

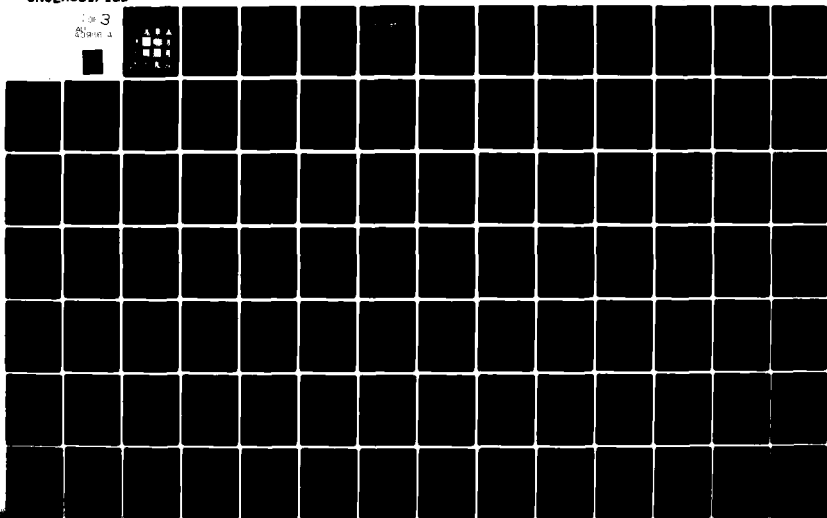
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REDUCING THE FEDERAL BUDGET: STRATEGIES AND EXAMPLES, FISCAL YE--ETC(U)
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Reducing the Federal Budget: Strategies and Examples, Fiscal Years 1982-1986

A CBO Study
February 1981

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United States
Congressional Budget Office

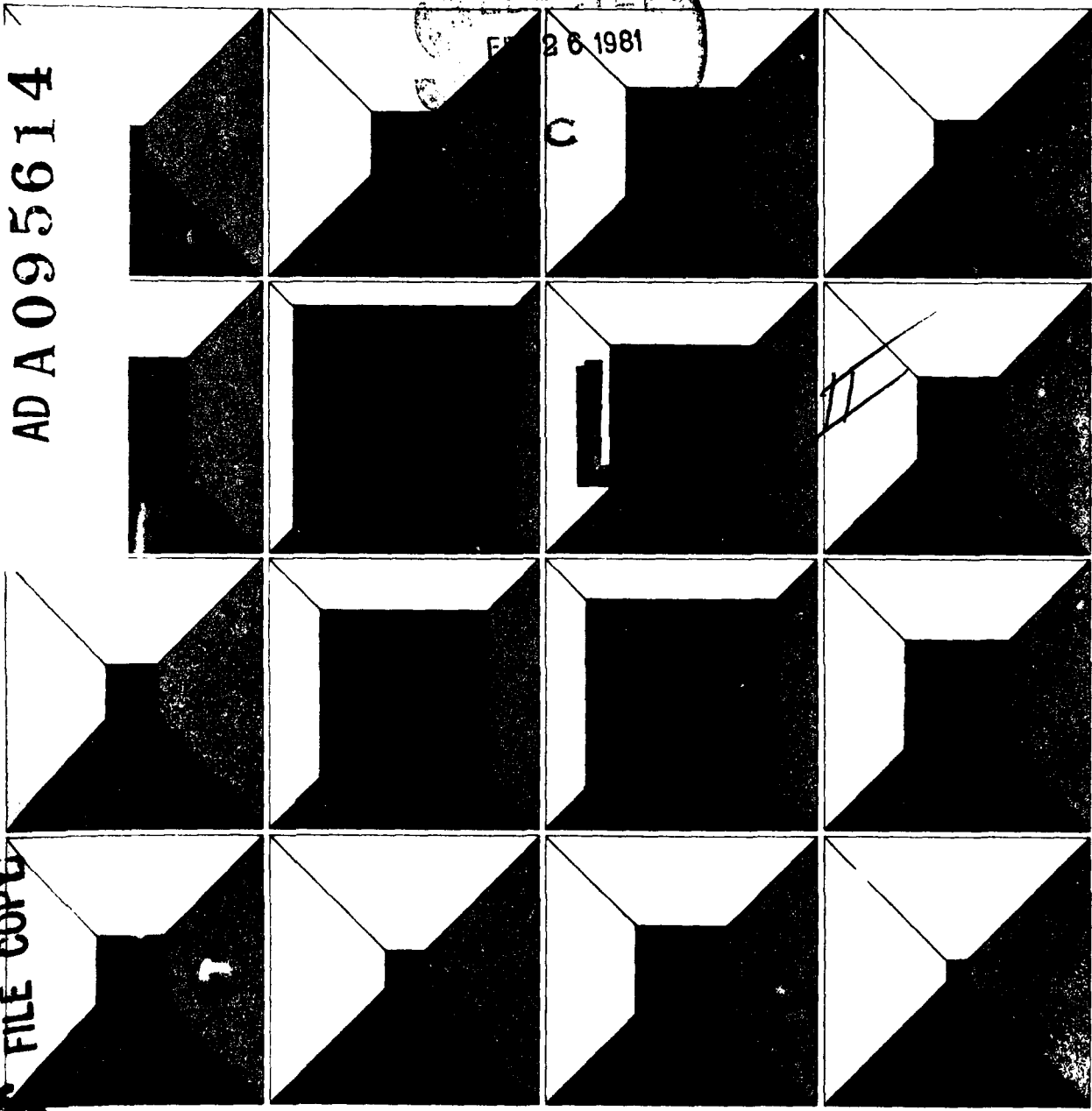
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REDUCING THE FEDERAL BUDGET:
STRATEGIES AND EXAMPLES,
FISCAL YEARS 1982-1986 •

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PREFACE

This report was written in response to a request by 12 members of the House Budget Committee--Robert N. Giaino, Chairman of the Committee during the 96th Congress, James R. Jones, Chairman of the Committee for the 97th Congress, Barber B. Conable, Jr., Bill Frenzel, Richard A. Gephardt, Delbert L. Latta, Norman Y. Mineta, Bill Nelson, Leon E. Panetta, Ralph S. Regula, Paul Simon, and Timothy E. Wirth--for a report on the possible strategies that could lead to a reduction in the size of the federal budget.

The report was prepared by all divisions of the Congressional Budget Office under the supervision of Alfred B. Fitt. Robert L. Faherty, Francis S. Pierce, and Patricia H. Johnston edited the manuscript and coordinated its preparation for publication. The final drafts were typed by Mary A. Anders, Linda Brockman, Jill Bury, Shirley Hornbuckle, Norma Leake, Andy McDonald-Houck, Kathleen M. Quinn, Janet Sale, and Janet Stafford. Barry J. Holt, Pierce J. Johnson, John D. Shillingburg, and Martin L. Skutnick also provided valuable assistance in the preparation of this report.

In keeping with CBO's mandate to provide objective analysis, the report contains no recommendations.

Alice M. Rivlin
Director

February 1981

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September 30, 1980

Dr. Alice M. Rivlin
Director
Congressional Budget Office
Washington, D. C. 20515

Dear Dr. Rivlin:

On December 20, 1979, we requested a report from the Congressional Budget Office on possible strategies that could lead to a reduction in the size of the federal budget.

The CBO report that we received proved to be of substantial assistance in shaping Congressional budget decisions for Fiscal Year 1981. We believe that a second edition of such a report could be equally useful to the next Congress when it takes up Fiscal Year 1982 budget issues. We request that CBO make a thorough examination of programs and program areas that may have outlived their usefulness, may be beneficial but could be better targeted, or may fund functions more appropriately handled by other levels of government, or by the private sector, or may simply not be affordable if the budget is tight.

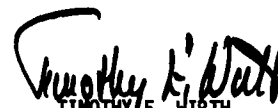
We suggest that for each example you show the outlay savings, not only from the CBO five-year current law projection, but also, where applicable, from the President's Fiscal Year 1982 budget recommendations as well.

We believe it would be useful if you would meet with staff members of our Committee prior to instituting this study so that the findings and recommendations can be of maximum use to us.

Thank you for your assistance.

Sincerely,


ROBERT N. GIAIMO
Chairman


TIMOTHY E. WIRTH


DELBERT L. LATTI


BARBER B. CONABLE, JR.


NORMAN Y. MINETA


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CHAPTER I.**INTRODUCTION**

Federal spending has been growing steadily in recent years, both in absolute amounts and in relation to the Gross National Product (GNP). Spending grew from an average of 20.1 percent of GNP during the first half of the 1970s to 21.7 percent in the second half. In fiscal year 1980, unified budget outlays of \$579.6 billion amounted to 22.6 percent of GNP, the highest proportion ever in peacetime. Projected fiscal year 1981 outlays of \$660 billion will be an even higher proportion, 23.8 percent.

If current policies were to continue unchanged, with no new programs at all, federal spending would still go on growing during the next five years (see Table 1). This growth would not be as fast as the projected growth in the economy, so spending as a percent of GNP would decline by fiscal year 1986 to 21.7 percent--still a high figure by historical standards.

TABLE 1. CBO BASELINE OUTLAY PROJECTIONS, FISCAL YEARS 1982-1986
(In billions of dollars)

Outlays	1982	1983	1984	1985	1986
In Current Dollars	740	819	906	996	1,088
In Constant 1972 Dollars	307	310	314	315	316
As Percent of GNP	23.4	22.8	22.5	22.1	21.7

The areas of spending growth from any one year to the next are easy to identify. In fiscal year 1981, just four budget functions--defense, health, income security, and interest--will account for a rise in outlays of \$88 billion. Federal spending in the aggregate for all other purposes will actually decline in 1981 (although within that aggregate there will be pluses to offset some of the minuses).

The reasons for spending growth are also easy to state. The Congress and the nation are evidently committed to large real increases for defense. Past Congresses have legislated other commitments as well: to the aged, the sick, the poor, the jobless, and the disabled, among others. Demographic forces drive up the costs of Social Security, Medicare, and other federal programs for the aged. A recession increases the cost of unemployment compensation, food stamps, Medicaid, welfare, and similar programs. Furthermore, the payments in many of the programs are adjusted at least once a year for inflation; the July 1980 cost-of-living increase mandated by law for Social Security has alone added \$17 billion to fiscal year 1981 federal spending.

While it may be easy to identify the areas of federal spending growth and the reasons for that growth, what to do about it is another matter. The Congressional Budget Office (CBO) does not take a position on how much the federal government ought to spend, or on which activities of the government should be continued, expanded, contracted, or eliminated. The size of the government and its programs are for the Congress and the President, and ultimately for the voters, to decide. But if the Congress decides to cut back the size of the federal government, or slow down the growth of spending, it has many available strategies to achieve those ends, and within those strategies an even wider variety of specific actions. The rest of this report discusses those strategies and contains examples of possible actions.

BACKGROUND

Federal outlays in fiscal year 1980 can be divided into five broad categories:

	<u>Billions of Dollars</u>	<u>Percent of Total</u>
National Defense	124.0	21.4
Benefits to Individuals	285.1	49.2
Grants to States and Localities	57.1	9.9
Net Interest	52.5	9.1
All Other Federal Operations	<u>60.9</u>	<u>10.4</u>
Total	579.6	100.0

Projected spending for fiscal year 1981 will be distributed about the same way. Interest on the public debt must be paid, and

defense spending will rise rather than fall (although some savings within the defense total are possible). Hence, restraint, if it is to occur, must take place in the remaining 70 percent of the budget. Because more than four-fifths of that 70 percent is governed by statutory formulas and entitlements, instead of by an annual appropriations decision, significant savings must depend on the alteration of those formulas and entitlements.

The 1980 Experience with Reconciliation

The Congressional Budget Act of 1974 contemplated that the Congress would occasionally need to amend permanent legislation in order to achieve its annual budget goals. The reconciliation process, so called because the underlying laws are changed to bring about spending and revenue results consistent with the adopted budget, was carried out for the first time in 1980 as part of a Congressional effort, ultimately frustrated by inflation and the 1980 recession, to balance the fiscal year 1981 budget.

The Omnibus Reconciliation Act of 1980 contained provisions amending scores of statutes. Its estimated effects for fiscal year 1981 were to reduce spending by \$4.6 billion and to increase revenues by \$3.6 billion. Over the five years 1981-1985, those totals were projected to be \$50.3 billion and \$29.2 billion, respectively.

The savings achievements through reconciliation did not come easily. More than 100 conferees met off and on for more than two months. The bill that finally cleared the Congress on December 3, 1980, legislated reductions in airport and highway spending, in child nutrition programs, in Medicare and Medicaid reimbursement formulas, in eligibility for Social Security disability payments and for extended unemployment insurance benefits, in various veterans' entitlements, and in many other federal programs.

The Second Session of the 96th Congress made other changes that were not technically part of the reconciliation process but were consistent with its spirit. For example, it ended the states' entitlements under general revenue sharing, saving \$2.3 billion in 1981 alone, and it began phasing out most of the grant programs of the Law Enforcement Assistance Administration, saving about \$150 million in 1981.

While the Reconciliation Act fell short of achieving all the savings contemplated in the First Concurrent Budget Resolution for 1981, the Congress nevertheless demonstrated that reconciliation

can be accomplished. The mechanism for securing comprehensive Congressional decisions about ending or lowering federal spending commitments is in place, and it works.

Tax Subsidies and User Charges

On the revenue side of the budget, the Congress used the reconciliation process to make a number of changes in the Internal Revenue Code. In particular, the act restricted the use of tax-exempt bonds to finance a below-market interest rate for home mortgages, thereby limiting a rapidly growing tax subsidy.

Such tax subsidies are often called tax expenditures because, in principle, their purposes could also be achieved by the appropriation of budget authority to be expended in the form of grants or loans. They influence the size of the federal deficit (or surplus) in just the same fashion as direct spending programs. When a tax subsidy is halted, the resulting savings can be used to fund some other program, or to reduce the national debt, or to help finance a tax cut.

By restricting the use of tax-exempt bonds for home mortgages, the Reconciliation Act avoided an estimated \$21.5 billion revenue loss during the next five years. That sum eventually will be devoted to direct spending programs, or to reducing the deficit, or to cutting taxes, as the Congress decides.

User charges for particular government services present the same issues. For example, if national park visitors and private plane owners are required to pay more of the costs of the federal services they receive, funds will be freed up for other purposes, possibly for more parks and more air safety, but also possibly for lowering the burden on taxpayers generally. This report therefore includes not only a number of examples of changing tax subsidies, but also several involving higher user charges.

STRATEGIES FOR RESTRICTING GROWTH

Achieving Management Efficiencies

It is probably true that every agency of the federal government could manage its resources better than it does. Savings could unquestionably be achieved through efficiencies, reducing paperwork, simplifying procurement, lessening the number of consultants employed, increasing the proportion of competitive procurements,

and the like. Though the desirability of such efforts cannot be overstated, this report does not treat them in detail, for they are mainly matters in which the Executive Branch must take the lead. Until specific management efficiency proposals are advanced by the Administration, it will be difficult to estimate the benefits that might accrue in the form of lower spending or a less cumbersome federal government.

Taking Short-Run Actions

The government can take a number of actions to put an immediate brake on spending. Imposing federal hiring freezes, pay caps, limits on official travel, and the like, bring prompt savings, as do delaying projects and deferring maintenance. Such actions also provide a clear signal of the government's determination to economize and to cut back. But by their nature they are pauses rather than policy changes; for the long haul, the Congress will still have to find a way to cope with the ongoing pressures that have driven federal spending steadily upward.

Setting Across-the-Board Rules

The Congress could adopt a number of general rules for itself that, if followed, might achieve very large and continuing savings.

Less Indexing. If the Congress repealed all automatic indexing of entitlements, and instead made an annual across-the-board decision about the degree to which the government can afford to protect citizens against inflation, the largest and least controlled upward pressure on federal spending would be brought under the discipline of the budget process. The rule might resemble that now followed for adjusting federal white-collar pay, under which the President recommends a stated percentage that becomes effective unless the Congress acts to alter it.

Annually Adjusted Charges. Another general rule the Congress could enact would be to key the price of all services for which the government makes a charge to the cost of the provided service, and adjust that charge annually. To involve large sums, the rule would have to apply to more than such things as park fees and publication sales; it would have to include the user charges for highways, waterways, air travel, and the like.

Variable Interest Subsidies. When the government borrows money at one rate and lends it to a person or a firm at a lower rate, someone must pay the difference. The government makes

millions of such loans, amounting to billions of dollars, every year. But there is often no regular procedure for adjusting the interest rate charged by the government to reflect changes in the interest rate the government must pay.

The Congress could enact a rule that interest subsidies in every federal credit program be keyed to the government's borrowing costs at the time the loan is made. If the interest charged in a given program was fixed at 6 percent when the legislation was passed and the federal borrowing rate was 9 percent, a loan made now, when the government borrows at 15 percent, would have an interest rate of either 10 or 12 percent depending on whether the Congress had prescribed a proportionate or a three-percentage-point subsidy.

