consistent with the declining force structure and infrastructure requirements. The National Performance Review set a goal of a government-wide civilian personnel reduction of 12 percent through 1999. Based on current plans, defense full-time equivalent (FTE) civilian personnel levels will fall from 932 thousand in 1993 to 766 thousand in 1999, an 18 percent reduction. The long term trend in civilian personnel is shown in Chart 6–2.

7. Summary Tables

7. SUMMARY TABLES

Table 7–1. BUDGET OUTLAYS BY CATEGORY

(In billions of dollars)

	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
Discretionary:							
Defense discretionary	292.4	280.6	271.1	261.6	257.0	257.1	258.1
Nondefense discretionary	250.0	269.5	271.3	282.3	287.3	291.0	296.3
Discretionary health care reform	....	....	....	2.2	3.4	–3.7	–6.1
Subtotal, discretionary	542.5	550.1	542.4	546.1	547.8	544.4	548.3
Mandatory:							
Social Security benefits	302.0	317.7	334.5	353.7	369.5	389.6	410.8
Federal retirement benefits [1]	59.8	63.0	65.2	67.9	71.3	74.6	78.9
Medicare	127.8	140.8	153.3	173.1	192.9	202.2	215.0
Medicaid	75.8	87.2	96.4	104.6	109.7	105.9	100.9
Unemployment benefits	35.5	26.7	23.0	23.5	23.9	24.0	25.1
Means-tested entitlements benefits [2]	80.8	89.4	96.7	102.4	109.9	116.6	124.0
Deposit insurance	–28.0	–3.3	–11.1	–11.3	–6.1	–4.9	–3.3
Health care allowances [3]	....	....	3.0	16.4	39.9	83.3	101.8
Undistributed offsetting receipts	–37.4	–37.9	–42.5	–41.6	–39.4	–41.4	–40.5
Other	50.7	46.7	45.2	37.9	38.1	38.3	38.7
Subtotal, mandatory	666.9	730.3	763.7	826.6	909.7	988.3	1,051.3
Net interest	198.8	203.4	212.8	224.2	234.0	244.6	254.4
Total outlays	1,408.2	1,483.8	1,518.9	1,596.9	1,691.4	1,777.4	1,854.0

[1] Civil service and military retirement.

[2] Food stamps and food aid to Puerto Rico, family support payments, SSI, child nutrition, EITC, veterans pensions.

[3] Premium subsidies, long-term care, other mandatory health reform, and 1995 "pay-as-you-go" items. The impact of health reform on Medicare and Medicaid is included in the Medicare and Medicaid estimates shown above.

Table 7–2. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

Source	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
Individual income taxes	509.7	549.9	595.0	627.7	664.1	701.6	745.1
Corporation income taxes	117.5	130.7	140.4	145.8	149.8	152.5	157.2
Social insurance taxes and contributions	428.3	461.9	490.4	518.3	548.5	580.0	610.2
(On-budget)	(116.4)	(125.7)	(135.2)	(143.6)	(151.0)	(158.6)	(165.0)
(Off-budget)	(311.9)	(336.2)	(355.2)	(374.7)	(397.5)	(421.4)	(445.1)
Excise taxes	48.1	54.6	71.9	71.7	72.7	73.6	74.9
Estate and gift taxes	12.6	12.7	13.9	15.0	16.1	17.3	18.5
Customs duties	18.8	19.2	20.9	21.3	22.2	23.1	24.0
Miscellaneous receipts	18.6	20.0	21.3	27.6	31.6	38.7	43.1
Total receipts	**1,153.5**	**1,249.1**	**1,353.8**	**1,427.3**	**1,505.1**	**1,586.9**	**1,672.9**
(On-budget)	*(841.6)*	*(912.9)*	*(998.6)*	*(1,052.6)*	*(1,107.6)*	*(1,165.5)*	*(1,227.8)*
(Off-budget)	*(311.9)*	*(336.2)*	*(355.2)*	*(374.7)*	*(397.5)*	*(421.4)*	*(445.1)*

Table 7–3. DISCRETIONARY BUDGET AUTHORITY BY AGENCY

(In millions of dollars)

Agency	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
Cabinet Agencies:							
Agriculture (excluding International Programs)	14,052	15,018	14,170	14,241	14,402	14,436	14,595
Commerce	3,216	3,632	4,187	4,502	4,742	4,973	5,962
Defense	262,617	249,979	252,850	244,200	241,000	247,500	253,800
Education	23,696	24,354	26,060	26,305	26,539	26,747	26,935
Energy	19,262	18,614	18,010	18,282	18,278	18,580	19,021
Health and Human Services	31,608	34,318	35,414	36,193	37,957	39,304	41,179
Housing and Urban Development	25,524	25,105	26,064	33,537	35,152	37,544	38,785
Interior	7,078	7,512	7,231	7,346	7,380	7,433	7,491
Justice	9,315	9,376	12,144	14,343	15,240	16,000	17,255
Labor	9,920	10,561	11,694	11,987	12,492	12,517	12,625
State	4,928	5,289	4,860	4,713	4,807	4,847	4,960
Transportation	13,514	11,186	13,543	13,194	12,364	13,175	13,187
Treasury	10,082	10,339	10,350	10,790	10,649	10,381	10,094
Veterans Affairs	16,701	17,584	17,812	18,281	18,941	18,866	18,866
Major Agencies:							
Appalachian Regional Commission	190	249	187	187	187	187	187
Community Development Financial Institutions	....	....	144	144	111	101	....
Corporation for Public Broadcasting	319	275	293	312	293	293	293
Corps of Engineers	3,842	3,915	3,315	3,724	3,451	3,821	3,561
District of Columbia	688	700	722	722	722	722	722
Environmental Protection Agency	6,923	6,659	7,163	7,395	7,678	7,876	8,188
Executive Office of the President	236	185	190	190	191	191	192
Equal Employment Opportunity Commission	222	230	246	246	246	246	246
Federal Emergency Management Agency	2,573	800	704	704	704	704	704
General Services Administration	275	522	1,600	172	177	177	177
International Programs (other than the State Department	16,266	15,528	16,001	15,917	15,839	15,804	15,710
Legal Services Corporation	357	400	500	500	500	500	500
National Aeronautics and Space Admin.	14,309	14,466	14,300	14,400	14,500	14,600	14,600
National Archives and Records Admin.	168	192	197	197	197	197	197
National Endowment for the Arts	174	170	170	170	170	170	170
National Endowment for the Humanities	177	177	177	177	177	177	177
National Labor Relations Board	170	171	175	175	175	175	175
National Science Foundation	2,734	3,018	3,200	3,234	3,300	3,400	3,500
National Service Initiative	279	575	850	1,359	1,587	1,860	2,185
Office of Personnel Management	123	123	117	114	116	118	121
Postal Service	122	91	92	92	92	92	92
Railroad Retirement Board	395	378	362	348	333	318	303
Securities and Exchange Commission	127	58	306	319	333	348	364
Small Business Administration	925	740	806	798	824	848	870
Smithsonian Institution	405	403	487	458	458	458	458
Tennessee Valley Authority	135	140	140	140	140	140	140
Allowances	....	....	–1,155	818	1,036	–6,831	–9,884
All Other Agencies	1,297	921	1,134	1,164	1,155	1,162	1,178
Judicial Branch	2,367	2,556	2,893	2,893	2,893	2,893	2,894
Legislative Branch	2,313	2,307	2,545	2,699	2,803	2,917	2,994
Total	**509,624**	**498,816**	**512,250**	**517,682**	**520,331**	**525,967**	**535,769**

Table 7–4. DISCRETIONARY OUTLAYS BY AGENCY

(In millions of dollars)

Agency	1993 Actual	Estimate 1994	1995	1996	1997	1998	1999
Cabinet Agencies:							
Agriculture (excluding International Programs)	13,095	14,572	14,398	14,195	14,371	14,483	14,671
Commerce	2,889	3,374	3,649	4,311	4,652	4,926	5,481
Defense	280,101	268,423	259,855	249,858	245,358	245,466	246,286
Education	23,017	24,457	24,046	25,769	26,261	26,520	26,723
Energy	18,022	18,971	17,877	18,561	18,415	18,556	18,931
Health and Human Services	32,020	36,641	36,805	38,846	40,416	42,288	43,982
Housing and Urban Development	24,965	27,498	29,477	30,514	31,183	31,163	31,892
Interior	7,118	7,275	7,363	7,447	7,506	7,461	7,525
Justice	9,153	9,705	10,614	12,943	14,332	15,521	17,068
Labor	9,502	9,981	10,421	11,317	11,787	12,264	12,405
State	4,946	5,378	4,954	4,795	4,892	4,925	5,009
Transportation	34,129	36,237	36,821	38,026	38,237	38,425	38,595
Treasury	9,936	10,410	10,322	10,695	10,594	10,340	10,154
Veterans Affairs	16,292	17,413	18,030	18,449	18,839	18,861	18,863
Major Agencies:							
Appalachian Regional Commission	145	149	180	205	198	195	193
Community Development Financial Institutions	....	....	86	144	124	105	40
Corporation for Public Broadcasting	319	275	293	312	293	293	293
Corps of Engineers	3,377	4,297	3,589	3,587	3,586	3,687	3,687
District of Columbia	698	698	722	722	722	722	722
Environmental Protection Agency	6,112	6,762	6,909	7,110	7,410	7,633	7,809
Executive Office of the President	195	191	188	188	190	191	193
Equal Employment Opportunity Commission	218	228	243	247	245	245	245
Federal Emergency Management Agency	2,855	2,566	1,844	967	836	704	704
General Services Administration	449	1,018	884	1,679	1,002	306	–206
International Programs (other than the State Department	16,624	16,462	15,834	16,372	16,377	16,303	16,247
Legal Services Corporation	389	393	483	500	500	500	500
National Aeronautics and Space Administration	14,304	14,182	14,410	14,375	14,399	14,529	14,592
National Archives and Records Administration	270	282	190	190	190	190	190
National Endowment for the Arts	173	173	172	173	170	170	170
National Endowment for the Humanities	168	190	180	179	178	178	178
National Labor Relations Board	171	173	174	175	175	175	175
National Science Foundation	2,442	2,814	2,858	3,039	3,187	3,266	3,361
National Service Initiative	219	436	601	941	1,344	1,625	1,904
Office of Personnel Management	222	214	214	217	224	226	231
Postal Service	122	91	92	92	92	92	92
Railroad Retirement Board	390	378	362	348	333	318	303
Securities and Exchange Commission	99	65	295	319	333	347	363
Small Business Administration	1,111	1,119	901	815	816	839	861
Smithsonian Institution	395	403	476	499	475	474	473
Tennessee Valley Authority	143	139	133	133	133	133	133
Allowances	....	....	–1,074	136	595	–7,093	–9,736
All Other Agencies	926	1,136	1,134	1,199	1,192	1,189	1,201
Judicial Branch	2,414	2,573	2,812	2,815	2,814	2,814	2,815
Legislative Branch	2,315	2,367	2,546	2,681	2,783	2,894	2,968
Total	**542,450**	**550,109**	**542,363**	**546,085**	**547,759**	**544,449**	**548,286**