The Congress could go further and require that all future federal loans bear interest at least equal to the government's borrowing costs, with the further subsidy, if any, to take the form of an annually appropriated amount for the forgiveness of principal. The grant now hidden in most federal lending programs would thus become explicit and subject to frequent review.¹

Consolidating and Reducing Grants to the States

Definite outlay savings can be achieved if the Congress combines multiple and related categorical grant programs into a single block grant and appropriates a new total that is less than the sum of the parts.

There are several arguments for such a course. One often made is that the states are closer to the actual problems and can do a better job than the Congress in allocating the dollars involved. This raises the prospect that program goals might not suffer even though the dollars were fewer. State and local officials have occasionally expressed a willingness to accept lower totals in return for the greater flexibility and lesser complexity inherent in a block grant.

1. The estimated present value of the interest subsidy from new federal lending activity in 1980 alone was \$23.7 billion; see Budget of the United States Government, Fiscal Year 1982, Special Analyses, Table F-11, p. 193.

Another argument for combining categorical into block grants is that doing so will necessarily reduce the amount of paper to be processed, while at the same time eliminating the vexing inconsistencies in funding cycles, application due dates, grantee eligibility rules, and the like, that are the hallmarks of related categorical grant programs.

Combining multiple categorical grant programs into a block grant will also probably result in some administrative savings at the federal level, but the amount is unlikely to be large or capable of precise prediction. Furthermore, what is saved at the national level may be lost at the state level; someone must make the plan, approve the proposal, write the check, audit the books, and do the other detailed work for each program.

The federal government would also pay a price for the savings that might come from this strategy. Block grant funds would certainly not be spent for the identical purposes, or in the same proportions, or by the same localities, or for the same beneficiaries, as the funds previously targeted by the Congress in the categorical grants that made up the new block grant. If this were not so, there would be little point to the consolidation. It is almost equally certain that those who were disappointed with the manner in which block grant funds were distributed would return to the Congress seeking a new set of arrangements.

For example, the Community Development Block Grant (CDBG) program legislated in 1974 combined seven separate categorical programs. CDBG funds (\$3.9 billion in 1980) can be spent for the same purposes as the previous programs, which includes encouraging private economic development. Even so, the Congress in 1977 targeted a new \$400 million categorical program for private economic development, Urban Development Action Grants (UDAG), and subsequently raised its authorized level to \$675 million.

In summary, the consolidation of categorical programs into block grants can lead to a reduction in federal spending, but the savings will be significant only if the Congress appropriates less for the single new program than it did for all the old programs, and only if it resists future claimants who do not like the outcome of state and local allocation decisions under the block grant system.

Reducing Growth in Entitlement Programs

About half of all federal spending is for benefits to individuals, so the Congress must examine this broad category if it

wishes to restrain the federal budget. But practically all such benefits are entitlements, meaning that those who meet the eligibility rules get prescribed payments (in cash or in services); the payment does not depend on an annual appropriations decision by the Congress. Even where the Congress has technically retained control over the annual funding level of a benefit program, as it has with food stamps, in practice the costs are still driven by the numbers of people who meet the eligibility rules.

The largest category of federal spending for payments to individuals is in connection with Social Security and other retirement and disability programs. Benefits of this kind amounted to 28 percent of all 1980 outlays (see Table 2). Because more people will qualify for these programs in 1981, and because their compensation will have been higher than that of the people who have left the rolls because of death, 1981 outlays will be about \$6 billion more than in 1980.

Real growth of the kind just described will be dwarfed by the nominal growth stemming from the indexation of benefit levels for inflation. Every major federal income support program--defined to include any program accounting for at least 1 percent of 1980 spending--is automatically indexed by law at least once a year, with the following exceptions: unemployment compensation, Aid to Families with Dependent Children (AFDC), and service-connected disability payments to veterans.

Even when not explicitly indexed by law, most of the benefit programs are indexed in fact. This is true, for example, of veterans' service-connected disability payments, which the Congress has increased every year in line with inflation; and of health programs like Medicare, which perforce rise in cost as health care charges rise; and of the Guaranteed Student Loan program, as students borrow more to meet higher tuitions and as the interest subsidy they receive rises along with government borrowing costs.

It follows that restraining growth in entitlement programs will require some combination of less generous benefit levels, less generous indexing, stricter eligibility rules so that fewer people qualify, and phasing out of whole programs.

As an example of deciding on less generous benefit levels, the Congress could impose an actuarial reduction on the pensions of federal employees who retire at an early age, just as it has imposed such a reduction on early Social Security retirees; or it could increase the 7 percent retirement contribution paid by most federal civilian employees to some higher rate.

TABLE 2. OUTLAYS FOR BENEFITS TO INDIVIDUALS, FISCAL YEAR 1980

Program	Outlays (millions of dollars)	Percent of All Outlays	Means- Tested?
Retirement and Disability			
Armed forces	12,127	2.09	No
Federal civilian	14,739	2.56	No
Railroad	4,737	0.82	No
Miners	1,840	0.32	No
Veterans	11,689	2.02	Partially
Social Security	116,573	20.13	No
Subtotal	161,705	27.93	
Health			
Medicare	35,025	6.05	No
Medicaid	13,957	2.41	Yes
Federal civilian retirees	631	0.11	No
Veterans' hospital & medical	6,276	1.08	Partially
All other	2,694	0.47	Partially
Subtotal	58,583	10.12	
Education			
College student aid	3,683	0.64	Yes
Guaranteed loan interest subsidy	1,408	0.24	No
Social Security student benefits	1,976	0.34	No
Veterans' education benefits	2,342	0.40	No
Subtotal	9,409	1.63	
Unemployment Compensation	18,004	3.11	No
Public Assistance			
Subsidized housing	5,377	0.93	Yes
Nutrition programs	4,802	0.83	Mostly
Food stamps	9,117	1.57	Yes
SSI for aged, blind, and disabled	6,411	1.11	Yes
AFDC and other welfare	7,308	1.26	Yes
Earned income tax credit	1,275	0.22	Yes
Low-income energy assistance	1,564	0.27	Yes
Refugees	368	0.06	Yes
Subtotal	36,222	6.26	
Miscellaneous	1,155	0.20	---
Grand Total	285,078	49.24	---

SOURCE: Congressional Budget Office.

Less generous automatic indexing might take the form of dropping the automatic provision entirely, as described earlier in this report, or of adjusting benefits by the lesser of price or wage index changes, as described later.

Stricter eligibility rules could take the form, for example, of gradually raising the "normal" Social Security retirement qualification age from 65 to 68, or of limiting the medical expense income tax deduction to those whose expenses of that kind exceed 10 percent of income, instead of 3 percent as now.

Phasing out some entitlement programs could be done according to specific criteria:

Is the program obsolete? U.S. merchant seamen have been entitled since 1798 to free, all-inclusive health care from the federal government, at a current annual cost of about \$170 million. Arguably the reasons for the commitment have long since vanished, but the program continues.

Is the program duplicative? Social Security benefits for unmarried dependent students aged 18 to 21 were enacted in 1965, when the government had no college student grant program. Since then the Congress has put in place a comprehensive set of student aid programs to ensure that no one's access to college will be barred by financial need; but Social Security student benefits continue as before, at an annual cost of nearly \$2 billion.

Is the entitlement justified by need but not awarded according to need? In 1948, the Congress enacted an extra income tax exemption for people aged 65 and over, on the general theory that the elderly were likely to have suffered an income loss. But the entitlement includes all elderly taxpayers, with the result that the 7.4 percent with incomes over \$50,000 receive 17 percent of the \$2.2 billion in tax relief provided by the extra exemption.

Is the entitlement well designed to achieve the stated purpose? Trade Adjustment Assistance benefits go to American workers laid off because of foreign competition, at a likely cost of about \$2.5 billion in 1981. But the program seems to have small effects in helping the affected workers to seek or obtain less vulnerable employment, so that little "adjustment" may be occurring.

All of the measures discussed in this report involve exceedingly difficult and contentious political value judgments. The

inclusion of illustrative examples is not meant as an assertion that any ought to be carried out, or that arguments against the described changes may not outweigh those for the changes. But if the Congress is to bring down federal spending as a percent of the Gross National Product, something of the sort described here will have to happen.

CHAPTER II. BUDGET REDUCTION EXAMPLES

This chapter contains brief descriptions of 105 possible actions to affect the federal budget. They are listed in the same order as the budget function categories to which they apply. A few affect more than one function; these have been assigned to the function on which the proposal has the largest dollar impact.

The list of 105 potential changes is by no means exhaustive; many others could be added. The inclusion of an item on the list, or its omission from it, does not imply a recommendation by the Congressional Budget Office (CBO). The items discussed are simply illustrative examples.

The savings estimates contained in this chapter for direct spending programs are calculated against CBO's preliminary five-year budget projections (the "CBO baseline") for fiscal years 1982-1986, unless a different source is specifically cited. The CBO baseline is not a forecast of what will happen. Rather, it is intended to answer the question: What might the federal budget look like in each of the next five years if the policies embodied in the budget actions taken by the Congress through December 31, 1980, were continued unchanged--except for adjustments to reflect inflation and demographic changes?

Each item also includes estimated savings resulting from the CBO option, using President Carter's fiscal year 1982 budget recommendations as the base for the calculation. If the resulting estimate is the same as that derived from the CBO baseline, only one estimate is given. In those cases where savings from the Carter budget differ from those against the CBO baseline, both are displayed and the difference is accounted for in the text.

When the item involves revenue rather than spending changes, the revenue gain of the CBO option applies both to the CBO baseline and to the Carter Budget. If President Carter has made a related proposal, the item shows the gain against the CBO baseline from both the CBO option and the Carter budget proposal.

The estimated savings or revenue gains shown for the separate items cannot be added to a grand total because some of the

proposals are alternatives to others, and because some may affect the expenditures of other federal programs in ways that are difficult to estimate precisely.

In general, the savings estimates assume that the proposal under discussion will take effect on October 1, 1981. If a different effective date is assumed, it is stated in the discussion of the item. This is particularly the case with those proposals involving reductions in tax subsidies; there the date used is the earliest feasible one that is consistent with fairness and practicality.

All of the savings estimates in this report are preliminary. They will be updated in mid-March 1981 to reflect any changes to the CBO baseline projections stemming from possible revisions in economic assumptions, and from detailed analysis of new programmatic information in President Carter's fiscal year 1982 budget, or as it may be amended by President Reagan.

CONTINUED RESTRUCTURING OF MILITARY BASES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	38	135	150	166	489
Outlays	0	32	118	144	161	455

NOTE: Preliminary estimates, subject to change.

The Department of Defense manages over 5,000 installations and properties worldwide. The cost of operating and maintaining these facilities in fiscal year 1981 will be about \$16 billion. Since 1969, the department has taken more than 4,000 realignment and closure actions designed to provide a more efficient defense structure and to reduce base operating costs. Further actions are possible.

Proponents of further base restructuring point to the wide variation in base operating support costs as an indication of the potential savings from such actions. For example, the cost per person assigned to a mission task at the most expensive base often exceeds that at an average base by three to one and sometimes much more--even after adjusting for base size and type of mission. While many factors influence such cost comparisons, the wide variation suggests that further efficiencies are possible. Proponents also contend that changes in the nation's strategic needs, force levels, and weapons technology demand modifications in the existing basing structure. Such realignments need not eliminate places for reserve unit training or reduce mobilization potential, since bases can be put in caretaker status.

CBO has no independent estimate of the total savings possible from further base realignments, because such estimates depend critically on detailed reviews of the situation at each base. One basis for an estimate is the Department of Defense's March 1979 base realignment proposals affecting 157 military installations and activities. If the department pursues and the Congress allows the remaining realignments in this proposal, total savings over

the next five years would amount to \$455 million. These savings would result primarily from a reduction of 2,700 military and 2,800 civilian positions. There would be few if any savings in 1982 because of the added costs of construction, transferring employees, and avoiding economic dislocation.

The major opposition to base realignments stems from the economic dislocation they might produce in communities near the bases--often a cause of intense local concern. Measures can be taken, however, to mitigate this. The Department of Defense states that its Office of Economic Adjustment has been relatively successful in providing planning assistance and ensuring that federal grants and loans are directed to affected communities.

INCREASE IN JOINT-SERVICE ADVERTISING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	18	21	24	26	29	118
Outlays	15	20	23	26	29	113

NOTE: Preliminary estimates, subject to change.

Since the transition to an all-volunteer force began in 1973, advertising budgets for military recruiting have grown from almost nothing to over \$140 million for fiscal year 1981. Less than 10 percent of these funds have been dedicated to joint advertising in which two or more services appear in the same advertisement. Yet the Department of Defense has found that, for certain purposes, joint-service advertising would be more cost-effective. Tests show, for example, that joint-service magazine advertising yields, per dollar spent, 1.5 times the number of applicant leads for recruiting as does single-service magazine advertising. Joint-service advertising may also help to avoid undesirable interservice competition for recruits.

If these findings hold for all advertising media, the services could cut advertising costs substantially and still obtain the same number of qualified leads. For example, if Congressional appropriations actions mandated conversion of one-half the single-service media budgets into joint advertising, savings could amount to \$15 million in fiscal year 1982 and \$113 million over the next five years.

The principal argument against joint-service advertising is that it provides a popular service, such as the Air Force, with more leads than others like the Army, even though the Army's manpower requirement is far greater. Also, single-service advertising is useful in publicizing occupations such as armor crewman or nuclear propulsion specialist that are unique to a specific service. Under the option described above, however, the services could use the half of their advertising funds not devoted to joint advertising to meet these specialized objectives.

STREAMLINING OF MILITARY RECRUITING SUPPORT OPERATIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	66	73	80	88	96	403
Outlays	59	71	79	87	95	391

NOTE: Preliminary estimates, subject to change.

The transition to an all-volunteer force during the 1970s spawned a dramatic growth in military recruitment costs, which rose from about \$125 million in fiscal year 1970 to nearly \$1 billion in 1981. These expenditures pay for recruiting, examining, advertising, cash enlistment bonuses, and education incentives for active and reserve recruits. About two-thirds of the total is for the pay and support of some 18,000 production recruiters working in 7,000 recruiting offices nationwide.

A decade of experience suggests possible ways of reducing these costs without reducing productivity. For example, the Department of Defense could consolidate a number of logistical and administrative support functions common among the services, including the training of recruiters, the development and operation of computerized recruit information systems, the leasing of vehicles and recruiting offices, and specialized functions such as education and occupational guidance counseling. The services, and particularly the Army, could also streamline their recruiting management structures and search for other opportunities to consolidate and standardize operations in this field.

If Congressional appropriations action mandated these changes, CBO estimates savings of \$391 million would be possible over the next five years, primarily from personnel reductions. The Congress might well require a detailed plan from the services for minimizing transition difficulties and the risk of recruiting shortfalls before mandating the changes described here.

ENDING OF CERTAIN SOCIAL SECURITY CREDITS FOR MILITARY PERSONNEL

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	30
Outlays	0	0	0	0	0	30

NOTE: Preliminary estimates, subject to change.

Since 1957, military personnel have contributed to the Social Security System and received benefits in proportion to their basic military pay. But some military personnel receive additional Social Security benefits based on credits of as much as \$1,200 a year for which they do not contribute. The noncontributory credits are given to personnel whose basic pay is less than the maximum earnings subject to Social Security taxes--in 1980, over 95 percent of those in uniform.

According to a 1980 General Accounting Office (GAO) study, the Congress intended the noncontributory credits to provide added disability and survivor benefits for those who spend only a few years in the military. GAO concluded, however, that today's noncareer personnel generally receive disability and survivor benefits from several sources and in adequate amounts. Moreover, the Congress apparently did not anticipate that career military personnel would benefit from the noncontributory credits, although recent increases in the maximum earnings subject to Social Security taxes ensure that most will.

If the Congress eliminated noncontributory credits for future service, the Social Security System would begin to experience savings in about 15 years. These savings would eventually grow to about \$30 million a year (in 1982 dollars). Elimination of the noncontributory credits would, of course, slightly reduce military compensation. Any adverse effect on retention should be small, however, since the benefits based on the noncontributory credits are small and are received many years after military reenlistment decisions are made.

CONTINUED RESTRUCTURING OF ACTIVE-DUTY MILITARY RETIREMENT

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	0	0	0	900
Outlays	0	0	0	0	0	900
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The active-duty military retirement system provides benefits for about 1.2 million retirees at a cost of about \$13 billion in fiscal year 1981. Under this system, nondisability retirees earn benefits after 20 or more years of service irrespective of their age or whether they subsequently find employment in the private sector. Those serving for fewer than 20 years earn no benefits. Five major studies, plus a legislative proposal from the Carter Administration, have recommended providing more of the total military compensation package "up front" rather than in retirement years. This would provide mid-career personnel with increased incentives to remain in the service, while reducing the incentive to leave the military immediately after completion of 20 years' service. In 1980, the Congress moved in this direction by requiring that retirement pay for new recruits be based on the three years when their pay was highest, rather than their pay on the day of retirement.

The Congress could continue to change the military retirement laws along lines recommended in various studies. It could implement a Social Security "offset" for nondisability retirees in order to integrate military retirement benefits with Social Security. The offset would equal the portion of the Social Security pension attributable to military service, but not more than 40 percent of military benefits. This formula was enacted last year for the military survivor benefits program. In order to move some of the savings from this offset up front, the Congress could also provide a deferred benefit, beginning at age 60, for those leaving the military with between 10 and 19 years of service. This deferred benefit would be based on the same formula as the annuities provided those serving longer careers.

The deferred benefit for those serving 10 to 19 years would increase the rate of reenlistments by first-term personnel. This would offset the decline in retention resulting from the Social Security offset. This package would thus increase the numbers of career personnel with five to 12 years of service, a shift most of the services think desirable. The changes would also save money. Savings would eventually reach \$0.9 billion a year, or about 7 percent of long-run nondisability retirement costs. Although the savings would probably not begin for at least 20 years, the liability that the government is accruing for future retirement costs would be adjusted immediately.

The Social Security offset might be opposed by the services as an erosion of benefits, especially if it was applied to personnel currently on active duty. There is also some uncertainty with respect to CBO's estimates and there could be a net decline in retention.

President Carter's fiscal year budget recommendations include proposals similar to the foregoing. Therefore, this option would not produce substantial savings relative to the Carter budget.

RESTRUCTURING OF RESERVE RETIREMENT PAY

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	300
Outlays	0	0	0	0	0	300

NOTE: Preliminary estimates, subject to change.

Under current law, military reservists with 20 or more years of satisfactory service are eligible for a retirement annuity beginning at age 60. About 113,000 former reservists are drawing retirement pay, at a cost to the federal government of \$687 million in fiscal year 1980.

Numerous studies have criticized the military compensation system for providing too great a proportion of benefits upon retirement, and not enough compensation in earlier years. This may tend to produce a shortage of junior personnel and an excess of senior careerists. An informal 1978 study by the Department of Defense of the reserve compensation system contained data showing the fraction of reservists with 20 or more years of service to be more than 50 percent above the level desired.

The Congress could take account of these criticisms and reduce reserve retirement benefits for senior careerists by integrating them with Social Security. The reserve retiree's annuity might be reduced by the portion of his Social Security pension attributable to his military earnings, but by not more than 40 percent of military benefits. This formula was enacted in 1980 for the military survivor benefits program. In addition, the Congress could provide an annuity at age 60 for enlisted reservists separating with between 10 and 19 years of service, using the same formula applied to those with longer careers. Currently, those who leave with fewer than 20 years of service receive nothing.

Net savings from these changes would eventually reach about \$300 million a year (in 1982 dollars), or about 20 percent of

reserve retirement costs. Significant outlay savings under this option would not begin for 10 to 40 years, depending upon the treatment of those now in the reserves, but the liability that the government is accruing for future reserve retirement costs would be adjusted immediately.

The incentives provided by these changes could improve the composition of the reserve forces, as well as overall reserve manning. On the other hand, such major changes in the long-established reserve compensation system might have a detrimental impact on manning in some reserve components.

INCREASE IN THE STATES' SHARE OF ARMY NATIONAL GUARD COSTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	210	230	250	270	300	1,260
Outlays	210	230	250	270	300	1,260

NOTE: Preliminary estimates, subject to change.

The 344,000 members of the Army National Guard serve two functions. They are part of the nation's reserve military forces, and they are used by the states to keep order when other police and security forces are inadequate, for assistance after natural disasters, for holiday traffic patrols, and for other state purposes. The states pay salary costs only when the Guard is actively performing a state mission; they pay nothing else toward the cost of the insurance role the Guard fulfills. This option would require the states to pay 10 percent of the operating cost of the Army Guard.

The argument in favor of the change, aside from the federal savings that would occur, is that it is reasonable to ask state governments to bear at least a part of the ongoing costs of military units that are primarily used for state purposes; and that, if the states had to pay some part of the costs, they would examine more carefully the desired size and capability of their Guard units. Opponents might well argue that the Guard's size is determined by federal mobilization requirements and that the Guard's state functions are simply auxiliary duties.

SUBSTITUTION OF KC-10 PROCUREMENT FOR KC-135 RE-ENGINEING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	-353	507	701	764	1,715	3,334
Outlays	-36	-105	169	536	813	1,377
Carter Budget						
BA	0	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	0	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

For several years, the Air Force has sought to expand its aerial refueling capacity through two programs: first, procurement of the new KC-10 advanced tanker, already begun; and second, development of a program to replace the old, noisy, and less efficient engines of the existing KC-135A tanker with modern engines. The CBO baseline includes funds to re-engine 288 KC-135A tankers during the next five years, which would increase aerial refueling capacity by the equivalent of 144 KC-135A aircraft. This is because the new engines would permit the KC-135A to carry more fuel while consuming less for its own flight.

On the other hand, it would be less expensive to purchase more KC-10 tankers. On missions for which either tanker is suitable, the KC-10 is estimated to be roughly equivalent to three KC-135As. Consequently, 48 additional KC-10 aircraft would equal the capabilities offered by re-engining 288 KC-135As. Buying these extra KC-10 aircraft, and not re-engining any KC-135A aircraft or developing the program, would save a total of \$1,377 million over the next five years. These savings assume that the 48 KC-10 aircraft would be purchased at a rate of one per month under terms comparable to those of the current contract, which offers substantial discounts for purchases of this size and rate.

In addition to providing roughly equal capability for many missions for which either tanker is suitable, this option would also increase the number of large KC-10 tankers, which are particularly efficient refuelers on long, nonstop transits like those

to the Persian Gulf. The option would, however, mean keeping in operation noisy and less efficient KC-135A aircraft. Their noise causes problems for the Air National Guard, which sometimes operates them near heavily populated areas. Moreover, operating expenses under this option could be expected to increase--mostly in years beyond 1986--because of the manpower needed to support the extra KC-10 aircraft, though the life-cycle increases in operating costs would be substantially less than the procurement savings over the next five years.

President Carter's fiscal year 1982 budget recommendations contain no KC-10 procurements and no substantial funds for KC-135 re-engining. Consequently, there is no opportunity for the trade-off proposed in this option.

TERMINATION OF E-4B AIRCRAFT PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	388	320	0	708
Outlays	0	0	39	204	281	524
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The E-4B is a 747 aircraft modified to function as an airborne military command post during a nuclear war. The planes are intended to serve both as a National Emergency Airborne Command Post (NEACP) for the President and his advisors and as support for the Strategic Air Command's "Looking Glass" mission, which provides a command post on continuous airborne alert over the central United States.

The Department of Defense has four E-4 aircraft that are sufficient to support the NEACP role; all have been or will be upgraded to the E-4B configuration. The department plans to buy two more E-4B aircraft for the Looking Glass mission. If the Congress did not buy these two aircraft, savings over the next five years would total \$524 million.

If no further E-4B aircraft were purchased, Looking Glass missions would continue to be flown by the EC-135 aircraft (707-type) that have been used over the past 20 years and are now being modernized. The savings figure cited above includes the added costs needed to enhance this modernization. Many of the advantages of the E-4B have been incorporated into the modernization program. The E-4B and EC-135 will have comparable computer capabilities. Very low frequency (VLF) communications, a key type of communications, will be improved on the EC-135 and will substantially match VLF coverage on the E-4B. Satellite terminals for EC-135 aircraft are currently under development and could be fielded quickly.

The E-4B does have several advantages over the modernized EC-135. The E-4B could carry a larger battle staff (41 versus 17), have greater endurance in an emergency, and be hardened against certain nuclear effects. Even if Looking Glass was not routinely flown by the larger E-4B aircraft, however, some of the four existing E-4Bs could be used to complement current operations if there was sufficient warning of an emergency.

President Carter's fiscal year 1982 budget recommendations do not contain sufficient detail to permit calculating the effect of the proposal relative to his budget.

ACCELERATED BUYOUT OF AIRCRAFT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	-790	502	540	0	0	252
Outlays	-126	-374	-7	408	264	165
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The Department of Defense is planning to phase out the production of the F-14, F-15, and A-10 aircraft over the next three years. By ending the production of each aircraft one year earlier, but buying more aircraft in the remaining years, so as to buy the same total number of aircraft, savings of approximately \$165 million could be achieved. These savings result from economies of scale in production and the elimination of one year of factory overhead costs for each aircraft program.

Under this modified program, each of the production lines would close one year earlier, thereby reducing the fighter aircraft production base, with a loss of tooling and skilled factory labor. Thus, in case of an unexpected war, it would take a considerable period of time to restart production of these aircraft, as compared with the expansion of an ongoing production line. However, ongoing production lines for other similar combat aircraft exist in both the Air Force and the Navy.

President Carter's fiscal year 1982 budget deletes further procurement of A-10 aircraft beginning in 1982. Additional information about outyear programs is not available at this time. Consequently, there is no present basis for estimating savings relative to the Carter Budget from an accelerated buyout.

LIMITING OF DEFENSE INVESTMENT INCREASES TO 3 PERCENT REAL GROWTH

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	3,000	6,500	8,800	6,300	-7,900	16,700
Outlays	400	1,700	3,100	4,200	2,500	11,900
Carter Budget						
BA	1,600	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	900	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

In fiscal year 1981, the Congress provided for an increase of 15 percent in the real value of budget authority for the investment accounts of the Department of Defense: research and development (R&D), procurement, and military construction. The Congress could decide, however, that real increases in investment budget authority over the next five years should be limited to the 3 percent annual rate of growth that is the NATO standard for overall defense expenditures. This would reduce investment budget authority by almost \$17 billion over the five-year period 1982-1986 relative to the CBO baseline, and result in outlay savings of about \$12 billion in the same period.

Such a strategy would not affect Congressional commitments to increases in defense expenditures for pay or operating expenses. It would, however, slow modernization of the armed forces in a period when some believe that rapid modernization is needed. It might also send the wrong signal to U.S. allies, whom many believe need to do more, but are only likely to do so with strong U.S. leadership.

A cut of this magnitude would require some substantial changes to current plans. Several suggestions have already been offered elsewhere in this report; if all of these were pursued, five-year savings would total more than \$4 billion relative to budget authority in the CBO baseline.

One way to achieve the remaining \$13 billion in savings would be to proceed more slowly with those programs whose schedules are jeopardized by technological and other concerns, and to reduce or cancel programs for which cheaper substitutes might be available. A list of examples is provided below that would save \$13 billion over the 1982-1986 period, although the annual pattern of savings might differ from the table above.

Delaying development of the MX missile basing system by one year, to permit resolution of current environmental concerns, would save \$8 billion relative to baseline budget authority, although this would also delay initial deployment of MX by a year. Delaying the manned bomber for a year, to provide additional time for deciding among competing alternatives, could save at least \$1 billion during the 1982-1986 planning period, and perhaps as much as \$7 billion, although again at the potential cost of delaying initial deployment of the aircraft.

To respond to escalating costs in the F/A-18 program and the Navy's preference for the F-14 fighter, F/A-18 procurement could be limited to enough aircraft to equip nine Marine fighter squadrons. This would save \$2.5 billion even after allowing for purchase of 150 additional F-14s, 198 additional AV-8Bs, and 180 A-7s to make up the deficit in Navy and Marine aircraft. Limiting procurement of the AEGIS cruiser to three in 1982, versus the four assumed in the CBO baseline, would permit a more orderly buildup of the program and save \$0.9 billion. Limiting procurement of the XM-1 tank to equipping the divisions that would deploy to Europe in the first ten days following mobilization, while developing a two-man tank as a follow-on that would be less expensive to operate, would save \$0.8 billion.

President Carter's fiscal year 1982 budget authority recommendations propose more R&D and military construction, and less procurement than the CBO baseline contains. Consequently, the pattern of cuts relative to President Carter's budget request would be somewhat different, but insufficient information is available to make calculations at this time.

INCREASED EFFICIENCY IN DEFENSE PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

In fiscal year 1982, the Department of Defense will buy over \$100 billion in goods and services from the private sector. This cost could possibly be reduced, without eliminating any purchases, by more efficient procurement procedures.

The department could, for example, use more than one company to manufacture a weapon. Particularly for weapons like missiles that are bought in large quantities, such "second sourcing" maintains competition and may cut long-term costs substantially. Also, the department could buy weapons at more economic rates, which may often be higher than today's procurement rates. If these buy rates are consistent with defense needs, they would minimize overhead costs that must be paid to producers. Many questions must, of course, be considered in deciding on second sourcing and the buy size for weapons. The Congress could focus attention on these questions by requiring that the department submit a statement with each proposed buy of weapons. The statement would assess the desirability of second sourcing or changing the buy size, and estimate the costs and savings associated with such actions.

The Congress might also want to grant the department more authority to enter into multiyear contracts for selected weapons systems. Such multiyear contracts reduce the uncertainty about future buys. This may cut costs by prompting producers to stockpile needed raw materials that are likely to increase in price, encouraging investments in tooling that cut long-run costs, and facilitating efficient scheduling by prime contractors and their subcontractors. The Congress could increase the opportunities for multiyear contracting, while also retaining leeway to terminate a program, by increasing the payments that can be made to a company if its multiyear contract is terminated early.

Finally, the Department of Defense might be able to cut down on procurement red tape. The Defense Acquisition Regulations encompass 3,000 pages and are supplemented by over 27,000 pages of additional procurement regulations issued by major Defense Department commands. The regulations mandate highly specific and exacting material standards, manufacturing processes, quality assurance, contract supervision procedures, and documentation. Studies of the costs of applying these regulations to major defense systems suggest that they add between 20 percent and 100 percent to the costs of goods, for little or no gain in effectiveness. Contracting could be simplified by more use of commercial products as well as more use of performance standards instead of detailed process and material standards, as recently directed in the Office of Management and Budget's Circular A-109. These changes could be mandated by the Congress in a revision of the federal procurement codes.

Specific savings are not shown above because there is no way to estimate them accurately. Nonetheless, if such efficiencies resulted in a reduction of 5 percent in the cost of purchases for procurement and research and development--and case studies suggest that, at least in certain instances, such savings could be achieved--then savings over the next five years would total over \$22 billion in budget authority and \$16 billion in outlays.

These efficiencies might, however, create problems. Reductions in red tape assume less direct federal supervision of contract operations. Unless this shift is accomplished carefully, both quality and accountability could be degraded. Multiyear contracting requires the Congress to surrender some control over programs once they are initially approved. Second sourcing, while promising for certain types of weapons, may involve increases in initial costs as the government pays new contractors to become qualified to produce complex weapons.

REFORM OF FEDERAL WAGE-SETTING PROVISIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	370	890	1,090	1,200	1,310	4,860
Outlays	370	890	1,090	1,200	1,310	4,860
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The hourly pay rates of blue-collar workers under the Federal Wage System (FWS) are adjusted annually in an attempt to maintain comparability with wage rates paid by the private sector in the same locality. Under certain provisions of current laws and regulations, however, the 400,000 FWS employees may receive about 10 percent more than their nonfederal counterparts in similar jobs, with a few receiving as much as 20 percent more. Recent limits on federal pay raises have reduced these differentials, but the laws and regulations remain.

The Carter Administration and previous Administrations have repeatedly recommended changes in the law governing FWS paysetting provisions in order to eliminate the differentials. The changes have also been recommended by a presidential commission and the General Accounting Office. If the changes were enacted, the five-year savings through 1986 could exceed \$4.8 billion. This estimate of savings assumes, however, that FWS workers would be granted a catch-up raise in fiscal year 1982 to make up for past limits on federal pay raises, and that no further limits would be imposed over the next five years. About 80 percent of the savings would accrue to the Department of Defense.

Proponents of the proposed changes argue that the present system is overgenerous to FWS workers and unfair to federal taxpayers. Labor unions and others opposing the changes assert that private-sector practices vary greatly, and that some are similar to the federal system. They also contend that the reforms

would be selective, dealing only with those aspects of the wage-setting mechanism favorable to employees, while continuing those aspects of the system tending to depress federal wage rates.

President Carter's budget recommendations for fiscal year 1982 include proposals similar to the foregoing. Thus, there are no savings relative to the Carter budget.

ELIMINATION OF DUAL PAY FOR RESERVISTS WHO ARE FEDERAL EMPLOYEES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	53	58	63	69	75	318
Outlays	52	58	63	69	76	318
Carter Budget						
BA	23	28	33	39	45	168
Outlays	22	28	33	39	46	268

NOTE: Preliminary estimates, subject to change.