Table 7–5. DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE

(In billions of dollars)

Appropriations Subcommittee	1994 Enacted		1994 Proposed[1]		1995 Proposed		Change: 1994 Enacted to 1995 Proposed	
	BA	Outlays	BA	Outlays	BA	Outlays	BA	Outlays
Agriculture and Rural Development	14.9	14.9	15.0	14.9	13.7	14.2	–1.2	–0.7
Commerce, Justice, State and the Judiciary	23.0	24.0	23.7	24.6	27.4	25.6	4.3	1.6
Defense	239.8	259.0	240.7	259.9	244.6	251.4	4.8	–7.6
District of Columbia	0.7	0.7	0.7	0.7	0.7	0.7	....	....
Energy and Water Development	22.3	23.0	21.9	22.7	20.6	20.6	–1.7	–2.4
Foreign Operations	13.7	14.1	13.4	14.0	13.9	13.7	0.2	–0.4
Interior and Related Agencies	13.8	13.5	13.8	13.5	13.5	13.8	–0.3	0.3
Labor, HHS, and Education	67.3	69.3	67.3	69.3	71.9	69.9	4.7	0.6
Legislative	2.3	2.3	2.3	2.3	2.5	2.5	0.2	0.2
Military Construction	10.1	8.7	9.5	8.6	8.4	8.5	–1.7	–0.1
Transportation and Related Agencies	13.3	35.6	10.9	35.6	13.3	36.3	–0.1	0.6
Treasury-Postal Service, and General Government	11.7	12.3	11.6	12.3	12.8	12.0	1.0	–0.3
Veterans Affairs, HUD, Independent Agencies	68.6	71.7	68.2	71.7	70.2	74.2	1.6	2.5
Allowances	....	....	....	....	–1.2	–1.1	–1.2	–1.1
Total Discretionary	**501.5**	**549.1**	**498.8**	**550.1**	**512.2**	**542.4**	**10.8**	**–6.8**

Memorandum: Amounts Excluded From Budget Resolution Allocations

(In millions of dollars)

Proposed Emergency Supplementals:								
Agriculture and Rural Development	....	....	365.5	127.5	....	236.1		
Defense	....	....	1,198.3	924.7	....	189.7		
Energy and Water Development	....	....	70.0	35.0	....	35.0		
Transportation and Related Agencies	....	....	308.0	36.5	....	130.8		
IRS Compliance Initiative:								
Treasury-Postal Service, and General Government	....	....	....	....	188.0	184.0		

[1] 1994 proposed includes enacted appropriations plus supplementals and rescissions proposed in the 1995 budget.

Table 7–6. MANDATORY AND RECEIPTS PAYGO PROPOSALS

(Deficit impact in millions of dollars)

		1994	1995	1996	1997	1998	1999
PAYGO PROPOSALS (EXCLUDING HEALTH CARE REFORM)							
Agriculture:							
Comprehensive reform of Federal Crop Insurance program:							
Increase insurance program	O	—	168	701	877	977	1,159
Eliminate ad-hoc disaster payments	O	—	–500	–1,000	–1,000	–1,000	–1,000
Deficit impact, comprehensive crop reform		—	–332	–299	–123	–23	159
Energy/USEC:							
Propose to amend the Nuclear Waste Policy Act to allow for permanent appropriation of funds by the the Nuclear Waste Fund, starting 1995. Would allow the permanent use of 50% of the annual available balances of the NW for site characterization at Yucca Mountain	O	—	74	192	257	288	301
Achieve savings in uranium enrichment operations	O	—	–105	–261	–248	–314	–350
Allow private parties to bid for the right to upgrade electric power generation capacity at Federal dams and sell the resulting increment in hydroelectric power at market prices. Affects several agencies	O	—	—	—	—	–160	–160
Health and Human Services:							
Enhance debt collection authority (SSI program)—consistent with HR3400	O	—	–18	–13	–9	–9	–9
Housing and Urban Development:							
Reform disposition of multifamily housing properties [1]	O	–520	—	—	—	—	—
Interior: [2]							
Implement NPR recommendation to increase park fees to enhance park facilities and make 15 percent of estimated receipts available for fee collection costs. Create a new National Park Renewal Fund to expend 50 percent of net new receipts and return them to the collection park	U	—	–1	–4	–4	–3	–2
Impose 8% royalty on hardrock minerals removed from Federal lands—consistent with HR322	U	—	—	–16	–112	–110	–108
Establish hardrock reclamation fund to reclaim abandoned mine sites on federal lands	O	—	—	—	1	29	49
Justice:							
Create enforceable 15% surcharge against debtors	G	—	–39	–39	–39	–39	–39
Labor/PBGC:							
Strengthen PBGC requirements for underfunded pension plans, increase premiums for risky plans, enhance PBGC enforcement authority:							
Receipt effect	G	–36	–56	371	448	479	356
Outlay effect	O	4	–74	–259	–472	–526	–1,314
Deficit impact, PBGC		–32	–130	112	–24	–47	–958
Reduce overpayment of special benefits through (1) a review of payment rolls, (2) subsidized reemployment of some beneficiaries, and (3) cutting off benefits to people in jail and those convicted of defrauding the program—Consistent with H.R.3400	O	—	–2	–3	–3	–3	–3
Transportation:							
Maritime Reform:							
Increase customs tonnage duty fees by 150%	U	—	–100	–100	–100	–100	–100
Provide subsidies for operation of up to 52 merchant marine ships	O	—	80	98	110	104	104
Extend railroad safety user fees	U	—	—	–39	–40	–42	–43
Treasury:							
Impose Bureau of Alcohol, Tobacco and Firearms fees	G	—	–40	–40	–38	–38	–38
Veterans' Affairs:							
Allow Chairman of Board of Veterans Appeals, in limited instances, to overturn benefit denial decisions made by the Board	O	—	*	*	*	*	*
Environmental Protection Agency:							
Increase/extend pesticide reregistration fees on manufacturers	U	—	–1	–*	–*	–2	–1
Various:							
Adjust civil monetary penalties for inflation	G	—	–17	–17	–17	–17	–24

Table 7–6. MANDATORY AND RECEIPTS PAYGO PROPOSALS—Continued
(Deficit impact in millions of dollars)

		1994	1995	1996	1997	1998	1999
Subtotal, PAYGO proposals (excluding health care reform):							
Receipts		–36	–152	275	354	385	255
Outlays		–516	–479	–704	–743	–871	–1,477
Deficit		–552	–631	–429	–389	–486	–1,222
HEALTH CARE REFORM							
Medicaid	O	—	–15	–3,547	–11,778	–30,447	–51,335
Medicare	O	–150	–2,120	–1,087	157	–9,558	–19,630
New health premium subsidies	O	—	—	8,153	25,240	64,565	77,576
Long term care (gross benefits)	O	—	—	6,000	10,200	13,900	18,200
Other mandatory outlays	O	—	342	1,854	4,242	4,728	5,989
Discretionary (outlay consequences of 1995 funding)	O	—	2,683	362	231	108	—
Tax on tobacco products	G	—	–13,394	–12,528	–12,436	–12,340	–12,237
Other receipts	G	102	417	–5,910	–12,175	–18,803	–21,708
Subtotal, health care reform:							
Receipts		102	–12,977	–18,438	–24,611	–31,143	–33,945
Outlays		–150	890	11,735	28,292	43,296	30,800
Deficit		–48	–12,087	–6,703	3,681	12,153	–3,145
Total, PAYGO proposals		–600	–12,718	–7,132	3,292	11,667	–4,367
Existing PAYGO balances		4	–969	–450	–469	–1,114	N/A
Total, balances with enactment of 1995 budget		–596	–13,687	–7,582	2,823	10,553	N/A
MEMORANDUM							
Adjustments to health care reform:[3]							
Add vulnerable population adjustment		—	—	100	300	700	800
Revise Medicare		—	–2	191	1,001	870	859
Subtotal, adjustment		—	–2	291	1,301	1,570	1,659
Total, health care reform with adjustments:							
Receipts		102	–12,977	–18,438	–24,611	–31,143	–33,945
Outlays		–150	888	12,026	29,593	44,866	32,459
Deficit		–48	–12,089	–6,412	4,982	13,723	–1,486
Total, PAYGO proposals with adjustment		–600	–12,720	–6,841	4,593	13,237	–2,708

G = Governmental receipt.
U = User fees and other offsetting collections.
O = Other outlays.
[1] Excludes $15 million in 1996 outlays that were double counted in the database.
[2] Excludes increases in hardrock receipts inadvertently included in the database.
[3] Estimates above reflect health care reform consistent with the computer database. These adjustments incorporate revised scoring of the Health Security Act.

Table 7–7. EFFECT OF PROPOSALS ON RECEIPTS
(In billions of dollars)

	Estimate					
	1994	1995	1996	1997	1998	1999
Health Security Act:						
Increase tax on tobacco products [1]	....	12.0	11.3	11.2	11.1	11.0
Levy assessment on corporate alliance employers [1]	....	....	3.8	5.0	5.1	5.1
Increase deduction for health insurance costs of the self-employed	–0.1	–0.5	–0.6	–0.9	–1.7	–2.5
Limit exclusion of employer-provided health coverage	....	....	....	5.3	8.1	8.7
Provide deduction for qualified long-term care services	....	....	–0.1	–0.2	–0.2	–0.2
Modify tax treatment of long-term care insurance premiums and benefits	....	....	–0.1	–0.2	–0.3	–0.4
Modify tax treatment of accelerated death benefits	–*	–*	–*	–*	–*	–*
Provide tax credit for cost of personal assistance services	....	....	–*	–0.1	–0.1	–0.1
Provide tax credit for health service providers in shortage areas	....	....	–*	–*	–*	–*
Increase expensing limit for medical equipment in shortage areas	....	–*	–*	–*	–*	–*
Modify self-employment tax treatment of certain S corporation shareholders and partners	....	....	0.2	0.5	0.5	0.5
Modify penalty for failure to report payments to independent contractors	....	0.1	0.1	0.1	0.1	0.1
Modify tax treatment of health care organizations	....	....	....	0.1	0.2	0.2
Relate early retiree health premium discounts to income	....	....	....	*	*	0.1
Levy assessments on employers to pay for early retirees [1]	....	....	....	....	2.4	4.3
Modify employer contributions to post-retirement medical and life insurance reserves and retiree health accounts	....	*	*	*	*	0.1
Recapture medicare Part B subsidies	....	....	0.2	0.9	0.8	0.9
Extend medicare coverage to all State and local government employee [1]	....	....	1.6	1.6	1.5	1.5
Levy assessment on premiums for health coverage purchased through regional alliances [1]	....	....	0.5	1.6	4.3	5.5
Effect of employer mandate, cost containment, and subsidies on individual income and payroll taxes	....	....	0.1	0.9	4.4	9.3
Subtotal, Health Security Act [1]	**–0.1**	**11.6**	**16.9**	**25.6**	**36.2**	**44.0**
Other proposals:						
Modify Federal pay raise (receipt effect)	....	–0.1	–0.1	–0.2	–0.3	–0.4
Levy surcharge on civil judgements	....	*	*	*	*	*
Reform PBGC funding (receipt effect)	*	0.1	–0.4	–0.4	–0.5	–0.4
Reallocate old age survivors (OASI) and disability (DI) tax rates	....	....	....	....	....	....
Adjust civil monetary penalties for inflation	....	*	*	*	*	*
Increase or establish new BATF fees [1]	....	0.1	0.1	*	*	*
Increase or expand fees collected under securities laws	....	0.4	0.4	0.4	0.4	0.4
Levy fees on users of Federal fisheries [1]	....	0.1	0.1	0.1	0.1	0.1
Subtotal, other proposals [1]	*	**0.5**	*	**–0.2**	**–0.3**	**–0.2**
Total effect of proposals [1]	**–0.1**	**12.2**	**16.9**	**25.5**	**35.9**	**43.7**

* $50 million or less.
[1] Net of income offsets.

Table 7–8. PROPOSED INVESTMENTS

(In millions of dollars)

		1993 Enacted	Estimate 1994 [1]	Estimate 1995	Change: 1994 to 1995	Estimate 1996	1997	1998	1999
Summary by Agency:									
Agriculture	BA	5,256	5,862	6,497	635	7,099	7,362	7,435	7,469
	OL	4,883	5,530	6,098	568	6,742	7,214	7,386	7,532
Commerce	BA	660	921	1,561	640	1,801	2,091	2,119	2,134
	OL	525	662	945	283	1,324	1,693	1,948	2,067
Defense	BA	502	593	664	71	690	716	743	769
	OL	246	480	595	115	650	688	718	746
Education	BA	7,278	7,539	9,089	1,550	9,681	9,844	10,054	10,244
	OL	7,375	7,521	7,645	124	8,845	9,552	9,825	10,030
Energy	BA	981	1,376	1,970	594	2,165	2,363	2,638	2,961
	OL	877	1,200	1,544	344	1,974	2,222	2,434	2,737
Health and Human Services	BA [2]	19,378	21,700	24,006	2,306	25,181	27,068	28,567	30,154
	OL	18,128	20,321	22,669	2,348	24,499	26,241	28,195	29,738
Housing and Urban Development	BA	1,972	2,782	5,140	2,358	4,993	5,162	5,999	6,751
	OL	7,142	7,732	8,511	779	9,484	10,527	11,486	12,525
Interior	BA	1,809	2,035	2,274	239	2,374	2,391	2,406	2,405
	OL	1,742	1,883	2,204	321	2,349	2,384	2,401	2,399
Justice	BA	150	25	2,491	2,466	4,358	5,074	5,578	6,581
	OL	8	83	819	736	2,407	4,008	5,065	6,487
Labor	BA	1,568	2,267	3,031	764	3,470	3,918	3,982	4,089
	OL	1,494	1,592	2,141	549	2,922	3,335	3,815	3,981
Transportation	BA [2]	18,971	21,691	22,849	1,158	22,764	22,619	22,619	22,619
	OL	17,630	19,215	19,974	759	21,297	21,832	22,072	22,289
Treasury	BA	572	694	989	295	1,497	1,535	1,481	1,304
	OL	517	644	888	244	1,315	1,473	1,493	1,362
Corps of Engineers	BA	86	93	111	18	110	110	110	110
	OL	88	94	110	16	110	110	110	110
Environmental Protection Agency	BA	2,358	2,314	3,022	708	3,297	3,553	3,711	3,949
	OL	1,578	1,848	2,097	249	2,341	2,735	3,073	3,232
National Aeronautics and Space Administration	BA	1,091	1,438	1,726	288	1,836	1,894	2,022	1,906
	OL	885	1,236	1,542	306	1,772	1,858	1,958	1,939
Community Development Financial Institutions	BA	....	....	144	144	144	111	101	....
	OL	....	....	86	86	144	124	105	40
National Science Foundation	BA	2,619	2,891	3,060	169	3,089	3,150	3,247	3,345
	OL	2,328	2,685	2,720	35	2,895	3,038	3,113	3,206
National Service Initiative	BA	279	575	850	275	1,359	1,587	1,860	2,185
	OL	220	436	601	165	940	1,344	1,625	1,904
Small Business Administration	BA	13	40	118	78	121	125	129	132
	OL	12	30	90	60	114	118	121	125
Legal Services Corporation	BA	357	400	500	100	500	500	500	500
	OL	357	393	483	90	500	500	500	500
Total proposed investments	BA [2]	65,900	75,236	90,092	14,856	96,529	101,173	105,301	109,607
	OL	66,035	73,585	81,762	8,177	92,624	100,996	107,443	112,949
Investment Detail:									
Agriculture Department:									
Rural development initiative:									
Grant levels	BA	878	1,039	1,148	109	1,300	1,285	1,262	1,148
	OL	621	787	895	108	1,009	1,170	1,248	1,229
Loan levels	(Loans)	(3,119)	(4,046)	(5,728)	(1,682)	(5,728)	(5,728)	(5,728)	(5,728)
WIC (Special supplemental food program for women, infants & children)	BA	2,860	3,210	3,564	354	3,914	4,166	4,245	4,394
	OL	2,846	3,222	3,538	316	3,896	4,147	4,239	4,383
USDA—National Science and Technology Council (NSTC)	BA	161	171	189	18	200	208	215	214
	OL	90	119	130	11	194	197	192	207
Food safety [3]	BA	494	517	534	17	535	537	541	541
	OL	494	511	533	22	535	537	541	541
Food safety research	BA	16	16	41	25	41	41	41	41
	OL	15	16	40	24	41	41	41	41
Natural resource protection and environmental infrastructure	BA	749	735	782	47	865	874	874	874
	OL	757	750	768	18	839	876	871	874
National research initiative	BA	98	112	130	18	130	130	130	130
	OL	60	75	106	31	116	126	130	130

Table 7–8. PROPOSED INVESTMENTS—Continued
(In millions of dollars)

		1993 Enacted	Estimate 1994 [1]	Estimate 1995	Change: 1994 to 1995	Estimate 1996	Estimate 1997	Estimate 1998	Estimate 1999
Climate change action plan	BA	....	2	12	10	17	24	30	30
	OL	....	2	11	9	15	23	27	30
Pacific Northwest Forest Plan implementation	BA	....	60	97	37	97	97	97	97
	OL	....	48	77	29	97	97	97	97
Commerce Department:									
Economic Development Administration, Defense conversion	BA	....	80	140	60	140	140	140	140
	OL	....	8	39	31	82	116	133	139
National Institute of Standards and Technology (NIST) growth, NIST high performance computing, and NIST NSTC	BA	381	520	935	415	1,089	1,379	1,407	1,422
	OL	252	370	527	157	781	1,057	1,257	1,356
Information highways	BA	....	26	100	74	150	150	150	150
	OL	....	1	18	17	61	103	136	150
NOAA: rebuild US fisheries	BA	232	231	280	49	280	280	280	280
	OL	227	221	261	40	266	277	280	280
NOAA NSTC	BA	47	64	106	42	142	142	142	142
	OL	46	62	100	38	134	140	142	142
Defense Department:									
ARPA technology reinvestment project	BA	472	554	625	71	650	675	700	725
	OL	223	445	557	112	611	648	676	703
Office of Economic Adjustment	BA	30	39	39	....	40	41	43	44
	OL	23	35	38	3	39	40	42	43
Education Department:									
School-to-work (Education Department share)	BA	....	50	150	100	200	200	165	110
	OL	....	6	52	46	135	188	195	165
Goals 2000	BA	....	105	700	595	1,000	1,000	1,000	1,000
	OL	....	13	154	141	618	929	994	1,000
Title I, education for the disadvantaged	BA	6,696	6,912	7,579	667	7,821	8,064	8,309	8,554
	OL	6,601	6,889	6,918	29	7,472	7,788	8,040	8,284
Safe and drug-free schools	BA	582	472	660	188	660	580	580	580
	OL	774	613	521	–92	620	647	596	581
Energy Department:									
Alternative fuels vehicles	BA	28	44	69	25	66	66	66	66
	OL	20	31	49	18	63	66	66	66
Conservation R&D/EPAct	BA	349	436	654	218	679	738	819	844
	OL	303	367	488	121	629	693	753	814
Conservation: weatherization assistance grants	BA	185	207	250	43	240	247	255	262
	OL	192	193	216	23	240	244	248	256
Federal facility energy efficiency (FFEE)	BA	5	16	37	21	49	49	49	49
	OL	19	11	21	10	37	48	49	49
Renewable energy programs	BA	251	341	393	52	426	454	483	512
	OL	238	295	354	59	408	435	463	492
Cooperative R&D agreements	BA	151	262	275	13	300	325	350	375
	OL	100	258	264	6	291	318	342	367
Advanced neutron source	BA	12	17	40	23	120	204	403	642
	OL	5	12	27	15	73	146	281	481
Linear accelerator "B-Factory"	BA	....	36	44	8	52	45	....	....
	OL	....	27	42	15	50	47	11	....
Climate change action plan	BA	....	17	208	191	233	235	213	211
	OL	....	6	83	77	183	225	221	212
Health and Human Services:									
Head Start	BA	2,776	3,326	4,026	700	4,726	5,426	6,126	6,826
	OL	2,567	3,066	3,529	463	4,270	4,938	5,633	6,332
Public Health Service:									
NIH	BA	10,326	10,956	11,473	517	11,955	12,457	12,980	13,525
	OL	9,533	10,251	11,009	758	11,680	12,369	13,071	13,594
Ryan White Act AIDS treatment	BA	348	579	672	93	773	889	1,022	1,175
	OL	316	510	627	117	739	862	999	1,152
Immunizations [4]	BA	341	528	888	360	917	937	967	998
	OL	304	446	901	455	911	926	955	985
High performance computing	BA	47	58	82	24	85	89	92	96
	OL	41	53	79	26	83	86	90	93
Drug treatment	BA	717	755	1,040	285	1,071	1,104	1,139	1,174
	OL	601	704	862	158	1,009	1,069	1,110	1,146

Table 7–8. PROPOSED INVESTMENTS—Continued

(In millions of dollars)