Federal civilian employees who are reservists in the armed forces receive both civilian and military pay during their two-week annual period of active duty for training. They also receive their regular vacation entitlement. The Carter Administration and earlier Administrations have recommended paying such employees the greater of their civilian or reserve salaries, rather than both. This initiative was included in the House version of the Omnibus Reconciliation Bill for 1980, but was taken out in conference. Adopting it would save more than \$300 million over the next five years. Savings could all be in defense if the change were implemented by reducing reserve pay, or they could be spread throughout the federal budget under other schemes.

Those who favor such a change point out that the dual pay practice is generally not followed by private employers, nor by the federal government itself when a reservist is called up for state duty. Under those circumstances, the employee receives only the higher salary. Moreover, the practice may attract disproportionately large numbers of federal employees to the reserves, despite the greater likelihood that their civilian jobs would excuse them from a military mobilization. The counter-argument is that the change could have an adverse effect on recruiting and retention of reserves--in a force already falling short of its enlisted manning goals. (If the Congress limited the change to officer reservists--who are not in short supply--the earnings over the next five years would still exceed \$100 million relative to the CBO baseline.)

President Carter's budget recommendations for fiscal year 1982 assume enactment of this proposal. The Carter budget, however, apparently does not include savings for reservists employed outside the Department of Defense.

SALE OF SURPLUS SILVER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	229	229	229	229	229	1,145
Outlays	229	229	229	229	229	1,145
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The federal government currently holds 139.5 million troy ounces of surplus silver, valued at approximately \$2.1 billion in January 1981 prices. Silver has not been required for the national strategic stockpile since 1976, because supplies in the United States, Mexico, and Canada are considered adequate for defense needs. But the silver inventory, stored in the form of ingots, cannot be disposed of without authorizing legislation. If the Congress were to approve the disposal of 15 million troy ounces of silver a year, receipts to the government--assuming the average January 1-15, 1981 price of \$15.24 per troy ounce--would accumulate to about \$1.1 billion through fiscal year 1986.

To the extent that disposal might lower silver prices, the legislation would be opposed by domestic mining and metal processing industries, and by foreign countries relying heavily on silver exports. Other opponents fear that U.S. defense preparedness might be weakened. The disposal of surplus silver could also be viewed as an artificial budget reduction measure in that the sale of assets does not reduce federal purchases of goods and services. Proponents argue, however, that the silver inventory is unnecessary and could best be used as a source of federal revenue.

President Carter's fiscal year 1982 budget recommendations assume the sales described above, beginning in fiscal year 1981. Consequently, enactment of this item will result in no savings relative to the Carter budget.

REDUCTION OF P.L. 480 TITLE I SALES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	100	214	347	499	673	1,833
Outlays	100	214	347	499	673	1,833
Carter Budget						
BA	53	102	260	373	433	1,221
Outlays	53	102	260	373	433	1,221

NOTE: Preliminary estimates, subject to change.

Agricultural exports are subsidized under the Agricultural Trade Development Act of 1954 (P.L. 480), which was enacted in a period when the inconvertibility of foreign currencies and the lack of foreign exchange held by potential customers inhibited commercial exports of large domestic surpluses of agricultural commodities. Sales for foreign currencies and, under later amendments to the law, dollar credit and convertible local currency credit provided a mechanism for developing markets, disposing of surplus commodities, and furthering U.S. foreign policy interests. (Humanitarian feeding programs are financed through Title II, Foreign Donations.)

In fiscal years 1956 through 1965, the P.L. 480 program financed between one-quarter and one-third of all agricultural exports. Since the mid-1960s, the value and tonnage of Title I shipments have declined as commercial exports have grown. In fiscal year 1980, Title I concessional sales represented only 3 percent of total agricultural exports, although they still accounted for a larger share of exports of particular crops (for example, 6.5 percent of wheat and 13.0 percent of rice).

Moreover, conditions in the agricultural marketplace have changed significantly since the 1950s. Disposing of surpluses is no longer a primary concern. In fact, in the early 1970s and again in 1980, poor crops and strong commercial export demand have driven up domestic food prices, contributing to inflation. Another year of poor harvests may even bring pressure for export controls.

Subsidized sales may be inimical to long-run U.S. interests if cheap food discourages local investment in agricultural production and discourages other countries from building local stockpiles of commodities. On the other hand, concessional sales through Title I are used to further U.S. foreign policy. Responding to the 1977 Congressional mandate, 75 percent of concessional sales now go to low-income countries (per capita GNP of \$625 or less). Concessional sales also provide budget support to selected countries for purposes related to U.S. national security. About half the dollar volume of sales in the 1981 allocation is to countries receiving assistance through the security-oriented Economic Support Fund.

Since two of the three original objectives of Title I sales have been satisfied, the Congress might decide to limit Title I sales to countries in which the United States has a strong foreign policy interest, which are suffering from foreign exchange and food shortages, and which have a history of effective use of U.S. aid. In that case, Title I sales could gradually be cut in half over the next five years, for a saving of \$1.8 billion. The net budget savings could be smaller in some years because of domestic farm support payments that might increase in the absence of Title I sales.

President Carter's fiscal year 1982 budget recommendations assume lower funding levels than those in the CBO baseline, thus accounting for the differences in estimated savings shown in the table.

PHASING OUT OF DISCs

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.8	2.1	2.4	2.8	3.0	
Increase from Phasing out of DISC	0.2	0.8	1.7	2.4	3.0	8.1
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

A Domestic International Sales Corporation (DISC) is a special corporation, established as a conduit for export sales, that is allowed to defer payment of corporate income tax on a portion of its profits.

In many cases, the DISC is a paper corporation with no employees and no actual operations. The DISC tax subsidy actually goes to the parent or an affiliated corporation, since the export-related profits of this corporation can be allocated to the DISC. One-half of the tax liability on these profits (over a base level) can be deferred indefinitely. Special intercompany pricing rules governing the allocation of income between the DISC and its related suppliers enhance the tax subsidy.

The principal objective of the legislation establishing DISCs in 1971 was to increase exports as a way of improving the U.S. balance of trade and increasing domestic employment. The statute was intended to help offset existing tax incentives, both U.S. and foreign, that encourage U.S. companies to favor production abroad over production at home for sale abroad.

Some evidence suggests that the level of exports increased modestly during the 1973-1978 period because of the DISC provisions. Most of this increase took the form of one-time expansions of exports during the first few years of each DISC's operation. Treasury Department estimates indicate that, because of competition between DISC and non-DISC exports, the net increase in exports attributable to DISCs is at most equal to the tax receipts forgone, and probably is less.

Critics of DISCs contend that this type of tax subsidy is inefficient. They maintain that it is not flexible enough to respond to changes in the overall U.S. trade position; in particular, that it cannot easily be retargeted as prospects for growth in the exports of more competitive commodities improve or as the need for export support for ailing industries increases. In addition, other countries see DISCs as illegal tax subsidy vehicles as defined by the General Agreement on Tariffs and Trade.

The tax benefits of DISCs could be reduced in a variety of ways. One method, similar to a 1978 Administration proposal, would be to phase out the tax benefits over a three-year period, beginning January 1, 1982. This would increase federal revenues by about \$8.1 billion over the 1982-1986 period.

The accumulated tax on past earnings of DISCs could continue to be deferred as long as the earnings remain invested in export-related assets. Alternatively, some or all of the accumulated tax liability could be recaptured over a specified period.

INCREASED INTEREST CHARGES ON DEVELOPMENT LOANS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	8	24	41	59	75	207
Outlays	8	24	41	59	75	207
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The United States makes loans to developing countries to assist their development through functional assistance, food aid, and the Economic Support Fund. Currently, the same rates of interest are charged on loans to the least-developed countries as on most loans to middle-income developing countries. Interest on these loans is set at 2 percent during implementation of a project (when only repayments of interest are made) and 3 percent once the project is operating (when repayments of both interest and capital are required). In contrast, the World Bank--another major international lender--requires only a service charge on loans to the poorest countries but currently charges about 8 percent on loans to middle-income countries. If development loans to such countries were subject to 8 percent interest over the term of the loan, net savings to the United States would total about \$207 million over the next five years. The savings would take the form of offsetting receipts rather than a decline in the development loan budget.

One argument in favor of this option is that, as long as the interest rate is below the market rate, the charges should reflect a nation's level of development or ability to pay. As wealth increases, the need for highly subsidized loans presumably diminishes. The World Bank uses this reasoning in determining eligibility for certain of its loans.

Opponents of this proposal might argue that development projects tend to help the poorest people within the middle-income countries, thus making lower interest rates appropriate. Increased

interest rates would also reduce the net aid provided by the United States, and hence decrease assistance to some less developed countries. Higher interest charges could also increase pressure on the Congress to provide larger amounts in outright grants, which has been a trend in recent years.

President Carter's fiscal year 1982 budget recommendations for programs affected in this option do not include the country-by-country detail necessary to permit calculating the savings relative to his budget.

ELIMINATION OF ONE SPACE SHUTTLE ORBITER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	199	262	122	0	0	583
Outlays	147	240	157	36	3	583

NOTE: Preliminary estimates, subject to change.

The space shuttle program calls for four shuttles, with the fourth orbiter to be completed and delivered by 1984. The first three orbiters are capable of reliably performing 27 shuttle flights per year. The fourth orbiter, estimated to cost \$979 million, would provide program flexibility, enabling additional and/or multiple flights for either civilian or military purposes.

Eliminating the fourth orbiter would save less than its estimated cost of \$979 million. About \$51 million has already been authorized for fiscal year 1981. Moreover, part of the cost of the fourth orbiter cannot be separated from the common costs of manufacturing all the shuttles and from subcontractor overhead costs. Some of these costs would be redistributed over the remaining three orbiters if the fourth was eliminated. When NASA deleted its planned fifth orbiter, it estimated the savings to be \$365 million, or 63 percent of the estimated total costs for that shuttle. A realistic total savings estimate for deletion of the fourth orbiter would be 63 percent of the \$979 million, or \$583 million over the 1982-1986 period.

There might be some offsetting costs in the defense budget if any of the three orbiters was rendered inoperable and the planned flight schedule was maintained. In this event, the Department of Defense would need to purchase expendable launch vehicles, each costing about \$100 million, to execute its critical missions; or military missions might be given priority over civilian flights with the remaining orbiters.

ELIMINATION OF DOE FUNDING FOR SYNTHETIC FUEL DEVELOPMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	545	690	600	710	700	3,245
Outlays	250	465	605	710	725	2,755
Carter Budget						
BA	802	1,285	838	352	425	3,702
Outlays	697	1,085	1,074	546	371	3,773

NOTE: Preliminary estimates, subject to change.

The 96th Congress established the Synthetic Fuels Corporation to fund production of commercial-scale plants for synthetic fuel production processes. The plants must have passed an initial stage of development. Some processes that are not as far along are to be demonstrated on a smaller scale by the Department of Energy (DOE).

Five plants are now scheduled for small-scale demonstration. Two involve making synthetic liquids from coal: Solvent Refined Coal-1 (SRC-1), and Solvent Refined Coal-2 (SRC-2). Two would make high-BTU gas from coal, and a fifth would make medium-BTU gas. The plants are to demonstrate these technologies on a scale large enough to provide assurances that a full-size plant employing them is feasible. The demonstration plants will be funded through DOE.

Such demonstration plants may assist in eliminating technological uncertainties that deter private investment in full-scale synthetic fuel plants. Yet they need not be funded through the DOE budget. There is reason to believe that sufficient private capital is available in the energy industry to develop new energy technologies. Moreover, the funding of any technology through DOE undermines the competition among technologies for fixed funds within the Synthetic Fuels Corporation, and reduces the long-term effectiveness of federal expenditures to develop synthetic fuels production. Eliminating DOE funding of the five demonstration plants would save approximately \$2.8 billion in outlays over the next five fiscal years.

President Carter's budget recommendations for fiscal year 1982 include the deferral of one of the high-BTU gas plants. This will not significantly affect the savings given above. The President's budget also assumes a faster rate of plant completion than does the CBO baseline.

TERMINATION OF THE CLINCH RIVER BREEDER REACTOR PROJECT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	300	350	350	300	200	1,500
Outlays	175	275	325	330	275	1,380
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

Breeder reactors are nuclear reactors that produce more fuel material than they consume. Public debate over the commercialization of breeders has centered on the dangers of theft and diversion of nuclear materials, proliferation of nuclear weapons, increased accidents, and hazards to health. The economic efficiency of breeder reactors is also debatable, as are the questions of if and when they will be needed.

The federal government has been supporting breeder reactor research and development to ensure that, if the country moves forward with breeder reactors, the safest and most efficient technologies will be used. Approximately \$750 million was appropriated in each of fiscal years 1979 and 1980 for programs supporting breeder research and development.

One part of these efforts, the Clinch River Breeder Reactor Project, has caused particular controversy. The Clinch River project was originally intended to demonstrate that a liquid-metal fast breeder reactor could be operated reliably and safely as part of a public utility electric supply system. This demonstration project is considered by some authorities to be outdated and unnecessary. Their objections are based, in part, on the project's escalated costs and engineering and technical uncertainties. In addition, France has made a strong commitment to the breeder reactor and appears to have more advanced technologies at later stages of development. The need for the Clinch River demonstration reactor may therefore be obviated by the possibility of licensing a French design. Terminating the project could save the government approximately \$1.4 billion over the five-year period 1982-1986.

The need for this project has been debated extensively. The General Accounting Office has, for example, argued that the general breeder programs need the direction and focus provided by such a demonstration facility. From 1977 onward, the Carter Administration tried to terminate the project, although the Congress continued to fund it. The project was not included in the President's 1980 budget recommendation, but \$172 billion was nevertheless appropriated for that purpose. The President's 1981 budget recommendation was once again to stop funding it, which could have saved the federal government a total of about \$1.7 billion--the cost of completing the project. Nevertheless, the Congress continued funding for the project through June 5, 1981, at the fiscal year 1980 levels.

Terminating the Clinch River project would not necessarily imply permanent rejection of the fast breeder reactor program. It would indicate only that this specific project was deemed no longer appropriate. In fact, the Congress has provided over \$490 million in fiscal year 1981 for continued research and development in other breeder reactor programs. If in the future another demonstration facility should be deemed necessary, spending on such a project might exceed the savings from terminating the Clinch River Breeder Reactor.

President Carter's budget recommendations for fiscal year 1982 again assume no funding for the Clinch River project, so adoption of this item will not result in any savings relative to the Carter budget.

PRIVATE FINANCING OF THE STRATEGIC PETROLEUM RESERVE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	3,780	4,600	3,815	3,740	2,820	18,755
Outlays	4,100	4,850	4,395	4,030	3,020	20,395
Carter Budget						
BA	3,898	3,645	2,517	2,948	7,127	20,135
Outlays	3,660	4,050	2,703	2,425	4,491	17,329

NOTE: Preliminary estimates, subject to change.

Now that the price of domestically produced crude oil has been decontrolled, the purchase of oil for the Strategic Petroleum Reserve (SPR) will be funded entirely through direct appropriations. The benefits of the SPR would be sizable if oil supplies should be disrupted in the future. CBO analysis suggests that each barrel of Strategic Reserve oil might save up to several hundred dollars in lost GNP. The Energy Security Act of 1980 mandated that the reserve be filled at a minimum average rate of 100,000 barrels per day. This proposal assumes a fill rate of approximately 180,000 barrels per day over the next five fiscal years, which would result in outlays of \$20.4 billion for the period. Filling the reserve at these rates will be expensive.

An alternative would be to finance the Strategic Reserve through private funds. Since the price of oil will almost certainly rise in real terms over the next decade, shares in the reserve could be made attractive to investors. One option would allow the public to buy shares of the reserve in the same way that any other speculative asset is bought. Holders of reserve barrels could sell the titles to them on an open market. When the reserve was drawn upon during a disruption in foreign supplies, the holders of titles to the oil in the reserve would be compensated at the market price.

Another option would entail directing (through regulation) or inducing (through tax incentives) refiners and major oil users to hold excess inventories--an Industrial Petroleum Reserve, as it has

been called. Under the Energy Policy and Conservation Act of 1975, the Secretary of Energy has the right to direct such firms to hold up to 3 percent of their average annual use of oil in special inventories that cannot be depleted without government approval. This would place a financial burden on the firms involved. If the inventory requirement were reduced to 1 percent, however, this would still be the equivalent of a fill rate of 170,000 barrels per day for one year.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly different SPR five-year funding pattern from that in the CBO baseline. The savings relative to the Carter budget, if this item is enacted, are thus also slightly different.

REDUCED FUNDING FOR THE ECONOMIC REGULATORY ADMINISTRATION

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	62	69	77	84	93	385
Outlays	60	67	74	82	90	373
Carter Budget						
BA	51	27	18	12	12	120
Outlays	53	27	18	12	12	122

NOTE: Preliminary estimates, subject to change.