		1993 Enacted	Estimate 1994[1]	Estimate 1995	Change: 1994 to 1995	Estimate 1996	Estimate 1997	Estimate 1998	Estimate 1999
Social Security: Disability processing and automation investments (budget authority and limitations on obligations)	BA/OB	4,823	5,498	5,825	327	5,654	6,166	6,241	6,360
	OL	4,766	5,291	5,662	371	5,807	5,991	6,337	6,436
Housing and Urban Development:									
Multifamily property disposition[5]	BA	93	555	733	178	763	858	511	779
	OL	93	102	119	17	142	170	200	333
Community partnerships against crime	BA			265	265	265	265	265	265
	OL			19	19	152	265	265	265
Incremental housing vouchers	BA	1,307	1,404	2,743	1,339	2,812	2,882	4,062	4,542
	OL	6,877	7,407	7,863	456	8,410	9,040	9,708	10,471
Homeless programs: homeless assistance grants and innovative homeless initiatives program[6]	BA	572	823	1,250	427	1,000	1,000	1,000	1,000
	OL	172	223	509	286	631	899	1,156	1,295
Moving to independence	BA			149	149	153	157	161	165
	OL			1	1	149	153	157	161
Interior Department:									
Natural resource protection and environmental infrastructure (includes NAFTA environmental activities)	BA	1,783	1,813	1,964	151	2,013	2,028	2,048	2,056
	OL	1,732	1,757	1,942	185	2,003	2,025	2,045	2,053
Pacific Northwest Forest Plan	BA		27	71	44	85	85	85	86
	OL		19	58	39	81	85	85	85
South Florida ecosystem restoration	BA	26	17	45	28	45	45	45	45
	OL	10	15	31	16	47	45	45	45
National Biological Survey	BA		167	177	10	187	192	200	210
	OL		82	156	74	179	188	196	205
National spatial data infrastructure initiative	BA		1	7	6	7	7	7	7
	OL		1	7	6	7	7	7	7
BuRec wastewater reclamation & reuse pilot program (So. Cal.)	BA		10	10		37	34	21	1
	OL		9	10	1	32	34	23	4
Climate change action plan	BA		*	*	*				
	OL		*	*	*				
Justice Department:									
Community policing	BA	150	25	1,720	1,695	2,070	2,270	1,900	
	OL	8	83	444	361	1,074	1,879	2,085	1,631
Brady Bill/Criminal records upgrade	BA			100	100	100			
	OL			22	22	57	73	43	5
Border security and illegal immigration	BA			300	300	350	350	350	350
	OL			255	255	328	348	350	350
Other crime bill (miscellaneous bureaus)	BA			303	303	1,767	2,380	3,250	6,150
	OL			44	44	883	1,637	2,510	4,421
Employer sanctions and naturalization initiatives	BA			68	68	71	74	78	81
	OL			54	54	65	71	77	80
Labor Department:									
Dislocated Worker Assistance	BA	602	1,118	1,465	347	1,864	2,165	2,165	2,213
	OL	558	558	973	415	1,355	1,742	2,055	2,152
School-to-work (DOL share)	BA		50	150	100	200	200	165	110
	OL		15	40	25	125	187	197	169
One-stop career shopping	BA		50	250	200	250	250	250	250
	OL		10	90	80	250	250	250	250
Worker profiling	BA		9	9					
	OL		9	9					
Job Corps	BA	966	1,040	1,157	117	1,156	1,303	1,402	1,516
	OL	936	1,000	1,029	29	1,192	1,156	1,313	1,410
Transportation Department:									
Highways	OB	(18,043)	(19,978)	(20,301)	(323)	(20,301)	(20,146)	(20,146)	(20,146)
	OL	16,651	18,159	18,780	621	19,634	19,926	19,926	20,005
Intelligent vehicle highway system	OB	(30)	(90)	(165)	(75)	(170)	(180)	(180)	(180)
Note: Outlays included in Highways	OL								
Mass transit formula capital grants	BA	54	659	1,115	456	1,144	345	345	345
	OB	(844)	(954)	(1,150)	(196)	(1,121)	(1,920)	(1,920)	(1,920)
	BA+OB	(898)	(1,613)	(2,265)	(652)	(2,265)	(2,265)	(2,265)	(2,265)
	OL	979	1,043	1,170	127	1,579	1,859	2,104	2,251

150-001 O-94-9 (QL 3)

Table 7–8. PROPOSED INVESTMENTS—Continued

(In millions of dollars)

		1993 Enacted	Estimate 1994[1]	Estimate 1995	Change: 1994 to 1995	Estimate 1996	Estimate 1997	Estimate 1998	Estimate 1999
Next generation high speed rail	BA			28	28	28	28	28	28
	OL		3	11	8	30	33	33	33
Penn Station redevelopment	BA		10	90	80				
	OL		10	13	3	54	14	9	
Treasury Department:									
IRS: Tax system modernization	BA	572	694	989	295	1,497	1,535	1,481	1,304
	OL	517	644	888	244	1,315	1,473	1,493	1,362
Corps of Engineers:									
President's August 1993 wetlands plan	BA	86	92	110	18	110	110	110	110
	OL	88	93	109	16	110	110	110	110
Climate change action plan	BA		1	1					
	OL		1	1					
Environmental Protection Agency:									
Clean water and safe drinking water State revolving funds	BA	1,944	1,839	2,300	461	2,500	2,700	2,900	3,000
	OL	1,424	1,540	1,627	87	1,725	2,013	2,296	2,382
Watershed restoration grants	BA	50	80	100	20	100	100	100	200
	OL	26	55	79	24	92	97	99	151
Environmental technology	BA	92	128	172	44	212	262	312	362
	OL	90	104	136	32	177	220	269	318
Green programs	BA	8	26	35	9	35	35	35	35
	OL	2	8	24	16	32	34	35	35
Climate change action plan[7]	BA		26	76	50	111	117	125	113
	OL		9	36	27	75	103	113	114
Montreal protocol	BA	10	10	24	14	24	24	24	24
	OL	3	8	14	6	21	23	24	24
NAFTA environmental support	BA	154	74	179	105	179	179	179	179
	OL	7	40	87	47	114	133	156	155
Needy cities[8]	BA	100	100	100		100	100		
	OL	26	53	61	8	70	76	45	17
Wetlands initiative	BA		31	36	5	36	36	36	36
	OL		31	33	2	35	36	36	36
National Aeronautics and Space Administration:									
Mission to Planet Earth	BA	932	1,023	1,236	213	1,271	1,308	1,378	1,394
	OL	754	918	1,101	183	1,228	1,286	1,337	1,378
Aeronautics initiatives	BA	129	289	347	58	404	462	506	406
	OL	109	224	317	93	393	437	485	442
High performance computing	BA	30	66	76	10	75	87	101	69
	OL	22	56	70	14	75	82	95	81
New technology investments	BA		60	67	7	86	37	37	37
	OL		38	54	16	76	53	41	38
Community Development Financial Institutions	BA			144	144	144	111	101	
	OL			86	86	144	124	105	40
National Science Foundation:									
NSF research and education	BA	2,619	2,891	3,060	169	3,089	3,150	3,247	3,345
	OL	2,328	2,685	2,720	35	2,895	3,038	3,113	3,206
National Service Initiative[9]	BA	279	575	850	275	1,359	1,587	1,860	2,185
	OL	220	436	601	165	940	1,344	1,625	1,904
Small Business Administration:									
Section 7(a) loan guarantees	(Loans)	(6,410)	(7,000)	(8,995)	(1,995)	(7,814)	(8,056)	(8,306)	(8,564)
Empowerment zones	BA			27	27	28	29	30	30
	OL			19	19	26	27	28	29
	(Loans)			(375)	(375)	(386)	(398)	(411)	(423)
Small Business Investment Company guarantees	BA	13	40	91	51	93	96	99	102
	OL	12	30	71	41	88	91	93	96
	(Loans)	(74)	(326)	(730)	(404)	(752)	(775)	(800)	(824)
Legal Services Corporation:									
Payment to the Legal Services Corporation	BA	357	400	500	100	500	500	500	500
	OL	357	393	483	90	500	500	500	500
Total proposed investments.	BA[2]	65,900	75,236	90,092	14,856	96,529	101,173	105,301	109,607
	OL	66,035	73,585	81,762	8,177	92,624	100,996	107,443	112,949

* $500 thousand or less.

[1] Estimates for 1994 include proposed supplementals and rescissions.

[2] Budget authority includes estimates for obligation limitations in the Departments of Health and Human Services and Transportation, as identified in the detail for those agencies.

[3] The investment proposal for food safety is the total program level. The 1995 budget proposes to partially offset this program level by a new user fee of $103 million to cover the cost of overtime meat and poultry inspection.

[4] Immunizations includes $424 million in budget authority and outlays in 1995 for mandatory vaccine purchase.

[5] Proposal assumes passage of property disposition (PD) reform legislation. Budget authority starting in 1995 represents a new mandatory spending program whose costs are offset by proposed mandatory program reforms. Outlays in 1995 include $6 million for the new mandatory program and $113 million of outlays from balances for the discretionary program.

[6] Estimates for HUD homeless programs for 1995-1999 include funds for the Homeless food and shelter program formerly in the Federal Emergency Management Agency.

[7] EPA Climate change action plan estimates are incremental investment estimates.

[8] EPA Needy Cities funding for 1994 is a contingent appropriation subject to Congressional authorization.

[9] The 1993 enacted column includes funding for ACTION and the Commission on National and Community Service. All other columns include funding for ACTION and the Corporation for National and Community Service.

Table 7–9. FEDERAL EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by Full-Time Equivalents in thousands)

Agency	1993 Base	1993 Actual	Estimate		Change: 1993 base to 1995	
			1994	1995	FTE's	Percent
Cabinet agencies:						
Agriculture	114.6	113.4	110.2	108.5	–6.1	–5.3%
Commerce	36.7	36.1	35.8	35.8	–0.9	–2.6%
Defense—military functions [1]	931.4	931.8	886.0	854.9	–76.5	–8.2%
Education	5.0	4.9	5.1	5.2	0.2	2.4%
Energy	20.6	20.3	20.4	20.6	....	....
Health and Human Services	130.0	129.0	127.7	127.2	–2.8	–2.2%
Housing and Urban Development	13.6	13.3	13.3	13.4	–0.2	–1.8%
Interior	77.9	76.7	76.0	74.6	–3.3	–4.3%
Justice	99.4	95.4	97.2	101.9	2.5	2.5%
Labor	19.9	19.6	19.4	19.5	–0.4	–2.3%
State	26.0	25.6	25.4	25.0	–1.0	–4.0%
Transportation	71.1	69.9	68.9	67.5	–3.6	–5.0%
Treasury [2]	166.1	161.1	161.2	157.6	–8.5	–5.1%
Veterans Affairs	232.4	234.4	235.1	229.7	–2.7	–1.1%
Other agencies (excluding Postal Service):						
Agency For International Development	4.4	4.1	4.0	4.0	–0.4	–8.6%
Corps of Engineers	29.2	28.4	28.5	27.8	–1.4	–4.7%
Environmental Protection Agency	19.0	18.3	18.6	19.4	0.4	2.2%
Equal Employment Opportunity Commission	2.9	2.8	2.9	3.0	0.1	5.6%
Federal Emergency Management Agency	2.7	2.6	2.6	2.7	....	–1.1%
Federal Deposit Insurance Corporation and Resolution Trust Corporation	21.3	21.6	20.4	15.1	–6.2	–28.8%
General Services Administration	20.7	20.2	20.1	19.7	–1.0	–4.7%
National Aeronautics and Space Administration	25.7	24.9	24.5	23.6	–2.1	–8.2%
National Archives and Records Administration	2.8	2.6	2.7	2.6	–0.2	–4.7%
National Labor Relations Board	2.1	2.1	2.1	2.1	....	–4.2%
National Science Foundation	1.3	1.2	1.2	1.3	....	–4.0%
Nuclear Regulatory Commission	3.4	3.4	3.3	3.2	–0.2	–5.5%
Office of Personnel Management	6.2	5.9	6.0	5.8	–0.4	–7.3%
Panama Canal Commission	8.7	8.5	8.6	8.8	0.1	0.7%
Peace Corps	1.3	1.2	1.2	1.2	–0.1	–1.0%
Railroad Retirement Board	1.9	1.8	1.8	1.8	–0.1	–4.7%
Securities and Exchange Commission	2.7	2.7	2.7	2.9	0.2	7.2%
Small Business Administration	4.0	3.9	3.8	3.8	–0.2	–4.4%
Smithsonian Institution	4.9	4.5	4.8	4.7	–0.2	–3.6%
Tennessee Valley Authority	19.1	17.3	17.3	16.6	–2.5	–13.2%
United States Information Agency	8.7	8.3	8.5	8.3	–0.4	–5.0%
All other small agencies	17.5	16.4	17.0	17.2	–0.3	–1.8%
Total, Executive Branch civilian employment [3]	2,155.2	2,134.3	2,084.2	2,036.9	–118.3	....
FTE reduction from the base	....	–20.9	–71.0	–118.3	....	....
Percentage reduction from the base	....	–1.0%	–3.3%	–5.5%	....	....
Percentage reduction target/FTE reduction target	....	–1.0%	–2.5%	–4.0%	–100.0	....

[1] Because Defense was already reduced by almost 42,000 from 1992 to 1993, no further reduction was required in 1993.

[2] The Administration is working with Congress to design a deficit reduction/tax compliance initiative for the Internal Revenue Service that would increase Treasury FTEs by approximately 5,000 above the level shown. Even with these additional FTEs, the Administration still achieves the 100,000 reduction under E.O. 12839.

[3] Excludes Postal Service and Postal Rate Commission.

Table 7–10. FEDERAL GOVERNMENT FINANCING AND DEBT[1]

(In billions of dollars)

	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
FINANCING							
Surplus or deficit (–)	–254.7	–234.8	–165.1	–169.6	–186.4	–190.5	–181.1
(On-budget)	–300.0	–290.1	–225.0	–236.3	–265.5	–279.2	–278.6
(Off-budget)	45.3	55.3	59.9	66.7	79.2	88.7	97.6
Means of financing other than borrowing from the public:							
Change in:[2]							
Treasury operating cash balance	6.3	12.5	—	—	—	—	—
Checks outstanding, etc.[3]	0.4	–0.9	–0.4	—	—	—	—
Deposit fund balances	–0.4	–0.5	–1.7	—	—	—	—
Seigniorage on coins	0.4	0.6	0.6	0.6	0.6	0.6	0.6
Less: Net financing disbursements:							
Direct loan financing accounts	–3.8	–6.4	–10.1	–15.9	–17.9	–18.9	–19.0
Guaranteed loan financing accounts	4.6	4.2	3.0	2.5	2.3	1.4	0.4
Total, means of financing other than borrowing from the public	7.4	9.5	–8.6	–12.8	–15.0	–16.8	–18.0
Total, requirement for borrowing from the public	–247.3	–225.2	–173.7	–182.4	–201.4	–207.3	–199.1
Reclassification of debt[4]	–1.3	—	—	—	—	—	—
Change in debt held by the public	248.5	225.2	173.7	182.4	201.4	207.3	199.1
DEBT, END OF YEAR[1]							
Gross Federal debt:							
Debt issued by Treasury	4,326.5	4,652.1	4,936.0	5,243.0	5,577.2	5,929.4	6,281.4
Debt issued by other agencies	24.8	23.9	24.2	24.1	24.1	24.1	24.1
Total, gross Federal debt	4,351.2	4,676.0	4,960.1	5,267.1	5,601.3	5,953.5	6,305.4
Held by:							
Government accounts	1,104.0	1,203.6	1,314.0	1,438.5	1,571.3	1,716.3	1,869.1
The public	3,247.2	3,472.4	3,646.1	3,828.5	4,029.9	4,237.2	4,436.3
(Federal Reserve Banks)	325.7						
(Other)	2,921.5						
DEBT SUBJECT TO STATUTORY LIMITATION, END OF YEAR							
Debt issued by Treasury	4,326.5	4,652.1	4,936.0	5,243.0	5,577.2	5,929.4	6,281.4
Less: Treasury debt not subject to limitation[5]	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6	–15.6
Agency debt subject to limitation	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium[6]	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Total, debt subject to statutory limitation[7]	4,315.6	4,641.1	4,925.0	5,232.0	5,566.2	5,918.4	6,270.3

[1] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[2] A decrease in the Treasury operating cash balance (which is an asset) is a means of financing the deficit. It therefore has a positive sign, which is opposite to the sign of the deficit. An increase in checks outstanding or deposit fund balances (which are liabilities) is also a means of financing the deficit and therefore also has a positive sign.

[3] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] The Farm Credit System Financial Assistance Corporation was reclassified from a Government-sponsored enterprise to a Federal agency as of October 1, 1992, and its debt was accordingly reclassified as Federal agency debt. This reclassification does not constitute borrowing.

[5] Consists primarily of Federal Financing Bank debt.

[6] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discounts on Government account series securities.

[7] The statutory debt limit is $4,900 billion.

Table 7–11. OUTLAYS BY AGENCY
(In billions of dollars)

Agency	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
Cabinet Agencies:							
Agriculture	63.1	64.9	60.3	61.0	62.6	63.3	64.7
Commerce	2.8	3.2	3.6	4.3	4.6	4.9	5.5
Defense—Military	278.6	267.5	259.3	249.1	244.6	244.7	245.5
Education	30.3	28.7	29.7	28.3	30.3	30.7	31.2
Energy	16.9	17.2	15.7	16.7	16.7	16.6	17.2
Health and Human Services	581.1	631.3	672.1	723.0	768.1	799.9	835.3
On-budget	(282.8)	(316.6)	(341.6)	(373.2)	(402.8)	(414.8)	(429.4)
Off-budget	(298.3)	(314.7)	(330.5)	(349.8)	(365.3)	(385.2)	(405.9)
Housing and Urban Development	25.2	25.5	27.7	28.4	28.1	27.9	28.5
Interior	6.8	7.2	7.2	7.1	7.0	7.0	7.0
Justice	10.2	10.8	11.3	13.6	15.0	16.2	17.7
Labor	44.7	37.1	34.0	35.2	35.9	36.5	37.0
State	5.2	5.8	5.4	5.3	5.4	5.5	5.6
Transportation	34.5	36.7	37.3	38.5	38.8	39.0	39.2
Treasury	298.8	309.3	327.7	345.4	362.9	380.4	397.6
Veterans Affairs	35.5	37.9	38.1	37.4	39.7	40.2	41.8
Major Agencies:							
Corps of Engineers, Military Retirement and Other Defense	29.3	31.0	30.9	32.0	33.2	34.6	36.8
Environmental Protection Agency	5.9	6.5	6.7	6.9	7.2	7.5	7.7
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	11.2	11.4	11.1	11.4	11.1	11.3	11.3
General Services Administration	0.7	1.0	0.9	1.6	1.0	0.3	–0.2
The Judiciary	2.6	2.9	3.1	3.1	3.1	3.1	3.1
Legislative Branch	2.4	2.8	2.9	3.1	3.2	3.3	3.4
National Aeronautics and Space Administration	14.3	14.2	14.4	14.4	14.4	14.5	14.6
Office of Personnel Management	36.8	38.1	40.2	42.3	44.5	47.2	49.7
Small Business Administration	0.8	0.6	0.5	0.5	0.5	0.6	0.6
All Other Agencies	**–10.0**	**15.7**	**9.2**	**5.7**	**10.4**	**11.5**	**12.8**
On-budget	(–11.5)	(13.9)	(5.9)	(5.4)	(10.9)	(12.6)	(14.2)
Off-budget	(1.4)	(1.7)	(3.3)	(0.2)	(–0.5)	(–1.1)	(–1.5)
Undistributed Offsetting Receipts	**–119.7**	**–123.7**	**–132.3**	**–134.2**	**–137.5**	**–145.7**	**–151.7**
On-budget	(–86.5)	(–88.2)	(–93.9)	(–92.1)	(–91.1)	(–94.3)	(–94.7)
Off-budget	(–33.2)	(–35.5)	(–38.4)	(–42.1)	(–46.4)	(–51.4)	(–56.9)
Allowances	....	....	**1.9**	**16.5**	**40.5**	**76.2**	**92.0**
Total	**1,408.2**	**1,483.8**	**1,518.9**	**1,596.9**	**1,691.4**	**1,777.4**	**1,854.0**
On-budget	(1,141.6)	(1,203.0)	(1,223.6)	(1,288.9)	(1,373.1)	(1,444.8)	(1,506.5)
Off-budget	(266.6)	(280.9)	(295.4)	(308.0)	(318.3)	(332.7)	(347.6)

Table 7–12. OUTLAYS BY FUNCTION
(In billions of dollars)