The Department of Energy's Economic Regulatory Administration (ERA) implements regulatory laws, intervenes in regulatory procedures, plans for energy emergencies, and exercises emergency responsibilities. Almost half of the \$177 million 1981 ERA budget, however, is associated directly with the price controls on crude oil and petroleum products. The recent decontrol of domestic oil prices reduces the need for many of these oil pricing and allocation functions. Eliminating the funds for these oil-related activities could save about \$373 million between 1982 and 1986. In addition, an immediate reduction in the funding for these activities could save about \$25 million in fiscal year 1981. This proposal allows about \$60 million for resolving outstanding cases.

Although many of its activities concern the pricing and allocation of crude oil and petroleum products, the ERA has begun concentrating more heavily on the implementation of the Fuel Use Act and the Public Utilities Regulatory Policies Act. The ERA is also responsible for maintaining standby fuel rationing plans and participating in other emergency preparedness activities. Therefore, budget cuts reflecting the decreased need for oil pricing and allocation activities might limit the ERA's ability to shift its resources to these other areas.

President Carter's budget recommendations for fiscal year 1982 include \$65 million in 1982 outlays for ERA activities related to oil price controls. This represents a \$19 million reduction from 1981 spending levels, and allows for ongoing audits and litigation. The budget request proposed further reductions in these programs through 1986, reflecting implementation of this proposal, although more gradually than assumed here.

INCREASED WATERWAY USER CHARGES

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline						
No subsidy	1,170	1,280	1,400	1,530	1,650	7,030
50 percent subsidy	560	610	660	710	760	3,300
Carter Budget						
No subsidy	1,210	1,590	1,650	1,640	1,630	7,720
50 percent subsidy	580	770	790	760	750	3,650

NOTE: Preliminary estimates, subject to change.

The federal government has subsidized inland waterway transportation through construction, operation, and maintenance of inland waterway facilities. Over the next five years, the Army Corps of Engineers will spend an estimated \$7.5 billion for inland navigation purposes. Approximately \$440 million of these expenditures will be recovered through the existing waterway user charges, leaving a federal subsidy of about \$7.0 billion over the 1982-1986 period.

Current waterway user charges, in the form of a fuel tax, were established under the Inland Waterways Revenue Act of 1978. These charges take effect in 1981 and will be phased in over the next five years, rising from 4 cents a gallon at the outset to 10 cents in 1986 and thereafter. The estimated \$440 million in receipts for the five-year period 1982-1986 will cover only 6 percent of projected federal expenditures for waterway navigation purposes during the period.

Full recovery of these costs through a fuel tax would require a tax equal to about \$1.30 a gallon. Such a high tax is impractical and unlikely to be imposed because of administrative problems and because fuel consumption does not necessarily reflect the benefits received by a given waterway user. The same revenues could be raised through fees or tolls that reflect the actual costs of constructing, maintaining, or operating a particular waterway seg-

ment. The use of segment tolls would mean that some marginal projects would not be built and others might be closed down. Thus, the estimated savings would consist of two parts--increased revenues through user fees and reduced outlays by the Corps of Engineers as certain projects were dropped.

The full recovery of total federal expenditures for inland waterways would result in taxpayer savings of approximately \$7.0 billion in 1982-1986. Most of the costs of increased user charges would be passed along to shippers and ultimately to consumers in the form of higher prices. The cost burden of waterway facilities would thus be shifted from the general taxpayer to the beneficiaries of these facilities--specifically, the barge industry, shippers, and consumers.

Shifting the full cost of waterway navigation facilities to the beneficiaries (or users) of such facilities would promote more efficient resource allocation. The rates charged to shippers would more nearly reflect the true economic costs of this form of transportation. Distortions in the choice among forms of transportation resulting from taxpayer subsidies would thus be reduced.

Users of waterway facilities might object to the imposition of charges to cover the full costs on the grounds that other forms of transportation are still subsidized. If charges were imposed to cover half of the costs of these projects, the cumulative savings over the 1982-1986 period would be approximately \$3.3 billion.

President Carter's budget proposal for fiscal year 1982 recommends a slightly higher program level for waterway projects than assumed in the CBO baseline. Thus, the savings from increased charges are even larger relative to the Carter budget.

ELIMINATION OF THE STATES' SHARE OF LAND AND WATER CONSERVATION FUND

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	290	315	345	370	400	1,720
Outlays	135	185	255	315	345	1,235
Carter Budget						
BA	185	220	240	255	270	1,170
Outlays	85	125	170	220	240	840

NOTE: Preliminary estimates, subject to change.

The Land and Water Conservation Fund (LWCF) has two components: at least 40 percent of the fund is for federal purchases of land for parks, wildlife refuges, and recreation facilities; the balance is allocated to the states on a 50-50 matching basis for the acquisition and development of outdoor recreation facilities. If the portion allocated to the states was reduced in 1982 and ended thereafter, the annual savings would exceed \$300 million by 1985. In fiscal year 1981, the Congress appropriated \$229 million for the state share of the LWCF, compared with \$300 million in fiscal year 1980.

Grants to state governments for state park land acquisition and similar purposes were not a federal responsibility until the mid-1960s. Since the program's inception, with virtually no exceptions, the states have provided the required matching funds, and the program enjoys wide support. In a sample of eight states, LWCF grants accounted for 18 to 37 percent of the state land acquisition and development budgets.

The argument for ending federal support for state recreation programs is that state facilities mainly serve state residents. Each state has the right to select whatever level and type of recreation it chooses, but it has no claim on taxpayers nationwide.

The case for continuing the federal grant program is based on two assumptions: first, that development of state facilities reduces public dependence on federal facilities; second, that

national benefits, even if not directly measurable, accrue from expansion of state-managed outdoor recreational facilities. If such facilities were not available, the public use of federal parks and refuges would increase substantially. The unique nature of certain federal facilities could be lost if they were overused.

President Carter's budget recommendations for fiscal year 1982 contemplate a lower LWCF share for the states than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

ELIMINATION OF URBAN PARK GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	70	80	85	90	100	425
Outlays	5	30	50	70	70	225
Carter Budget						
BA	75	75	75	75	75	375
Outlays	5	25	45	60	65	200

NOTE: Preliminary estimates, subject to change.

In 1978, the Congress enacted a five-year grant program for the rehabilitation of urban park and recreational facilities. The program matches 70 percent federal to 30 percent local funds to rehabilitate urban recreational facilities that have deteriorated. Local communities will continue to operate and maintain the facilities after rehabilitation. The savings from ending the program (assuming that it would otherwise be renewed on expiration of the current authorization) would total about \$225 million during the next five years.

The argument for eliminating the urban park grant program is the same as that for ending the state share of the Land and Water Conservation Fund. In both cases, federal funds simply substitute for local funds. It is not clear that the national taxpayer should support a level of local recreational opportunity that local taxpayers are unwilling or unable to support.

The counterargument holds that there is a national interest in preserving or improving the "quality of life" for urban residents. Furthermore, it is argued that some urban facilities serve many more than local users--that in fact some are national resources and should receive federal support.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly lower 1983-1986 funding level for this program than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

INCREASED CHARGES FOR OUTDOOR RECREATION AND TOPOGRAPHIC MAPS

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
Recreation fees	45	65	70	70	75	325
Map charges	5	10	10	15	20	60

NOTE: Preliminary estimates, subject to change.

State and local parks support much of their programs through entry and user fees, yet the U.S. Park and Forest Services collect only about \$35 to \$40 million a year in user fees--far less than 10 percent of their budgets for recreational services. The Services collect fees from only a portion of their users for several reasons: collecting is often not cost effective; the Services face a number of legislative restrictions on fees; the Services are not allowed to retain their receipts; and there is some sense that public facilities should be free. As a result, many visitors pay no entry fees, and most user fees are little more than nominal charges. For example, hook-up fees for camping vehicles have been so low--about \$2.00 a night--that neighboring private facilities cannot compete with the federal facilities. Visitors are thus given an extra incentive to use park facilities, often overcrowding them. The savings estimates given here assume a doubling of existing entry fees and the imposition of fees at more facilities. Furthermore, they assume that service or user fees would be increased until they covered all costs of the Services. Total added collections in the 1982-1986 period would be about \$325 million.

The Geological Survey produces topographic maps at different scales for a wide variety of users. In fiscal year 1981, receipts for sales of maps were about \$7 million, while program costs were about \$75 million. By law, the Geological Survey is now only allowed to recover only printing and distribution costs through its charges for maps. This option assumes that fees would be increased during the next five years until about one-third of all program costs were recovered.

REDUCED FUNDING FOR EPA CONSTRUCTION GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,260	1,390	1,530	1,670	1,820	7,670
Outlays	70	260	600	1,030	1,360	3,320
Carter Budget						
BA	1,240	1,330	1,470	1,570	1,670	7,280
Outlays	70	250	590	1,010	1,320	3,240

NOTE: Preliminary estimates, subject to change.

The Environmental Protection Agency (EPA) makes grants to municipalities for the planning, design, and construction of wastewater treatment facilities. EPA provides 75 percent of the allowable construction costs, or 85 percent if the project employs alternative or innovative technology. Funding levels have averaged almost \$4 billion a year, making it by far EPA's largest program in terms of direct budgetary outlay. EPA estimates that \$106 billion (in 1978 dollars) will be needed for construction and repair of municipal wastewater treatment facilities and sewers between 1978 and 2000. An additional \$62 billion will be needed for control of storm water runoff.

The program has three principal problems. First, because of the 75-85 percent federal payment for capital costs with no assistance for operating and maintenance costs, overly expensive and needlessly sophisticated treatment plants are built, which are then poorly maintained. Second, because the Congress has repealed the section of the 1977 Clean Water Act that allows industrial plants to be charged for the portion of wastes they generate, the program does not change the incentives of waste generators. Third, because the states must use their allocated funds within a specified period or lose them through reallocation, many projects receiving funding are those "ready to go," rather than those that may be of higher priority but are not yet ready.

One possible change would reduce the federal share of construction costs (perhaps to 50 percent, and to 55 percent for

innovative technology), with corresponding funding reductions. The estimated savings from this action are shown in the table above. Additional outlay reductions of \$10 million in fiscal year 1982, and totaling \$950 million over the five-year period, could be achieved by a 25 percent reduction in the building program. Still further savings could be achieved by removing the current two-year time limit on the obligation of funds. While these changes were being considered by the Congress, EPA could institute controls so that the \$6 billion currently appropriated but not obligated would be spent in a more cost-effective manner.

A reduced federal role in the construction of treatment facilities would increase the burden on municipalities and states. This could be partially offset if the reduced federal payment for construction costs was coupled with a partial federal payment for operations and maintenance costs, perhaps leading to more efficient wastewater treatment than the present system.

Deferrals in the building program would be made up in later years, but the delay would permit capturing future improvements in technology and in understanding of measures for dealing with toxic pollutants. However, long-run costs could be greater than the short-run savings, if construction costs continue to increase faster than general inflation, and some short-run gains in water quality would be lost.

President Carter's fiscal year 1982 budget recommendations assume slightly lower program levels for EPA construction grants, thus accounting for the small differences in estimated savings shown.

ELIMINATION OF TAX EXEMPTION FOR POLLUTION CONTROL BONDS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.8	0.9	1.0	1.1	1.2	
Increase from Elimination of Exemption on New Issues	0.1	0.2	0.3	0.4	0.5	1.5
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

Industrial development bonds for pollution control (PCBs) finance 40 percent of all pollution control investments. In the past few years, annual sales have amounted to approximately \$2.5 billion.

The use of PCBs raises two questions: Should the subsidy be continued? If so, are tax-exempt bonds the best way to provide it? Like all tax-exempt bonds, PCBs have several beneficiaries--the recipient of the subsidy, the purchaser of tax-exempt bonds, and intermediaries. An alternative subsidy, such as a tax credit, would be less costly because it would provide benefits only to the recipient of the subsidy. If the tax exemption on new issues of PCBs was eliminated effective July 1, 1981, federal revenues would be increased by \$1.5 billion in the 1982-1986 period.

If the subsidy is to be continued, then its form and the regulations governing it warrant reexamination. At present, PCBs encourage technological inefficiency because they are available only for "end of pipe" capital expenditures, thereby discouraging selection of other, possibly more effective, solutions to the underlying pollution problem, such as use of less-polluting raw materials or adoption of production processes that produce less pollutants.

The availability of PCBs--or any other subsidy for pollution control--can have only limited influence on a company's decision to invest in pollution control equipment. This is because federal

pollution control regulations are highly prescriptive, so that an existing firm must choose between making the required improvement or closing.

The main argument for eliminating the subsidy is that private industry should pay its own pollution control bills, just as it pays for complying with other requirements imposed by law. On the other hand, some argue that industry's efforts to avoid contaminating the environment confer a public benefit and thus warrant some subsidy from the public.

ELIMINATION OF FARM DEFICIENCY PAYMENTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	90	131	187	408
Outlays	90	131	187	117	122	647

NOTE: Preliminary estimates, subject to change.

Until the mid-1960s, the principal objective of federal agricultural policy was to maintain domestic prices for wheat, feed grains, upland cotton, and rice above world prices in order to increase the incomes of farmers. This was accomplished through high domestic price supports and supply controls that took about 15 percent of all U.S. cropland out of production. The government accumulated huge stocks of commodities.

In 1965, federal policy began to shift away from high domestic price supports and rigid supply controls, allowing domestic commodity prices to adjust gradually to world price levels. To assist in the adjustment process, farmers producing these major commodities have been given deficiency payments whenever the market price for a commodity falls below its target price. These direct payments protect farm income without directly affecting market prices.

Farm deficiency payments have now largely fulfilled their function and could be eliminated without detriment to domestic agriculture. Elimination of deficiency payments could result in savings of \$647 million over the next five years. Most of the savings would stem from the elimination of deficiency payments to rice growers, since demand for wheat, feed grains, and cotton is expected to keep their market prices substantially above their likely target prices through 1985.

Those who support elimination of deficiency payments argue that other provisions of existing commodity programs--price support loans, a multiyear grain reserve, and acreage diversion payments--could be used, if needed, to hold farm production and marketing within reasonable bounds and prevent large drops in farm

income. Further, they argue that deficiency payments are concentrated on a few large-scale farmers and tend to be capitalized into land values, making it more difficult for others to enter farming and resulting in higher food prices.

Proponents of deficiency payments argue that they are needed to induce farmers to take land out of use during periods of surplus production. In their judgment, the other provisions of commodity programs would not, by themselves, offer a sufficient incentive to encourage farmer participation and thereby stabilize agricultural prices and supplies.

REDUCTION IN DAIRY PRICE SUPPORT LEVELS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	400	700	900	2,000
Outlays	400	700	900	1,200	1,400	4,600
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The federal government maintains a nationwide support price for milk by purchasing manufactured dairy products. Under laws passed in 1977 and 1979, the Secretary of Agriculture is required, first, to set the support price for milk between 80 and 90 percent of its parity price at the beginning of the marketing year (October 1), and second, to adjust the support price six months later (April 1) to account for changes in the index of prices paid by farmers. Since 1978, the level of support has been set at 80 percent of parity on October 1.

If the Congress does not act to extend the 1977 law, the minimum level of dairy price support will revert under permanent legislation to 75 percent of parity on October 1, 1981. The Secretary then would have discretion to set the support price between 75 and 90 percent of parity, and a semiannual adjustment would not be mandated.

With steady escalation in both the parity price of milk and the index of prices paid by farmers, current policy mandates two milk price support increases each year regardless of supply and demand conditions. When farm milk prices are near the support price, increases in the support price tend to raise farm and retail milk prices, encourage additional milk production, discourage commercial consumption, and increase federal outlays for the purchase of manufactured dairy products. Net support outlays for the purchase of surplus dairy products were \$1.3 billion in fiscal year 1980 and are estimated to be \$1.7 billion in 1981. Current government stocks are about twice as high as average stocks during 1975-1979.

The dairy price support program has increased farm milk prices at the expense of consumers and taxpayers, but it has also helped to stabilize the dairy industry, resulting in a reliable supply of milk and dairy products. However, continuation of current policy (price support at 80 percent of parity with semi-annual adjustments) will further increase milk production and government purchases beyond what is needed to assure relatively stable supplies.

If the price support was set at 75 percent of parity on October 1, 1981, and maintained at that level through September 30, 1986, without semiannual changes, the estimated savings over the five years would be \$4.6 billion compared to a continuation of current policy. Milk production would increase at a slower rate, commercial consumption would increase moderately, and consumer expenditures would decline. Dairy farmers' incomes would be reduced by over 5 percent. After the current surplus was eliminated, the support price could be increased, if necessary, to provide relatively stable supplies and prices.