Function	1993 Actual	Estimate 1994	1995	1996	1997	1998	1999
National defense:							
Department of Defense—Military	278.6	267.4	259.2	249.1	244.6	244.7	245.5
Other	12.5	12.5	11.5	11.9	11.8	11.9	12.0
International affairs	16.8	19.0	17.8	17.9	17.7	18.0	18.2
General science, space, and technology	17.0	17.3	16.9	17.1	17.1	17.2	17.4
Energy	4.3	5.0	4.6	5.0	5.0	4.8	5.0
Natural resources and environment	20.2	22.3	21.8	22.1	22.0	21.4	20.8
Agriculture	20.4	16.9	12.8	12.7	13.1	13.5	13.9
Commerce and housing credit	–22.7	0.5	–5.5	–9.0	–5.7	–5.4	–3.9
On-budget	(–24.2)	(–1.2)	(–8.7)	(–9.2)	(–5.2)	(–4.3)	(–2.4)
Off-budget	(1.4)	(1.7)	(3.3)	(0.2)	(–0.5)	(–1.1)	(–1.5)
Transportation	35.0	37.6	38.4	39.5	39.9	40.3	40.4
Community and regional development	9.1	9.3	9.2	9.0	8.9	8.5	8.5
Education, training, employment, and social services	50.0	50.8	53.5	54.5	57.9	60.3	62.2
Health	99.4	112.3	123.1	149.6	180.0	221.1	235.9
Medicare	130.6	143.7	156.2	176.0	195.8	205.2	218.1
Income security	207.3	214.6	221.4	230.8	242.5	253.0	265.2
Social Security	304.6	320.5	337.2	356.8	372.7	393.1	414.3
On-budget	(6.2)	(5.8)	(6.6)	(7.0)	(7.4)	(7.9)	(8.4)
Off-budget	(298.3)	(314.7)	(330.5)	(349.8)	(365.3)	(385.2)	(405.9)
Veterans benefits and services	35.7	38.1	39.2	38.2	41.5	40.3	41.9
Administration of justice	15.0	16.5	17.3	19.6	21.0	22.2	23.7
General government	13.0	14.3	13.8	15.3	14.5	13.7	13.1
Net interest	198.8	203.4	212.8	224.2	234.0	244.6	254.4
On-budget	(225.6)	(232.5)	(244.5)	(259.1)	(272.8)	(287.8)	(302.4)
Off-budget	(–26.8)	(–29.1)	(–31.7)	(–34.9)	(–38.8)	(–43.2)	(–48.0)
Allowances	....	....	0.2	–1.9	–3.5	–9.5	–12.2
Undistributed offsetting receipts:							
Employer share, employee retirement (on-budget)	–28.2	–28.2	–28.5	–27.6	–27.5	–28.3	–28.8
Employer share, employee retirement (off-budget)	–6.4	–6.5	–6.8	–7.2	–7.6	–8.3	–8.9
Rents and royalties on the Outer Continental Shelf	–2.8	–2.7	–3.0	–2.7	–2.8	–2.8	–2.8
Other undistributed offsetting receipts	....	–0.5	–4.3	–4.2	–1.6	–2.0	....
Total, Undistributed offsetting receipts	–37.4	–37.9	–42.6	–41.7	–39.4	–41.4	–40.5
On-budget	(–31.0)	(–31.4)	(–35.8)	(–34.5)	(–31.8)	(–33.1)	(–31.6)
Off-budget	(–6.4)	(–6.5)	(–6.8)	(–7.2)	(–7.6)	(–8.3)	(–8.9)
Total	**1,408.2**	**1,483.8**	**1,518.9**	**1,596.9**	**1,691.4**	**1,777.4**	**1,854.0**
On-budget	(1,141.6)	(1,203.0)	(1,223.6)	(1,288.9)	(1,373.1)	(1,444.8)	(1,506.5)
Off-budget	(266.6)	(280.9)	(295.4)	(308.0)	(318.3)	(332.7)	(347.6)

Table 7–13. BUDGET AUTHORITY BY AGENCY
(In billions of dollars)

Agency	1993 Actual	Estimate 1994	1995	1996	1997	1998	1999
Cabinet Agencies:							
Agriculture	67.9	65.3	61.7	62.4	64.3	64.8	66.2
Commerce	3.2	3.6	4.2	4.5	4.8	5.0	6.0
Defense—Military	267.4	249.0	252.2	243.4	240.2	246.7	253.0
Education	31.5	28.8	31.7	29.1	30.9	31.7	32.3
Energy	17.7	16.8	15.9	16.7	16.9	16.9	17.5
Health and Human Services	586.7	643.8	667.0	724.4	772.5	804.2	840.7
On-budget	(286.6)	(327.6)	(334.9)	(374.0)	(403.3)	(415.3)	(430.8)
Off-budget	(300.1)	(316.2)	(332.0)	(350.4)	(369.2)	(388.9)	(409.8)
Housing and Urban Development	26.5	25.6	27.5	34.8	36.3	38.5	39.7
Interior	6.9	7.5	7.1	7.2	7.0	7.1	7.1
Justice	10.5	10.3	12.8	15.0	15.9	16.7	17.9
Labor	46.9	38.6	36.0	36.8	37.8	38.0	39.1
State	5.3	5.7	5.3	5.2	5.3	5.4	5.5
Transportation	40.0	37.7	40.8	39.3	40.6	38.8	38.8
Treasury	300.5	310.1	328.7	346.4	364.1	381.6	398.6
Veterans Affairs	36.0	36.5	37.8	38.7	39.8	40.1	41.6
Major Agencies:							
Corps of Engineers, Military Retirement and Other Defense	29.9	30.6	30.6	32.1	33.1	34.8	36.6
Environmental Protection Agency	6.7	6.4	6.9	7.2	7.5	7.7	8.0
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	24.8	11.0	11.3	9.7	9.4	9.4	9.4
General Services Administration	0.6	0.6	1.6	0.1	0.1	0.1	0.1
The Judiciary	2.6	2.8	3.2	3.2	3.2	3.2	3.2
Legislative Branch	2.6	2.7	2.9	3.1	3.2	3.3	3.4
National Aeronautics and Space Administration	14.3	14.5	14.3	14.4	14.5	14.6	14.6
Office of Personnel Management	39.3	40.2	42.1	44.1	46.9	49.4	51.8
Small Business Administration	1.2	0.7	0.8	0.8	0.8	0.8	0.9
All Other Agencies	**24.1**	**39.5**	**23.7**	**22.1**	**19.6**	**20.8**	**19.5**
On-budget	(21.8)	(35.2)	(18.4)	(20.1)	(19.3)	(19.2)	(19.5)
Off-budget	(2.2)	(4.3)	(5.3)	(2.1)	(0.3)	(1.6)	*
Undistributed Offsetting Receipts	**–119.7**	**–123.7**	**–132.3**	**–134.2**	**–137.5**	**–145.7**	**–151.7**
On-budget	(–86.5)	(–88.2)	(–93.9)	(–92.1)	(–91.1)	(–94.3)	(–94.7)
Off-budget	(–33.2)	(–35.5)	(–38.4)	(–42.1)	(–46.4)	(–51.4)	(–56.9)
Allowances	....	....	**3.0**	**16.6**	**40.6**	**76.3**	**91.9**
Total	**1,473.6**	**1,504.7**	**1,537.0**	**1,623.5**	**1,718.1**	**1,810.3**	**1,892.2**
On-budget	(1,204.4)	(1,219.8)	(1,238.0)	(1,313.1)	(1,395.0)	(1,471.3)	(1,539.2)
Off-budget	(269.1)	(284.9)	(298.9)	(310.4)	(323.1)	(339.1)	(352.9)

* $50 million or less.

Table 7–14. BUDGET AUTHORITY BY FUNCTION

(In billions of dollars)

Function	1993 Actual	Estimate					
		1994	1995	1996	1997	1998	1999
National defense:							
Department of Defense—Military	267.2	249.0	252.2	243.4	240.2	246.7	253.0
Other	13.9	12.0	11.5	11.9	11.8	12.0	12.1
International affairs	32.3	18.8	18.8	17.0	17.0	17.0	17.2
General science, space, and technology	17.2	17.5	17.3	17.2	17.3	17.4	17.6
Energy	8.3	4.7	4.7	6.2	6.0	5.6	6.0
Natural resources and environment	21.6	22.2	21.6	22.2	21.9	21.9	21.4
Agriculture	19.1	16.1	13.0	12.0	12.6	12.6	13.0
Commerce and housing credit	9.9	28.2	11.3	8.1	5.4	5.9	5.0
On-budget	(7.7)	(23.9)	(5.9)	(6.0)	(5.1)	(4.4)	(5.0)
Off-budget	(2.2)	(4.3)	(5.3)	(2.1)	(0.3)	(1.6)	*
Transportation	40.4	38.9	41.8	40.4	41.7	40.0	40.0
Community and regional development	10.2	8.4	9.3	8.9	8.8	8.8	8.8
Education, training, employment, and social services	52.8	53.4	57.7	56.7	60.2	62.5	64.7
Health	108.6	116.1	118.4	151.6	181.9	222.2	237.0
Medicare	124.8	150.6	156.1	176.6	195.5	205.1	218.6
Income security	214.8	215.2	221.7	239.9	253.0	265.4	278.7
Social Security	306.3	322.0	338.7	357.4	376.6	396.8	418.2
On-budget	(6.2)	(5.8)	(6.6)	(7.0)	(7.4)	(7.9)	(8.4)
Off-budget	(300.1)	(316.2)	(332.0)	(350.4)	(369.2)	(388.9)	(409.8)
Veterans benefits and services	36.3	36.7	38.9	39.5	41.6	40.2	41.8
Administration of justice	15.2	15.9	19.0	21.1	22.0	22.7	24.0
General government	13.2	13.6	14.7	13.9	13.9	13.7	13.5
Net interest	198.8	203.4	212.8	224.2	234.0	244.6	254.4
On-budget	(225.6)	(232.5)	(244.5)	(259.1)	(272.8)	(287.8)	(302.4)
Off-budget	(–26.8)	(–29.1)	(–31.7)	(–34.9)	(–38.8)	(–43.2)	(–48.0)
Allowances	....	....	0.1	–3.0	–4.0	–9.6	–12.4
Undistributed offsetting receipts:							
Employer share, employee retirement (on-budget)	–28.2	–28.2	–28.5	–27.6	–27.5	–28.3	–28.8
Employer share, employee retirement (off-budget)	–6.4	–6.5	–6.8	–7.2	–7.6	–8.3	–8.9
Rents and royalties on the Outer Continental Shelf	–2.8	–2.7	–3.0	–2.7	–2.8	–2.8	–2.8
Other undistributed offsetting receipts	....	–0.5	–4.3	–4.2	–1.6	–2.0	....
Total, Undistributed offsetting receipts	–37.4	–37.9	–42.6	–41.7	–39.4	–41.4	–40.5
On-budget	(–31.0)	(–31.4)	(–35.8)	(–34.5)	(–31.8)	(–33.1)	(–31.6)
Off-budget	(–6.4)	(–6.5)	(–6.8)	(–7.2)	(–7.6)	(–8.3)	(–8.9)
Total	**1,473.6**	**1,504.7**	**1,537.0**	**1,623.5**	**1,718.1**	**1,810.3**	**1,892.2**
On-budget	(1,204.4)	(1,219.8)	(1,238.0)	(1,313.1)	(1,395.0)	(1,471.3)	(1,539.2)
Off-budget	(269.1)	(284.9)	(298.9)	(310.4)	(323.1)	(339.1)	(352.9)

* $50 million or less.