President Carter's budget recommendations incorporate the proposal described above, so its adoption would not produce savings relative to the Carter budget.

INCREASED INTEREST RATE ON RURAL HOUSING LOANS

Savings from	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1982	1983	1984	1985		1986
CBO Baseline						
BA	30	85	145	215	290	765
Outlays	30	85	150	220	295	780
Carter Budget						
BA	25	80	140	205	280	730
Outlays	30	85	145	210	285	755

NOTE: Preliminary estimates, subject to change.

The Farmers Home Administration (FmHA) makes reduced-interest housing loans to rural residents. The annual volume of lending is set by the Congress. Families with incomes up to 80 percent of their area's median may obtain mortgages with effective interest rates as low as 1 percent. Under regulations to take effect March 20, 1981, families with incomes between 80 and 110 percent of the area's median will pay an interest rate ranging from a minimum of 3.5 percent to a maximum tied to the government's long-term borrowing costs. While loans written at the maximum rate are characterized as "unsubsidized," the interest rate charged is generally below prevailing rates on private mortgages.

Homeownership loans totaling about \$3.1 billion--enough to fund 81,000 mortgages--are expected to be written in 1981. Approximately three-fourths of the funds will go for heavily subsidized loans at interest rates expected to average 3 percent or less. The annual interest-subsidy cost for all subsidized 1981 loans will exceed \$200 million--some share of which may be recaptured when the homes are resold.

If the minimum interest rate on FmHA housing loans was raised to 5 percent for new borrowers beginning in 1982, the savings to the federal government would be about \$780 million through 1986, assuming an annual number of loans equal to the 1981 level. Additional savings could be realized by raising the maximum interest rate and by reducing the number of loans made.

Raising the minimum interest rate would increase monthly mortgage payments by up to \$22 per \$10,000 borrowed, but would leave financing charges well below prevailing market rates. The higher interest costs would work hardships on some borrowers and would make it impossible for others to qualify.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly different program level from that assumed in the CBO baseline, thus accounting for the small differences in savings shown above.

DISCONTINUANCE OF POSTAL SERVICE SUBSIDIES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,756	1,727	1,761	1,746	1,760	8,750
Outlays	1,756	1,727	1,761	1,746	1,760	8,750
Carter Budget						
BA	1,050	800	738	726	758	4,072
Outlays	1,050	800	738	726	758	4,072

NOTE: Preliminary estimates, subject to change.

The federal government currently supports the U.S. Postal Service through two types of payments--one for revenue forgone because of reduced postage for certain mailers, and another for public services that are not cost effective. If these annual payments were eliminated in fiscal year 1982, through either appropriation or authorization action, cumulative budget savings could total about \$8.8 billion by 1986.

The revenue forgone payment reimburses the Postal Service for providing free postage to blind and handicapped persons and for reducing second, third, and fourth class postage for certain mailers--mainly religious and other nonprofit organizations, small newspapers, libraries, and educational institutions. Proponents maintain that such reduced rates promote the flow of news and educational, cultural, literary, and charitable materials. Opponents argue, with respect to nonprofit institutions, that the subsidy is not well targeted, results in overuse of solicitations by mail, and increases the volume of junk mailings; with respect to small newspapers, they contend that it serves no interest except to subsidize publication profits and the rates paid by advertisers.

The public service payment helps finance operations, such as postal facilities in remote areas and Saturday mail delivery, that are not cost effective. Elimination of this payment could require either an increase in postage rates or a cut in the services the payment supports. The General Accounting Office is analyzing

the postal transportation network in the belief that significant potential exists for cost reduction. If that potential should in fact be realized, the savings could be used to support some services the Congress would cease to subsidize.

The Omnibus Reconciliation Act of 1980 authorizes payment of \$1.2 billion rather than the \$1.6 billion requested by the U.S. Postal Service. But, the continuing resolution making appropriations for fiscal year 1981 included \$1.6 billion for the Postal Service.

President Carter's budget recommendations for fiscal year 1982 assume a phased discontinuance of the public service payment (but continuation of the revenue forgone payment), thus accounting for the lower savings shown, relative to the Carter budget.

CHANGE IN TIMING OF PAYMENTS TO THE POSTAL SERVICE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	64	62	65	57	58	306
Outlays	64	62	65	57	58	306
Carter Budget						
BA	50	40	38	32	35	195
Outlays	50	40	38	32	35	195

NOTE: Preliminary estimates, subject to change.

The Postal Reorganization Act of 1970 requires that the annual appropriation for the U.S. Postal Service (USPS) be paid in a lump sum shortly after the Congress enacts the appropriation. In this respect, it differs from disbursements to other off-budget federal corporations, which are made on a periodic basis. If the Congress mandated quarterly disbursements of USPS payments, the U.S. Treasury would save \$306 million in the 1982-1986 period.

Quarterly payments to USPS would be consistent with federal financial management practices, which are designed to prevent investment of federal funds by off-budget federal enterprises, state and local governments, and other grant recipients. Interest earned on federal funds represents an unrecognized subsidy, which in the case of USPS amounts to about 0.5 percent of its revenues. Even so, the Postal Service might argue that quarterly disbursements of federal payments could mean higher postage rates.

President Carter's fiscal year 1982 budget recommendations propose a smaller payment to the USPS than that assumed in the CBO baseline, thus accounting for the differences in the estimated savings shown. This option would, of course, be irrelevant if the Congress entirely discontinued the USPS subsidy.

ELIMINATION OF TAX EXEMPTION ON SMALL-ISSUE IDBs

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.6	1.9	2.4	2.8	3.3	
Increase from Elimination of Exemption on New Issues	0.3	0.6	1.0	1.5	2.0	5.4
Increase under Carter Budget	0.1	0.2	0.3	0.5	0.6	1.7

NOTE: Preliminary estimates, subject to change.

Industrial Development Bonds (IDBs) are tax-exempt bonds that state and local governments issue to provide low-cost financing to private firms. Since interest from the bonds is exempt from federal taxation, private businesses are enabled to borrow funds at below-market interest costs. In general, the bonds are backed only by project revenues, so their issuance is unrestrained by state constitutional or other limitations on "full faith and credit" borrowings.

IDBs were used infrequently until the 1960s, when a growth in sales led the Congress to limit their use. Since 1968, IDBs have been taxable unless they are issued for specific purposes such as pollution control, or are eligible for the so-called "small issues" (\$10 million or less) exemption.

Small issues are being used with increasing frequency to finance a wide range of facilities including manufacturing plants, fast-food franchises, and country clubs. In 1968, sales of IDBs for all purposes amounted to \$1.8 billion; by 1979, small-issue sales alone amounted to \$7 billion.

The widespread use of IDBs raises the question of under what circumstances the federal government should incur revenue losses, particularly of a kind that it cannot supervise or control, to subsidize the borrowing costs of private industry. Unlike direct federal expenditure programs to assist private business, IDBs are targeted neither to specific locations nor to specific kinds of

businesses. If the tax exemption on new IDB issues was eliminated effective July 1, 1981, federal tax revenues would increase by about \$5.4 billion over the 1982-1986 period.

The advocates of continued use of small-issue IDBs maintain that the bonds stimulate investment and promote job development. Those who would restrict their use argue that the bonds often finance investment that would take place in any event, and that their public purpose is ambiguous.

President Carter's fiscal year 1982 budget recommendations would limit, but not end, the exemption on small-issue IDBs. This, along with a six-month earlier effective date, accounts for the differences shown above in revenue increases.

LIMITING OF HOME MORTGAGE INTEREST DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	25.3	31.8	39.8	49.7	62.2	
Increase from \$5,000 Cap	4.3	5.4	6.8	8.5	10.6	35.6
Increase from \$10,000 Cap	0.8	1.0	1.2	1.6	1.9	6.5
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

Home mortgage interest payments have always been deductible under the federal income tax, thus providing a large and popular subsidy for homeownership. Because the deduction stimulates homeownership, it is often said to promote better home maintenance and greater civic involvement. Moreover, the subsidy it provides has been widely incorporated into prices and investment decisions throughout the economy and could not be eliminated without causing significant short-term losses and economic dislocation.

Recent economic studies, however, suggest that the deduction may have important adverse consequences both for housing markets and for the economy as a whole. Besides creating substantial losses of federal revenues, it appears to have contributed both to a serious decline in the construction of rental housing and to the conversion of rental housing into condominiums and cooperatives. In addition, the deduction has promoted the rapid rise of home prices and encouraged the flow of individual savings into housing rather than into productive capital.

Many homeowners receive little or no benefit from the deduction. Almost 60 percent of all homeowners either have no mortgage or use the standard deduction and thus gain no direct benefit from the deductibility of home mortgage interest. While taxpayers with incomes over \$50,000 save on average more than \$2,400 a year in taxes from the deduction, the great majority of homeowners with incomes below \$20,000 save little or nothing.

If the Congress wished to reduce the revenue loss from the deduction, the simplest option would be to limit the amount of

mortgage interest that could be deducted. If the ceiling were set high enough, most homeowners would not be affected. At the same time, price increases for more expensive homes would tend to moderate and the incentives for condominium conversion would decrease. For example, if a ceiling of \$5,000 was set effective January 1, 1981, the savings would be about \$4.3 billion in fiscal year 1982. This ceiling would affect only 4.6 percent of all taxpayers. Homeowners with a 12 percent mortgage would be affected only if their mortgage principal was over \$41,700. Homeowners with a 7 percent mortgage would be affected only if their mortgage principal was over \$71,750. A \$10,000 ceiling would save about \$800 million in fiscal year 1982, but it would also affect many fewer persons--only homeowners with a mortgage principal of over \$83,500 at a 12 percent interest rate. Under this ceiling, many recent purchasers of homes costing up to \$100,000 could be shielded from a tax increase.

The current deduction could be converted to a tax credit to extend the subsidy to all homeowners, including those who do not itemize. Under a flat-rate credit, tax savings would be a constant percentage of all mortgage interest paid. Under the current deduction, by contrast, the savings range from 14 percent to 70 percent of all interest payments, depending on the taxpayer's marginal tax rate. Converting the current deduction to a 25 percent tax credit would increase revenues by about \$3.5 billion in fiscal year 1982, while at the time targeting more financial assistance on low- and moderate-income homeowners.

Applying these changes only to newly purchased homes, rather than to all outstanding mortgages, would prevent tax increases for some homeowners but lead to a variety of perceived inequities among those purchasing homes at different times. It could also force some homeowners to maintain their present homes, and thus delay significant revenue gains for a number of years. Applying the changes to all outstanding mortgages would avoid these problems. Most people's taxes would not be sharply increased, since the proposed changes would involve fairly modest departures from present law.

One problem with limiting the mortgage interest deduction is that the limit could be circumvented by using a business or some other asset as collateral for the loan. This problem could be alleviated by adopting a broader limit on all nonbusiness interest deductions, similar to the \$12,000 limit approved by the House of Representatives in 1975.

REDUCTION OF CAPITAL GAINS EXCLUSION ON HOME SALES

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.7	0.7	0.8	0.8	0.9	
Increase from Reducing Exclusion to \$50,000	a	0.1	0.2	0.2	0.2	0.7
Increase under Carter Budget			(no proposal)			

NOTE: Preliminary estimates, subject to change.

a. Less than \$50 million.

Persons 55 and older are allowed a one-time exclusion from capital gains tax of up to \$100,000 of profit on the sale of their principal residence. This tax provision, enacted in 1978, replaced a far more limited provision that applied only to less expensive homes and only to persons aged 65 or over.

The provision encourages older homeowners either to become renters or to move to less expensive homes, thus freeing up some larger homes for younger, larger families. On the other hand, it may also discourage some homeowners just below the current age limit from moving. The provision probably helps to raise housing prices, as buyers become willing to pay more in the expectation of future tax-free gains. While this increases the investment value of homes, it also diverts funds away from other, possibly more productive investments, such as business plant and equipment.

If the \$100,000 exclusion was cut back to \$50,000 effective July 1, 1981, and if taxpayers were allowed to use it cumulatively, rather than for just one sale, the revenue loss would be reduced. A homeowner would continue to be able to shelter gain on a home sale by purchasing another residence costing at least as much as the home sold. Moreover, since the 1978 decrease in capital gains taxes, no gain is taxed at more than 28 percent.

REPEAL OF CONSUMER INTEREST DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	6.0	6.8	7.8	8.9	10.1	
Increase from Repeal of Deduction	6.0	6.8	7.8	8.9	10.1	39.6
Increase under Carter Budget			(no proposal)			

NOTE: Preliminary estimates, subject to change.

Interest payments have been deductible ever since the federal income tax was enacted in 1913, at a time when nonbusiness credit transactions were virtually unknown. Over the years, however, the use of consumer credit has become widespread, and the interest deduction now has the effect of providing more than \$6 billion a year in tax relief to those who pay for their goods on credit instead of in cash. Only a small fraction of borrowers share in the \$6 billion, however; the consumer interest deduction was claimed by just 17 percent of all taxpayers in 1979. If the deductibility of consumer interest was ended effective January 1, 1981, federal income tax receipts would increase by \$39.6 billion over the 1982-1986 period.

The argument for repeal of this deduction is that it is a policy accident which discourages saving and promotes consumption, is very costly in terms of lost revenue, and provides more financial assistance to an upper-income borrower than to a lower-income borrower making the identical purchase. The 2 percent of taxpayers with incomes over \$50,000 receive 22 percent of the tax relief provided by this deduction.

An argument in favor of retaining the deduction is that it is sometimes difficult to distinguish interest paid for business or other purposes from interest paid on consumption purchases (for example, when a small business or a home serves as the collateral for a loan). This problem could be dealt with by putting a limit on all nonbusiness interest deductions, such as was done in

legislation passed by the House in 1975 which limited nonbusiness interest deductions to \$12,000.

There may also be a national interest in encouraging some kinds of borrowing for consumption, such as for education, medical expenditures, automobile purchases, and the like. But selective retention of the consumer interest deduction would make for administrative complexity, and other actions that the Congress could take would be more efficient and more equitable than this deduction, if it wished to subsidize particular kinds of consumption.

REDUCED FUNDING FOR AMTRAK

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	200	340	400	425	550	1,915
Outlays	200	340	400	425	550	1,915
Carter Budget						
BA	120	270	335	370	480	1,575
Outlays	120	270	335	370	480	1,575

NOTE: Preliminary estimates, subject to change.

Amtrak currently operates passenger railroad trains along 36 intercity routes and in the Northeast Corridor between Boston and Washington. The system serves cities in 45 states but accounts for less than 1 percent of intercity passenger traffic. Nevertheless, Amtrak receives over one-third of all federal subsidies for intercity passenger travel. Amtrak passenger mileage increased about 8 percent between 1977 and 1980, but the federal subsidy for its operating losses rose 35 percent over the same period, from \$483 million in fiscal year 1977 to \$650 million in 1980, and it is projected to increase to approximately \$1.2 billion in 1986 if the present system is maintained. The federal government also provides all of Amtrak's capital funding, which was approximately \$200 million in fiscal year 1981.

If 40 percent or more of the Amtrak routes--those with the poorest ridership, the highest deficits, and the least potential--were dropped by the beginning of fiscal year 1982, the annual federal subsidy could be reduced by over \$500 million by fiscal year 1986. Additional savings, not shown in the table above, could be achieved by ending federal support for routes now subsidized jointly by federal, state, and local authorities, and by reducing Amtrak's support of routes that operate principally as a commuter service.

Three main arguments are made for reducing the Amtrak subsidy. First, most routes outside the Northeast Corridor hold little

or no promise for either increased patronage or reduced costs, thus presenting continually increasing demands for federal subsidies. Second, the federal subsidy for Amtrak--roughly 18 cents per passenger mile in fiscal year 1980, or almost \$40 per passenger--already far exceeds that provided other transportation modes. Commercial aviation receives less than 1 cent per passenger mile in federal subsidies. The intercity bus industry, a more direct competitor with Amtrak, receives even less--approximately one-tenth of a cent per passenger mile. Third, there is little evidence that the return on the federal investment in Amtrak, expressed in such terms as environmental benefits or energy savings, justifies the subsidy. A 1979 CBO report suggested that the nation would actually save energy if all Amtrak service outside the Northeast Corridor were halted. Department of Transportation studies contain similar evidence.

The argument for maintaining the current Amtrak system is that it provides reliable transportation to many areas that have no air service and where bus service is often subject to weather interruptions. Also, some persons argue that Amtrak ridership will increase dramatically when new equipment is introduced and service is improved.

President Carter's fiscal year 1982 budget recommendations for Amtrak are lower than those assumed in the CBO baseline thus accounting for the savings differences shown in the table.