Table 7–15. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS(–): 1789–1999

(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1789–1849	1,160	1,090	70	1,160	1,090	70			
1850–1900	14,462	15,453	–991	14,462	15,453	–991			
1901	588	525	63	588	525	63			
1902	562	485	77	562	485	77			
1903	562	517	45	562	517	45			
1904	541	584	–43	541	584	–43			
1905	544	567	–23	544	567	–23			
1906	595	570	25	595	570	25			
1907	666	579	87	666	579	87			
1908	602	659	–57	602	659	–57			
1909	604	694	–89	604	694	–89			
1910	676	694	–18	676	694	–18			
1911	702	691	11	702	691	11			
1912	693	690	3	693	690	3			
1913	714	715	–*	714	715	–*			
1914	725	726	–*	725	726	–*			
1915	683	746	–63	683	746	–63			
1916	761	713	48	761	713	48			
1917	1,101	1,954	–853	1,101	1,954	–853			
1918	3,645	12,677	–9,032	3,645	12,677	–9,032			
1919	5,130	18,493	–13,363	5,130	18,493	–13,363			
1920	6,649	6,358	291	6,649	6,358	291			
1921	5,571	5,062	509	5,571	5,062	509			
1922	4,026	3,289	736	4,026	3,289	736			
1923	3,853	3,140	713	3,853	3,140	713			
1924	3,871	2,908	963	3,871	2,908	963			
1925	3,641	2,924	717	3,641	2,924	717			
1926	3,795	2,930	865	3,795	2,930	865			
1927	4,013	2,857	1,155	4,013	2,857	1,155			
1928	3,900	2,961	939	3,900	2,961	939			
1929	3,862	3,127	734	3,862	3,127	734			
1930	4,058	3,320	738	4,058	3,320	738			
1931	3,116	3,577	–462	3,116	3,577	–462			
1932	1,924	4,659	–2,735	1,924	4,659	–2,735			
1933	1,997	4,598	–2,602	1,997	4,598	–2,602			
1934	2,955	6,541	–3,586	2,955	6,541	–3,586			
1935	3,609	6,412	–2,803	3,609	6,412	–2,803			
1936	3,923	8,228	–4,304	3,923	8,228	–4,304			
1937	5,387	7,580	–2,193	5,122	7,582	–2,460	265	–2	267
1938	6,751	6,840	–89	6,364	6,850	–486	387	–10	397
1939	6,295	9,141	–2,846	5,792	9,154	–3,362	503	–13	516
1940	6,548	9,468	–2,920	5,998	9,482	–3,484	550	–14	564
1941	8,712	13,653	–4,941	8,024	13,618	–5,594	688	35	653
1942	14,634	35,137	–20,503	13,738	35,071	–21,333	896	66	830
1943	24,001	78,555	–54,554	22,871	78,466	–55,595	1,130	89	1,041
1944	43,747	91,304	–47,557	42,455	91,190	–48,735	1,292	114	1,178
1945	45,159	92,712	–47,553	43,849	92,569	–48,720	1,310	143	1,167
1946	39,296	55,232	–15,936	38,057	55,022	–16,964	1,238	210	1,028
1947	38,514	34,496	4,018	37,055	34,193	2,861	1,459	303	1,157
1948	41,560	29,764	11,796	39,944	29,396	10,548	1,616	368	1,248
1949	39,415	38,835	580	37,724	38,408	–684	1,690	427	1,263
1950	39,443	42,562	–3,119	37,336	42,038	–4,702	2,106	524	1,583
1951	51,616	45,514	6,102	48,496	44,237	4,259	3,120	1,277	1,843
1952	66,167	67,686	–1,519	62,573	65,956	–3,383	3,594	1,730	1,864
1953	69,608	76,101	–6,493	65,511	73,771	–8,259	4,097	2,330	1,766
1954	69,701	70,855	–1,154	65,112	67,943	–2,831	4,589	2,912	1,677

Table 7–15. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS(–): 1789–1999—Continued
(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1955	65,451	68,444	–2,993	60,370	64,461	–4,091	5,081	3,983	1,098
1956	74,587	70,640	3,947	68,162	65,668	2,494	6,425	4,972	1,452
1957	79,990	76,578	3,412	73,201	70,562	2,639	6,789	6,016	773
1958	79,636	82,405	–2,769	71,587	74,902	–3,315	8,049	7,503	546
1959	79,249	92,098	–12,849	70,953	83,102	–12,149	8,296	8,996	–700
1960	92,492	92,191	301	81,851	81,341	510	10,641	10,850	–209
1961	94,388	97,723	–3,335	82,279	86,046	–3,766	12,109	11,677	431
1962	99,676	106,821	–7,146	87,405	93,286	–5,881	12,271	13,535	–1,265
1963	106,560	111,316	–4,756	92,385	96,352	–3,966	14,175	14,964	–789
1964	112,613	118,528	–5,915	96,248	102,794	–6,546	16,366	15,734	632
1965	116,817	118,228	–1,411	100,094	101,699	–1,605	16,723	16,529	194
1966	130,835	134,532	–3,698	111,749	114,817	–3,068	19,085	19,715	–630
1967	148,822	157,464	–8,643	124,420	137,040	–12,620	24,401	20,424	3,978
1968	152,973	178,134	–25,161	128,056	155,798	–27,742	24,917	22,336	2,581
1969	186,882	183,640	3,242	157,928	158,436	–507	28,953	25,204	3,749
1970	192,807	195,649	–2,842	159,348	168,042	–8,694	33,459	27,607	5,852
1971	187,139	210,172	–23,033	151,294	177,346	–26,052	35,845	32,826	3,019
1972	207,309	230,681	–23,373	167,402	193,824	–26,423	39,907	36,857	3,050
1973	230,799	245,707	–14,908	184,715	200,118	–15,403	46,084	45,589	495
1974	263,224	269,359	–6,135	209,299	217,270	–7,971	53,925	52,089	1,836
1975	279,090	332,332	–53,242	216,633	271,892	–55,260	62,458	60,440	2,018
1976	298,060	371,792	–73,732	231,671	302,183	–70,512	66,389	69,609	–3,220
TQ	81,232	95,975	–14,744	63,216	76,555	–13,339	18,016	19,421	–1,405
1977	355,559	409,218	–53,659	278,741	328,502	–49,760	76,817	80,716	–3,899
1978	399,561	458,746	–59,186	314,169	369,089	–54,920	85,391	89,657	–4,266
1979	463,302	503,485	–40,183	365,309	403,507	–38,199	97,994	99,978	–1,984
1980	517,112	590,947	–73,835	403,903	476,618	–72,715	113,209	114,329	–1,120
1981	599,272	678,249	–78,976	469,097	543,053	–73,956	130,176	135,196	–5,020
1982	617,766	745,755	–127,989	474,299	594,351	–120,052	143,467	151,404	–7,937
1983	600,562	808,380	–207,818	453,242	661,272	–208,030	147,320	147,108	212
1984	666,457	851,846	–185,388	500,382	686,032	–185,650	166,075	165,813	262
1985	734,057	946,391	–212,334	547,886	769,584	–221,698	186,171	176,807	9,363
1986	769,091	990,336	–221,245	568,862	806,838	–237,976	200,228	183,498	16,731
1987	854,143	1,003,911	–149,769	640,741	810,079	–169,339	213,402	193,832	19,570
1988	908,954	1,064,140	–155,187	667,463	861,449	–193,986	241,491	202,691	38,800
1989	990,691	1,143,172	–152,481	727,026	932,261	–205,235	263,666	210,911	52,754
1990	1,031,321	1,252,705	–221,384	749,666	1,027,640	–277,974	281,656	225,065	56,590
1991	1,054,272	1,323,793	–269,521	760,388	1,082,106	–321,719	293,885	241,687	52,198
1992	1,090,453	1,380,856	–290,403	788,027	1,128,518	–340,490	302,426	252,339	50,087
1993	1,153,535	1,408,205	–254,670	841,601	1,141,618	–300,017	311,934	266,587	45,347
1994 estimate	1,249,071	1,483,829	–234,758	912,892	1,202,953	–290,061	336,179	280,876	55,303
1995 estimate	1,353,815	1,518,945	–165,130	998,594	1,223,582	–224,987	355,221	295,364	59,857
1996 estimate	1,427,312	1,596,877	–169,564	1,052,606	1,288,898	–236,292	374,706	307,979	66,727
1997 estimate	1,505,072	1,691,443	–186,371	1,107,581	1,373,129	–265,548	397,491	318,314	79,177
1998 estimate	1,586,925	1,777,416	–190,491	1,165,532	1,444,760	–279,228	421,393	332,656	88,737
1999 estimate	1,672,946	1,854,023	–181,077	1,227,811	1,506,455	–278,644	445,135	347,568	97,567

* $500 thousand or less.

List of Charts and Tables

LIST OF CHARTS AND TABLES

LIST OF CHARTS

LIST OF CHARTS—Continued

LIST OF TABLES

LIST OF TABLES—Continued

OMB CONTRIBUTORS TO THE 1995 BUDGET

The following Office of Management and Budget personnel contributed to the preparation of this publication. Hundreds, perhaps thousands, of others throughout the Government also deserve credit for their valuable contributions.

A

Rein Abel
Gordon Adams
Marsha D. Adams
Roger S. Adkins
Steven D. Aitken
Susan E. Alesi
Richard M. Allen
Robert A. Allison
Ahmad Al-Samarrie
Lois Altoft
Wayne S. Amchin
Barry B. Anderson
James L. Anderson
Janet L. Anderson
Robert B. Anderson
John C. Angell
Donald Arbuckle
Jack Arthur
Thomas L. Arthur
Jeffrey Ashford
Renee Austin
Dionel M. Aviles

B

David F. Baker
Patricia A. Baker
Sharon A. Barkeloo
Robert E. Barker
Christina Barnes
Pamela S. Barr
Mary C. Barth
Shireif Battat
Richard B. Bavier
Jean D. Baxter
Bruce D. Beard
Cora P. Beebe
Gary L. Bennethum
Deborah L. Benoit
Rodney G. Bent
Maya A. Bernstein
Christoph P. Bertram
Pamela L. Beverly
Martha M. Black
Todd M. Blakely
Donald B. Blanchon
Jeffrey Blend
Jill M. Blickstein
Mathew C. Blum
Daniel Blume
James Boden
Constance J. Bowers
Yvonne T. Bowlding
Jacqueline Boykin
James Bradford, Jr.
Betty I. Bradshaw
Denise M. Bray
Godula E. Brendel
Jonathan D. Breul
Hazel W. Briggs
Paul W. Brower
Allan E. Brown
Bruce H. Brown, Jr.
Christopher Brown
Cynthia Brown
James A. Brown
Paul Bugg
Ann Burget
Kim H. Burke
Allan V. Burman
John D. Burnim
Katherine A. Byse

C

Derek Cail
Scott J. Cameron
Debra Cammer
Bruce P. Campbell
Susan Carr
Michael Casella
Lester D. Cash
Derek G. Chan
Edward H. Chase
Antonio E. Chavez
Anita Chellaraj
Daniel J. Chenok
David C. Childs
Alice Cho
Zach Church
Robert L. Civiak
Charles W. Clark
Edward H. Clarke
Barry Clendenin
Thomas Cocozza
Jerry L. Coffey
Ronald M. Cogswell
William S. Coleman, Jr.
D. Marie Collins
Teresa L. Collins
Sheila Conley
Melissa Cook
Robert M. Cooper
Dionne M. Copper
Daniel J. Corbett
Darlene E. Cornelius
Daniel W. Costello
Daniel Coyne
Douglas A. Criscitello
Michael F. Crowley
Craig Crutchfield
William P. Curtis

D

Josie R. Dade
Rosemarie W. Dale
Philip R. Dame
Robert G. Damus
Alice R. Davis
Margaret B. Davis
Tracy A. Davis
Lorraine Day
Stacy L. Dean
Arline P. Dell
Carol R. Dennis
Aurelia A. Derubis
Eugene J. Devine
Margaret DiBari
Barbara J. Diering
Elizabeth M. DiGennaro
Lanny A. Dillon
Michael J. Discenza, Jr.
Arnold E. Donahue
Karen S. Dooley
William L. Dorotinsky
Michael C. Dost
Robert S. Dotson
Carla B. Downing
Barbra E. Drauszewski
James E. Duke
Sherron R. Duncan
Philip A. Dusault
Carter Dutch
Suzanne M. Duval
Kiran Duwadi
Nancy J. Duykers
Marguerite D. Dyson