PHASING OUT OF CONRAIL FUNDING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	250	300	300	300	1,150
Outlays	0	250	300	300	300	1,150
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Since its organization in 1976, Conrail has received \$3.3 billion in federal funds, mostly for capital improvements. Conrail will probably seek at least another \$2 billion from the government during the next five years to cover operating deficits and to make further capital improvements. Conrail is a consolidation of eight bankrupt northeastern railroads; it operates 17,000 miles of track, serves 15 states, carries 270 million tons of traffic a year, and hauls 4.5 million carloads annually. The system continues to lose money (\$178 million in 1979) and thus cannot generate the funds it needs to rehabilitate the system and finance new capital facilities.

If federal support for Conrail were gradually phased out, Conrail would have an opportunity to negotiate a sale of some of its routes, to abandon uneconomic secondary and branch lines (possibly more than one-third of the 17,000-mile system), to impose surcharges on light-density lines, to arrange for state or local subsidies in some instances, and to negotiate downward adjustments in current collective bargaining agreements. It is also possible that some capital improvements could be postponed.

The Congress could begin reducing Conrail's funding level in 1983 (by one-half) and eliminate it after that, resulting in savings of \$1.15 billion over the next five years. Conrail would thus have a short transition period in which to enact major changes in rail service in the northeast, but this should not mean the abandonment of basic rail service.

Critics of this proposal make several arguments. Operating efficiencies necessary for a reduction in costs may not materialize without additional track work and general physical upgrading. If these are not done, Conrail may be unable to attract additional traffic or even to maintain present levels of traffic, and will have to return to the Congress for assistance. Moreover, in the absence of federal support, many of the states, counties, and cities served by Conrail would have to provide higher subsidies themselves to assure continued service; and Conrail employees would face possible wage cuts and layoffs.

President Carter's fiscal year 1982 budget recommendations do not contain a specific proposal for Conrail funding. Instead, the issue is deferred pending the outcome of studies scheduled to be completed by April 1, 1981.

REDUCTION IN NEW SUBWAY COMMITMENTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	290	910	1,120	1,230	1,310	4,860
Outlays	20	120	300	560	800	1,800
Carter Budget						
BA	400	970	1,140	1,210	1,230	4,950
Outlays	20	130	340	580	880	1,950

NOTE: Preliminary estimates, subject to change.

The Urban Mass Transportation Administration (UMTA) will have unfunded commitments of about \$200 million at the end of fiscal year 1981 for new subway systems under construction in Atlanta, Baltimore, Buffalo, and Miami, and for a downtown people-mover for Los Angeles. If these commitments are met, but no additional ones undertaken, the outlay and budget authority savings over the next five years will be about \$750 million and \$3.2 billion, respectively. These savings would represent a 6 percent cut in total UMTA obligations for 1982 and 11 percent for 1986. If, in addition, construction of Washington, D.C.'s subway system was halted at the 69 miles of track for which funds are now available, federal outlay savings would total \$1.0 billion through 1986. This would eliminate almost all new federal construction funds for the Washington subway after 1982.

The argument against starting new subway systems is based on doubts about their cost effectiveness. Typically, they save little, if any, energy; have only transitory effects on congestion and pollution; incur very large operating deficits; and, by themselves, have only a minor effect on land use. Funds spent on alternatives such as buses, exclusive lanes for high-occupancy vehicles, and coordinated traffic signals appear much more efficient.

A counterargument is that new subway systems are important, job-creating public works projects that enjoy considerable popularity. Most state and local governments would probably be unable to finance large new systems on their own.

President Carter's fiscal year 1982 budget recommendations propose a higher 1982 funding level for new subway commitments than assumed in the CBO baseline, but a somewhat lower level in the outyears. This accounts for the differences in savings estimates shown in the table.

REDUCED SPENDING ON HIGHWAYS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,200	1,300	1,500	1,600	1,800	7,400
Outlays	95	475	885	1,145	1,340	3,940
Carter Budget						
BA	1,240	1,290	1,330	1,360	1,390	6,610
Outlays	90	490	900	1,090	1,220	3,790

NOTE: Preliminary estimates, subject to change.

The federally aided highway system is composed of 42,500 miles of Interstate System roads and 824,000 miles of primary, secondary, and urban system roads. Although this federal highway system represents only 22 percent of the nation's total 3.9 million highway miles, it accounts for about 79 percent of vehicle miles traveled.

Of the approximately \$9.1 billion in budget authority for highways in fiscal year 1981, \$3.5 billion is allocated to the Interstate System; \$1.3 billion to the repair, rehabilitation, and replacement of unsafe bridges; \$3.2 billion to the primary, secondary, and urban system roads; and the remaining \$1.1 billion to a variety of programs.

If federal responsibility were limited to the Interstate System, the bridge program, and the primary, secondary, and urban systems roads, the 1982-1986 budget authority savings would be approximately \$7.4 billion with outlay savings of approximately \$3.9 billion over the five years. These savings could not, however, be obtained through the appropriations process. The federal-aid highway program is not subject to regular appropriations review because of its special status as a self-financed trust fund--known as the Highway Trust Fund. The spending authority for 1982 was provided in the Surface Transportation Assistance Act of 1978 (Public Law 96-599), which authorized the highway programs for fiscal years 1979 through 1982. Thus, any reduction in fiscal year 1982 would require a specific rescission, while reductions in

subsequent years could be accomplished by not reauthorizing the affected programs.

The effect of this cut would be to shift back to the states the full responsibility for a variety of highway programs, including pavement marking, removal of hazards, rail-highway crossings projects, and the 3-R program (resurfacing, restoration, and rehabilitation).

Federal aid could also be concentrated on important national routes by redefining completion of the Interstate System to include only those gaps needed for interstate commerce. While this would reduce the federal costs to complete the system from over \$50 billion (in 1979 dollars) to \$20-25 billion, it would also place greater responsibility on the states. No budget savings are likely from this proposal over the next five years, although it could produce important long-run savings.

Another approach would be to cut back the federal matching share except in the Interstate System program. Current matching rates are at historic highs. The non-Interstate match was 50 percent from 1916 to 1973, when it was raised to 70 percent. In 1978, it was changed to 75 percent, with the bridge program set at 80 percent. If the match was two-thirds in all non-Interstate categories, the savings would be about the same as those estimated under the CBO baseline for the first option.

One argument for such a change is that the Highway Trust Fund is currently disbursing more funds than it takes in, and with declining gasoline consumption this condition is likely to persist unless state claims on the fund are cut back. The states can, of course, increase their own highway user fees in order to replace any lost federal funding.

Opponents of such a proposal argue that all the nation's roads contribute to national commerce, that the federal government should protect its already large investment in the highway system, and, finally, that the federal government is best able to raise revenue and fund the highway system in a uniform and comprehensive manner. They point out that the present federal excise tax on motor fuels of four cents a gallon has not been increased since 1959. Each additional one cent in fuel taxes applied nationwide would raise almost \$1 billion in revenues. Therefore, an excise tax increase of 1.5 cents would finance continuation of the current programs. Other fees (truck, bus, and trailer taxes, and tire and rubber

taxes) could be allocated among users according to their proportionate share of highway costs.

President Carter's budget recommendations for fiscal year 1982 assume a slightly higher program level than that in the CBO baseline, but the President's budget also assumes that the program will grow more slowly than does CBO in later years. Thus, the savings shown above appear slightly larger under the Carter budget relative to the CBO baseline in early years, and substantially smaller in later years.

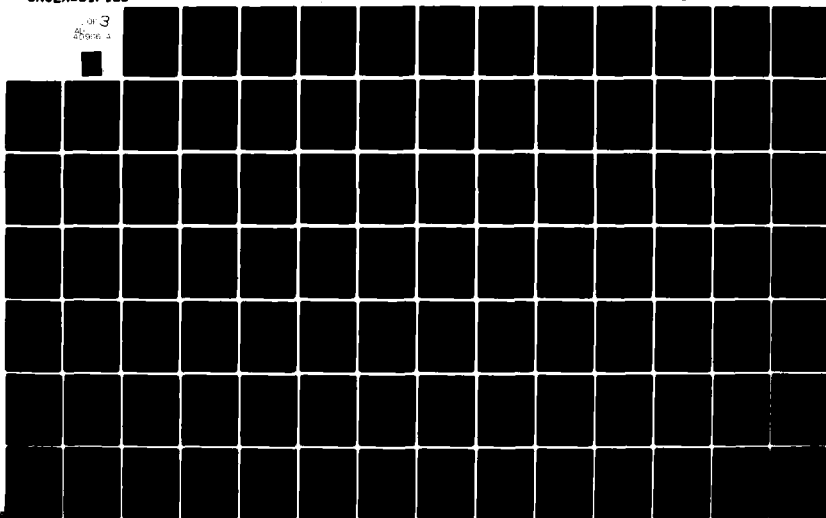
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CONGRESSIONAL BUDGET OFFICE (U S CONGRESS) WASHINGTON DC F/G 5/1
REDUCING THE FEDERAL BUDGET: STRATEGIES AND EXAMPLES, FISCAL YE--ETC(U)
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REPEAL OF DAVIS-BACON REQUIREMENTS

	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	130	155	172	199	215	871
Outlays	124	140	149	170	193	776
Carter Budget						
BA	160	179	194	210	228	971
Outlays	125	147	168	180	199	819

NOTE: Preliminary estimates, subject to change.

The 1931 Davis-Bacon Act and 77 related federal statutes require that wages paid on most federal and federally assisted construction projects equal the prevailing wage in the local area of a project. Where there is no majority of workers paid at an identical rate, the wage scale paid to at least 30 percent of local workers is used. The practical effect, particularly in urban areas, is that workers on federal projects receive the union scale, instead of an average locality rate. In 1979, the value of new construction put in place totaled almost \$230 billion. Nearly 13 percent of that amount (\$29 billion) was federally assisted construction, and hence potentially covered by Davis-Bacon. Of the \$29 billion, approximately one-third was paid in wages.

Repeal of Davis-Bacon might result in cumulative outlay savings of \$776 million by 1986 in just the three largest federal construction programs: military construction, Environmental Protection Agency construction grants, and ground transportation construction. An alternative to outright repeal would be to raise the dollar volume threshold required to activate the coverage from the current level of \$2,000 set by the original act. The raised threshold could be indexed to some measure of construction costs, such as the Department of Commerce's Composite Cost Index, to ensure that inflation did not erode its impact. To result in significant savings, however, the new threshold would have to be raised considerably since contracts of less than even \$100,000 account for only a small fraction of federal construction outlays.

The estimated cost of the Davis-Bacon requirement, as given above, is based on recent studies by the General Accounting Office and the Council on Wage and Price Stability. Those studies have been criticized for using limited data and failing to adjust for asserted productivity differences between high- and low-paid workers. To the extent that higher-paid workers are more productive, higher wages need not translate directly into higher costs, thus reducing the potential for federal savings.

Defenders of Davis-Bacon argue that it saves the government money by excluding unqualified contractors and by preventing labor relations problems at construction sites. They also contend that the law's requirements add stability to the construction industry, thereby making it less difficult to recruit, train, and maintain skilled labor. While there are probably some offsetting costs of this kind, their magnitude cannot be calculated.

President Carter's budget recommendations for fiscal year 1982 assume slightly different construction program levels from those in the CBO baseline, thus accounting for the difference in projected savings.

SHIFTING CERTAIN AIRWAYS COSTS

The federal government spent about \$3.1 billion in fiscal year 1980 for capital and operating expenses of the nation's air traffic system. General aviation (mainly, planes owned by firms and individuals for their own business and personal use) accounted for an estimated \$740 million of the total but paid only \$80 million in the form of user charges, primarily through a 7 cents per gallon tax on aviation fuel. On the other hand, commercial airline travelers, through ticket taxes and other fees, paid about 90 percent of the costs attributable to them, and under current projections will be paying approximately 100 percent, or possibly more, by 1982.

Increasing User Fees. If general aviation user fees were increased in line with their associated costs, about \$5 billion would be generated over the next five years. The taxes paid by private plane owners would increase 600 percent, although their overall operating costs would increase by less than 15 percent. The rest of the nation's taxpayers would continue to subsidize the one-quarter of expenditures that represent costs not attributable to any one class of air traveler.

	Annual Added Revenue (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	800	900	1,000	1,100	1,200	5,000
Carter Budget	510	490	480	470	450	2,400

NOTE: Preliminary estimates, subject to change.

An argument for this proposal is that having users of the airway system pay their own way would encourage more efficient use of airports and airways, and would be more fair as well. An argument against it is that greatly increased taxes might disrupt the general aviation industry, though transition effects could be cushioned by using the approximately \$3 billion surplus in the Airport and Airways Trust Fund to introduce increased user charges gradually.

President Carter's 1982 budget recommendations for fiscal year 1982 propose user charges for general aviation that by 1982 would recover about 50 percent of their associated costs, instead of 100 percent as in the proposal described above, thus accounting for the revenue differences shown in the table.

Ending Grants-in-Aid. The Congress might also consider ending grants-in-aid for capital improvements at large and medium hub airports. This action is suggested because such airports are already close to financial self-sufficiency, and the federal grants are now so thinly spread that their replacement by local user charges should be possible. If grants to large airports were eliminated, the five-year savings would be about \$1.1 billion, as shown in the following table.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	260	300	330	360	390	1,640
Outlays	50	180	250	300	350	1,130
Carter Budget						
BA	250	260	280	300	320	1,410
Outlays	50	170	230	260	290	1,000

NOTE: Preliminary estimates, subject to change.

The reduction in grant support for large and medium hub airports was passed by the Senate in 1980, but the 96th Congress did not complete action on Airport and Airways Trust Fund reauthorizations. The savings estimates given above assume that it will do so in 1981. President Carter's 1982 budget recommendations assume slightly lower program levels for the airport grant program than those in the CBO baseline, accounting for the somewhat different savings estimates shown.

ELIMINATION OF MARITIME INDUSTRY SUBSIDIES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	168	206	245	292	339	1,250
Outlays	33	83	154	241	300	811
Carter Budget						
BA	128	176	232	295	369	1,200
Outlays	29	77	143	223	292	764

NOTE: Preliminary estimates, subject to change.

The Maritime Administration (a unit of the Department of Commerce) pays an annual subsidy of roughly \$150 million to U.S. shipyards so that they can meet the competition of foreign shipbuilders. Foreign shipyards can build ships for about half the cost at U.S. shipyards. The subsidies for ship construction administered by the Maritime Administration reduce this differential so that U.S.-built ships are priced only slightly higher than foreign-built ships. Further subsidies of about \$350 million a year are paid to offset the higher operating costs of U.S. shipping companies, again for the purpose of meeting competition from foreign ships that operate for about two-thirds of the costs of U.S. ships.

If the Congress ended the two subsidy programs, the savings in the first five years would be about \$800 million. Because the operating subsidy is a contractual obligation tied to a particular ship, typically for 20 years, full savings from eliminating it would take about that long to capture.

The argument for eliminating the construction subsidy rests on the fact that only three or four ships a year are built with the subsidy, so that it has minimal effects in maintaining shipbuilding capacity. If the two subsidies were ended, there would be some loss of shipbuilding capacity, some possible adverse effects on U.S. export and import prices, and some loss of employment in shipbuilding regions and in the industries that furnish shipbuilding materials.

Discontinuance of the two subsidies would eliminate most of the expenditures of the Maritime Administration, whose other programs include research and development for ship, ship operating, and maritime technology, and funding for maritime operations and training, including the Merchant Marine academies. If those remaining functions were transferred to the Department of Transportation, eliminating the Maritime Administration, some additional administrative savings would probably result.

President Carter's budget recommendations for fiscal year 1982 assume a lower level of construction subsidy commitments than that in the CBO baseline. This accounts for the differences in estimated savings shown above.

USER CHARGES FOR CERTAIN COAST GUARD ACTIVITIES

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	680	730	780	830	880	3,900
Carter Budget	710	760	800	830	870	3,970

NOTE: Preliminary estimates, subject to change.

Over the next five years, the Coast Guard will spend about \$1.5 billion on short-range aids to navigation and \$2.4 billion on search-and-rescue activities. The cost of both of these programs could be recovered through user charges.

Without short-range navigational aids--such as buoys and other channel markings--commercial shipping in U.S. inland and coastal waters would be substantially more hazardous, difficult, and costly. The capital and operating costs of these aids could be recovered from the shipping industry, just as highway users pay for the cost of highways. The potential five-year savings for the general taxpayer from such user charges total about \$1.5 billion, or about 11 cents per ton of domestic and foreign cargo.

The Coast Guard also engages in search-and-rescue operations for private mariners who are lost or otherwise in trouble. About 70 percent of such missions involve recreational boaters. With almost 9 million large recreational boats registered by the states, an annual registration fee of about \$30 would recover the search-and-rescue costs attributable to recreational boaters. The potential five-year savings for the general taxpayer total about \$2.4 billion.

The argument for charging the shipping industry for navigational aids is that efficiency is enhanced when users of various modes of transportation pay the costs of each mode. The argument for charging recreational boaters is simply that the beneficiaries of this special service, who by and large have higher than average incomes, ought to bear the cost.