E

Eugene M. Ebner
Mabel E. Echols
Christopher F. Edley
Christine B. Ellertson
Teresa F. Ellison
Kristina Emanuels
Richard P. Emery Jr.
Noah Engelberg
Adrienne Erbach
John Evans Klock
Suzann K. Evinger
Rhodia (Rowe) Ewell
Quincy Ewing III
Allison H. Eydt

F

Timothy Fain
Chris Fairhall
Lisa B. Fairhall
Robert S. Fairweather
William R. Feezle
Tanya M. Felder
Jack D. Fellows
Erik S. Ferlanti
Patricia A. Ferrell
Joseph Firschein
James F. Fish
E. Holly Fitter
Darlene B. Fleming
Dana Flower Lake
Martha Foley
Keith J. Fontenot
Anita D. Ford
Janet R. Forsgren
Roberta L. Foster
Wanda J. Foster
Stephen M. Frerichs

G

Martha Gagne
Evett F. Gardner
Darcel D. Gayle
Darlene O. Gaymon
Michael D. Gerich
Donald E. Gessaman
Brian Gillis
T.J. Glauthier
Kenneth G. Glozer
Michael L. Goad
JoEllen M. Godfrey
Stephen M. Goldberg
Maria E. Gonzalez
Gerald Gourdain
W. Todd Grams
Janet L. Graves
Arecia A. Grayton
Maryanne B. Green
Pamela B. Green
Richard E. Green
Judy Grew
David B. Grinberg
Walter S. Groszyk Jr.
Lisa Grove
Norman E. Gunderson

H

Lauren Haber
Hermann Habermann
Dianne M. Ham-McFarland
Rebecca J. Hardy
Brenda F. Harper
David J. Haun
Audry V. Hawkins
Donald J. Hayes
Daniel D. Heath
Christopher Heiser
Renee P. Helm
Jean M. Henke
Daryl Hennessy
Gregory G. Henry
Jefferson B. Hill
Adam Hoffberg
Jean W. Holcombe
Stephen H. Holden
Christine Holmes
Linda Hoogeveen
Edith D. Hopkins
Sarah Horrigan
Jeannie Houseman
Kathy M. Hudgins
Lawrence W. Hush

I

Steven J. Isakowitz
Cecy Ivie

J

Norwood Jackson
Claire Newcomer Jacobi
Lawrence R. Jacobson
Irene James
Carol D. Jenkins
Duane E. Jenkins
Carol S. Johnson
Darrell A. Johnson
Erik Johnson
Kim I. Johnson
Lisa E. Johnson
Lorraine M. Johnson
Scott Johnson
Lisa M. Jones
Marilyn E. Jones
Ronald E. Jones
Christopher A. Jordan
James F. Jordan
Matthew I. Josephs
James J. Jukes

K

Barbara F. Kahlow
Phyllis Kaiser-Dark
Stuart R. Kasdin
Sally Katzen
Stanley Kaufman
Stephanie I. Kaufman
James B. Kazel
Alexander S. Keenan
Steven Kelman
John W. Kelly
Kenneth S. Kelly
Farooq Khan
Jean G. Kibler
Charles E. Kieffer
Robert W. Kilpatrick
Carole Kitti
Karin L. Kizer
David K. Kleinberg
Louisa Koch
Richard H. Kodl
Raymond P. Kogut
Alicia Kolaian
Justin A. Kopca
Shannah Koss
Mark S. Kramer
Lori A. Krauss
Peggy R. Kuhn
Richard A. Kuzmack
Bradley W. Kyser

L

Joseph F. Lackey Jr.
Neil F. Lamb
Ronald N. Landis
John C. Langenbrunner
Lisa A. Langmead
Kelley Lehman
Robert S. Lesher, Jr.
Cameron M. Leuthy
Christopher M. Lewis
Thomas S. Lewis
Christine Lidbury
Linn M. Ligon
Henry E. Lilienthal
Susanne D. Lind
Jenise Littlejohn
Lin C. Liu
Neil Lobron
Patrick Locke
Richard C. Loeb
Bruce D. Long
Jonna Long
Ron Longo
Sheila D. Lucas
Randolph M. Lyon

M

Karen A. MacIntyre
James B. MacRae Jr.
Jennifer Main
Judy Mann
Linda L. Mann
Courtney M. Manning
Palmer A. Marcantonio
Diana J. Marino
Karen Maris
Bernard H. Martin
Larry R. Matlack
Alexander J. McClelland
Bruce W. McConnell
Douglas D. McCormick
Yvonne A. McCoy
Brenda L. McCray
James McDivitt
Katrina A. McDonald
Larry E. McGee
Richard S. McKay
William N. McLeod
William J. McQuaid
Carla B. McTigue
Mark D. Menchik
William C. Menth
Richard A. Mertens
Steven M. Mertens
Linda L. Mesaros
Harry G. Meyers
James D. Mietus
Alice McNutt Miller
Matthew L. Miller
Nancy-Ann Min
Joseph J. Minarik
Janet W. Minkler
Ronald C. Mitchell
Ginger Moench
Gretina S. Monk
John B. Moore
Harry E. Moran
Elizabeth Mori
John F. Morrall III
Delphine C. Motley
Jane T. Moy
Lydia Muniz
James C. Murr
Suzanne M. Murrin
Christopher Mustain

N

Peter T. Nakahata
Robert L. Neal, Jr.
Jonas Neihardt
C. Spencer Nelms, Jr.
Wendy C. New
Kimberly A. Newman
Robin A. Newman
Kevin F. Neyland
Len M. Nichols
James A. Nix
Patrick C. Noon
Memphis A. Norman
Douglas A. Norwood

O

Dale P. Oak
Marcia Occomy
Ellen M. O'Donnell
Kashira Oldes
Marvis G. Olfus
Sidra Oliphant
Laura A. Oliven
Richard A. Ong
Judith F. Owens
Valerie J. Owens

P

Wayne D. Palmer
William D. Palmer
Jennifer M. Palmieri
Leon E. Panetta
Anna K. Pannell
Christopher Parker
Katherine M. Parrish
Jeffrey L. Payne
Robert M. Peay
Robert J. Pellicci
Emily D. Pelton
Kathleen Peroff
Janice E. Perry
Ronald K. Peterson
John R. Pfeiffer
Carolyn R. Phelps-Carter
Robert Pickel
Janet S. Piller
Shirley C. Piplin
Richard A. Popper
Keith J. Posen

R

Bernice M. Randolph
Edward M. Rea
Francis S. (Steve) Redburn
Mcgavock D. Reed
Franklin S. Reeder
Rosalyn J. Rettman
Barbara A. Retzlaff
Jeeyang Rhee
Alan B. Rhinesmith
Cheri Rice
Valentina V. Richard
John M. Richardson
Sarah B. Richardson
Nancy S. Ridenour
Robert B. Rideout
Donna M. Rivelli
Alice M. Rivlin
Mary Ann Robinson
Justine F. Rodriguez
Lara Roholt
Annette E. Rooney
Elizabeth L. Rossman
Martha A. Rubenstein
Michael Ruffner
Kenneth F. Ryder Jr.

S

Cynthia R. Salavantis
Maria F. Salcedo
LaVonne D. Sampson
Nicole Sanderson
John J. Sandy
Mark S. Sandy
Bruce K. Sasser
Deborah M. Saunders
Ruth D. Saunders
Isabel V. Sawhill
Thomas Schaaf
Phillip E. Schaff
Kevin J. Scheid
Andrew M. Schoenbach
Ingrid M. Schroeder
John T. Schuhart
Rudolph J. Schuhbauer
Leslie Schumann
Kenneth L. Schwartz
Mark J. Schwartz
Nancy E. Schwartz
Ardy D. Scott
Robyn Seaton
Jasmeet Seehra
Albert Seferian
Frank J. Seidl III
Marvin S. Self
Barbara S. Selfridge
Steven H. Semenuk
Neil K. Shapiro
Margaret Shaw
Alice S. Sheck
John P. Sheehan Jr.
Vanna J. Shields
Mary Jo N. Siclari
Lisa A. Signori
Adrien L. Silas
Ronald L. Silberman
Angela C. Simmons
Pamula L. Simms
Jack A. Smalligan
Bryan R. Smith
Patricia A. Smith
Edward C. Springer
Thomas P. Stack
Norman H. Starler
Randolph J. Steer
Douglas L. Steiger
Darlene C. Steil
Harold Steinberg
Albert F. Stidman
Dennis L. Stout
Ira Strong
Kelley L. Sullivan
Milo B. Sunderhauf
Lawanna S. Sutor
E. Steve Swain
Carolyn Swinney
Andrew W. Swire

T

Daniel H. Taft
Daniel Tangherlini
Vernetta Tanner
Beverly B. Thierwechter
Margaret A. Thomas
Sharon K. Thomas
Desiree N. Thompson
Joseph Tipan
Paul Tisdale

Barry J. Toiv
Linda G. Tooker
Jodie R. Torkelson
David E. Tornquist
Melanie Trunzo
Robert J. Tuccillo
Donald L. Tuck
Kathleen M. Turco
Richard J. Turman
Carla A. Turner
Crawford M. Tuttle
Katherine M. Tyer

V

Cynthia A. Vallina
Pamela B. VanWie
Robert N. Veeder
Areletha L. Venson
Sandra L. Via
Phebe Vickers
Lori Victor
Frances Von Schilling

W

Stanley R. Wallace
Katherine K. Wallman
Maureen H. Walsh
Sharon A. Warner
Theodore Wartell
Teresa Washington
Mark A. Wasserman
Iratha H. Waters
Patricia J. Watson
Gary Waxman
Rebecca A. Wayne
Mark A. Weatherly
Bessie M. Weaver
Tawana Webb
Stephen A. Weigler
Jeffrey A. Weinberg
Peter N. Weiss
Dianne M. Wells
Phil Wenger
Michael G. Wenk
Ophelia D. West
Tina L. Westby
Lisa F. Western
Deborah J. Wetterhall
Sherry R. Whitaker
Arnette C. White
Barry White
Bayla F. White
Kim S. White
Linda Wiesman
Roxanne W. Willard
Debra L. Williams
Joyce M. Williams
Linda G. Williams
Steve Willson
Doris J. Wingard
Joseph M. Wire
Lisa K. Witt
Wayne A. Wittig
Robert W. Wolf
Daren K. Wong
Thomas Woodley
Anthony B. Wu

Y

Margaret Yao
Louise D. Young
Margaret A. Young
Julia E. Yuille

Z

David Zavada
Wendy B. Zenker
Joseph F. Zimmer
Gail S. Zimmerman
Leonard B. Zuza