An argument against imposing such user charges is the difficulty of establishing fair cost allocations among the various kinds

of users. The charges might also cause some slight reduction in domestic shipping, and possibly temporary reductions in the sales and use of recreational boats.

President Carter's budget recommendations for fiscal year 1982 did not include this item. The revenues shown above for the Carter budget are in fact the spending levels he has recommended for navigational aids and search-and-rescue activities, and thus the amount that would be saved if the costs of these programs were covered by user charges.

USER CHARGES FOR DEEP-DRAFT NAVIGATION

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	540	600	650	710	770	3,270
Carter Budget	590	730	810	820	850	3,800

NOTE: Preliminary estimates, subject to change.

The Army Corps of Engineers and the Coast Guard spend about \$560 million a year improving and maintaining ports and channels to accommodate oceangoing vessels and Great Lakes shipping. Full recovery of these costs from users would total about \$3.3 billion between 1982 and 1986.

Except for the military, all deep-draft vessels are engaged in for-profit shipping. If the federal government recovered all deep-draft expenditures from international shipping alone, shipping costs would increase by only about 30 cents a ton, or less than 0.2 percent. Such a level seems unlikely to harm the general economy or divert significant traffic to other ports or transportation modes.

Several different taxing mechanisms are available to recover costs. The most common approach used in other countries is a harbor and channel use fee, under which a charge is assessed each time a ship uses a particular channel or harbor. Another possibility is a fuel tax, but in international shipping it can easily be avoided. Costs could also be recovered through taxes based on the value, volume, or weight of the cargo. The U.S. Customs Service already collects a small tonnage tax on international shipping. Receipts from this tax, which go into the general fund, totaled \$14 million in 1980, an effective rate of about one cent a ton. Further study would be required to evaluate the effectiveness of these alternatives and to determine the proper allocation of costs among various classes of users and among different types of facilities.

One argument in favor of this option is that the Congress has broadly applied the user charge principle to other modes of transportation, including highways, airports, and to some extent inland shipping.

Arguments against this proposal include the administrative difficulty of allocating the relevant expenditures by the Corps of Engineers and the Coast Guard, and the possibility of some small reductions in international trade and coastal trade.

President Carter's fiscal year 1982 budget recommendations assume a slightly different program level for improving and maintaining deep-draft ports and channels from that assumed in the CBO baseline, thus accounting for the small savings differences shown in the table.

REDUCED FUNDING FOR URBAN DEVELOPMENT ACTION GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	135	135	150	165	180	765
Outlays	15	50	120	140	155	480
Carter Budget						
BA	135	135	135	135	135	675
Outlays	15	50	115	135	135	450

NOTE: Preliminary estimates, subject to change.

The Urban Development Action Grant (UDAG) program was established in 1977 to help severely distressed communities finance part of the costs of private commercial, industrial, and housing development projects. The Congress extended UDAG eligibility in 1979 to the deteriorated areas of otherwise healthy cities ("pockets of poverty"), and in 1980 the program was reauthorized through fiscal year 1983 at an annual level of \$675 million.

UDAG funds are intended to generate additional private employment and tax revenues. Through October 1980, 937 grants totaling \$1.7 billion were provided to 562 cities and counties. Over half the funds supported commercial projects, mostly in retail and wholesale trade.

If UDAG appropriations were cut 20 percent, the savings would total \$480 million over the five years from 1982 to 1986. One way to make such a reduction without affecting the most distressed cities would be to eliminate the "pockets of poverty" provision and otherwise to narrow grant eligibility standards. If this course were taken, the impact would be greatest in the South and Southwest, where there are fewer jurisdictions in the upper ranks of the Department of Housing and Urban Development (HUD) distress ratings.

Some of the cities losing UDAG eligibility would still be able to fund economic development projects with their own revenues or perhaps from Community Development Block grant funds. But

some projects would probably be delayed or dropped entirely, resulting in postponement or loss of prospective jobs, housing units, and local tax receipts.

President Carter's budget recommendations assume that UDAG will receive \$675 million a year through 1986. CBO's baseline projection assumes that the program will be funded at a higher level when reauthorized for the years from 1984 to 1986, thus accounting for the differences in the savings shown above.

ELIMINATION OF ENERGY IMPACT ASSISTANCE

Savings from	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1982	1983	1984	1985		1986
CBO Baseline						
BA	46	51	56	61	67	281
Outlays	3	25	38	50	58	174
Carter Budget						
BA	50	50	50	50	50	250
Outlays	31	50	50	50	50	231

NOTE: Preliminary estimates, subject to change.

In 1978, the Congress authorized a five-year grant program to help states and localities develop plans to deal with the problems created by sudden increases in coal- and uranium-related energy development. Localities apply for grants through their state governments to the Farmers Home Administration. Grants are issued, on a need basis, to cover the cost of developing plans to cope with anticipated energy-related growth. Appropriations for the planning grant program totaled \$20 million in fiscal year 1979, \$42 million in fiscal year 1980, and \$62 million in fiscal year 1981. Elimination of the planning assistance program in 1982 would result in savings of about \$174 million in the 1982-1986 period.

Proponents of the Energy Impact Assistance program argue that the bulk of new energy development will occur in rural areas that lack the necessary planning capacity, governmental infrastructure, and tax base to cope with the rapid increases in population associated with new energy development. They argue that, since the country as a whole benefits from additional energy production, the federal government should provide some assistance so that the affected communities can develop plans for coping with the problems associated with rapid energy-related development.

Opponents of the federal Energy Impact Assistance program argue that these problems should be resolved at the state and local level. While there may be an initial mismatch between the expenditure needs of affected governments and the tax receipts generated by the energy-related development, state and local tax revenues

over the long run should be more than adequate to offset the public expenditures associated with the projects. Whatever mismatch arises can be overcome through traditional means, such as the issuance of bonds. If the federal government does play a role, there is no reason why the program should take the form of grants as opposed to loans.

President Carter's budget recommendations for fiscal year 1982 assume a slightly different funding level for this program from that assumed in the CBO baseline. This accounts for the differences in savings shown above.

INCREASED INTEREST RATES ON DISASTER LOANS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	75	225	375	500	625	1,800
Outlays	75	225	375	500	625	1,800
Carter Budget						
BA	25	75	150	200	250	700
Outlays	25	75	150	200	250	700

NOTE: Preliminary estimates, subject to change.

In fiscal year 1980, the Farmers Home Administration and the Small Business Administration made about \$3 billion in loans to firms and farmers located in designated disaster areas. Borrowers without access to private sources of credit receive subsidized loans at 5 percent, while others receive loans at an interest rate tied to the average rate paid on outstanding federal obligations of comparative terms and maturities. Although these latter loans are characterized as "unsubsidized," the interest rate charged is currently below both the prevailing rates on private loans and the current interest rates on long-term federal borrowing at the time the loans are made. (The latter subsidy, however, would be much lower if interest rates were to decline from their recent high levels.) About 55 percent of the 1980 loans were at 5 percent, and the remainder were tied to the Treasury borrowing rate.

Tying interest rates on all loans to the Treasury borrowing rate could save \$625 million annually by fiscal year 1986, assuming that disasters continue to occur about as they have in recent years.

The argument for the change is that eligibility for the subsidized interest rate does not depend on demonstrated need, but rather on inability to obtain credit from private lenders. As a result, borrowers who would be able to afford insurance against disasters receive large benefits from these loans. According to a recent General Accounting Office report, generous disaster loan programs may destroy the incentive to purchase insurance against loss, and also may deter relocation to less hazardous areas.

An argument against change is that to raise disaster loan interest rates would place added burdens on borrowers who may find it particularly difficult to purchase adequate insurance without federal subsidies.

President Carter's fiscal year 1982 budget recommendations assume a lower future incidence of disasters than does the CBO baseline, and make no allowance for inflation in the cost of those disasters, thus accounting for the savings differences shown in the table.

REDUCED FUNDING FOR VOCATIONAL EDUCATION

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	343	379	421	466	516	2,125
Outlays	34	347	383	426	471	1,661
Carter Budget						
BA	257	266	265	272	261	1,321
Outlays	180	334	290	303	294	1,401

NOTE: Preliminary estimates, subject to change.

The federal government began funding state vocational education programs in 1917 as part of a World War I manpower training effort. Federal expenditures for vocational education have risen gradually over the years to a total of \$784 million in fiscal year 1980, a level the Congress maintained for 1981. This sum is about 10 percent of nationwide spending for vocational education.

About 40 percent of the fiscal year 1981 funds, \$309 million, are untargeted Basic Grants that the states distribute to localities for any vocational education purpose. The remaining funds have been targeted by the Congress to support specific services, such as the Basic Grant set-aside for disadvantaged populations (\$112 million) and program improvement efforts (\$125 million).

If the nontargeted portion of the Vocational Education Basic Grants was eliminated beginning with the 1982-1983 school year, the cumulative savings through fiscal year 1986 would be about \$1.7 billion. Savings in the initial year would be modest because the program is advance-funded.

Proponents of such a change argue that untargeted federal vocational education spending should be eliminated in a time of fiscal restraint and that the federal contribution, while welcomed by state education agencies, is not essential to the continuation of local programs. The argument against eliminating untargeted support is that the states and school districts may in some cases

not pick up the slack, thereby lessening access to vocational education for some students.

President Carter's fiscal year 1982 budget recommends a lower level of funding in 1982 than that assumed in the CBO baseline, thus accounting for the different savings shown above for that year. The differences in 1983-1986 arise because of variations in the economic assumptions used.

REDUCED FUNDING FOR IMPACT AID

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	451	498	553	613	678	2,793
Outlays	361	488	542	601	665	2,657
Carter Budget						
BA	-26	-37	-53	-76	-106	-298
Outlays	-44	-39	-57	-80	-108	-328

NOTE: Preliminary estimates, subject to change.

For many years, Administrations and the Congress have argued over so-called impact aid (School Assistance for Federally Affected Areas). The aid is paid for two kinds of children: those whose parents both live and work on federal property (3a children), and those whose parents either live or work on such property (3b children). The principal controversy has been over 3b children, but Presidents have sought to reduce funding for 3a children as well. Although impact aid appropriations have been reduced in recent years, the aid still goes to about 4,000 school districts.

If impact aid payments were eliminated except for 3a children in the 323 school districts that have significant concentrations of such children (where 3a children exceed 20 percent of enrollments), savings over the next five years would approach \$2.7 billion.

Arguments in support of such a cut are that federal funds should not be used for general school expenditures, that in some instances the impact aid merely reduces state aid under equalization formulas, and that the federal presence enhances property values and hence school district tax receipts. Arguments against the cut are that the federal presence removes property from the tax rolls, while imposing real service burdens on the schools, and that any fiscal benefits from the federal presence are captured primarily by sales and income taxes, which only partially support local school districts.

President Carter's fiscal year 1982 budget proposes the same changes as described above except that heavily impacted 3a

districts would receive only 90 percent of their entitlement (20 percent for children living in low-rent housing), instead of 100 percent as in the CBO option. The Carter budget also proposes a rescission of \$148 million in fiscal year 1981 funds, a year to which the CBO option does not apply.

REDUCED FUNDING FOR EMERGENCY SCHOOL AID

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	52	58	64	71	78	323
Outlays	5	53	59	65	72	254
Carter Budget						
BA	41	40	34	25	14	154
Outlays	5	36	34	26	20	121

NOTE: Preliminary estimates, subject to change.

The 1972 Emergency School Aid Act (ESAA) authorized basic grants to school districts undergoing desegregation to assist them in such activities as staff training, community relations, and the provision of guidance counselors. In general, the funds may not be used for busing or remedial education programs. Actual ESAA basic grant appropriations have declined from \$134 million in 1973 to \$108 million in fiscal year 1981. An estimated 330 school districts will receive ESAA funds in 1981. About 60 percent will have been receiving such support for at least six years.

If program eligibility was limited to six years, and the funds so saved not reapportioned, the five-year savings would be about \$254 million. Savings in the first year would be modest because the program is advance-funded. Most southern states would lose funding under this change, as well as certain districts with histories of desegregation problems, such as Boston and Detroit.

The argument for such a change is that six years is long enough to be classified as an "emergency," and that expenses associated with desegregation should by that time be incorporated in a school district's regular operating budget. Opponents of the proposal argue that such a strategy is flawed because desegregation difficulties persist for more than six years.

President Carter's budget recommendations for fiscal year 1982 assume a lower funding level for this program than that in the CBO baseline; thus, the savings relative to the Carter budget are lower.

REDUCED STUDENT LOAN SUBSIDIES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	124	539	1,070	1,772	2,057	5,562
Outlays	96	429	945	1,602	1,993	5,065
Carter Budget						
BA	-735	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	-66	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

In the fall of 1978, the Congress removed the family income ceiling on college students seeking loans under the Guaranteed Student Loan (GSL) program. Such loans are interest-free while the student is in school. Since then, the program has become the fastest growing, most expensive form of federal postsecondary student assistance. Estimates suggest that, in fiscal year 1982, 3.4 million students will borrow \$7.9 billion, and the program's interest costs will be \$2.9 billion, as compared with 1978 when 1.1 million students borrowed \$2.0 billion and interest costs were \$0.4 billion.

The government does not gather information on the characteristics of GSL borrowers, but much of the surge in loan volume appears to have been caused by upper-income families taking advantage of the favorable interest rate and repayment terms.

If the in-school GSL interest was deferred, rather than forgiven, and added to principal when the loans became payable, GSLs would be far less attractive. This would probably reduce demand by about 25 percent in the first year. Savings would be small at the outset (because the government would still be paying the deferred interest to the lenders), but as the loans entered repayment the savings would mount. By 1986, projected program costs would be down by an estimated \$2 billion--32 percent below what they would be under a continuation of current policy.

Other approaches would preserve the in-school interest subsidy but target it so that upper-income families would no

longer automatically be eligible. One method would be to reimpose a family income ceiling: \$40,000 would approximate the inflation-adjusted value of the ceiling that was in effect until the fall of 1978. Another would be to limit GSLs to the amount by which the borrower's educational costs exceeded the expected family contribution. Depending on the details of how such changes were structured, the savings could be prompter and larger than those shown above.

Any of these three changes would add complexity to the GSL program, and thus could deter banks from participating. Restricting borrowing to the amount by which the educational costs exceeded the expected family contribution would reduce the lenders' yield because the average loan amount would decline. For that reason, banks might become less willing to participate and the number of loans available to eligible borrowers could be reduced. Some students, particularly the most needy who are generally less preferred borrowers, could have difficulty obtaining loans. This problem could be overcome, however, by assuring that the need-based direct federal loan program administered by colleges was adequately capitalized.

Options similar to the three described above were considered and rejected by the Congress in the course of enacting the Higher Education Amendments of 1980.

President Carter's fiscal year 1982 budget proposes several changes in the GSL program, including eliminating federal payments for the in-school interest subsidy and limiting student borrowing to the amount of assessed need. The proposals in the Carter budget therefore would achieve substantially greater savings than those shown for the CBO option.

LIMIT ON PARENTAL PERSONAL EXEMPTION FOR STUDENTS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.1	1.1	1.1	1.1	1.1	
Increase from Limit on Parental Exemption	1.1	1.1	1.1	1.1	1.1	5.5
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

Under current law, a parent can claim an exemption of \$1,000 for a dependent aged 19 or over if the dependent is a student. If an over-18 dependent is not a student, the parent also receives an exemption provided the dependent earns no more than \$1,000 in the year. The rule allowing a parental personal exemption for students, even if they earn more than the amount of the exemption, was adopted in 1954. The main reason for the rule was to avoid the "notch" problem that resulted when a dependent's earnings were close to the exemption amount; an extra few dollars in earnings could deprive the parents of the exemption, costing them hundreds of dollars in extra taxes. The exemption was also justified as a way of taking into account the added costs parents incur for students.

If the exemption for students aged 19 and over was repealed effective January 1, 1981, the increased federal revenues over the 1982-1986 period would total about \$5.5 billion.

The main argument for repeal of the parental exemption for students is that it is not well designed as a measure to assist parents in meeting the costs of educating their children. Its value in tax savings is greatest for those in the highest marginal tax brackets, and it is unrelated to the costs of a child's education. With the great expansion of federal student aid in recent years, it can be argued that the relatively modest and not very well targeted assistance provided by the extra exemption is no longer needed.

The main argument for retaining the exemption arises from the notch problem that prompted the 1954 change. Even though parents

of nonstudents over 18 face this problem under present law, most of these nonstudents earn well over \$1,000 a year so that the question normally does not arise. Students, who often work only part time, are much more likely to have earnings for the year that come close to the \$1,000 dividing line.

ELIMINATION OF TWO YOUTH EMPLOYMENT AND CONSERVATION PROGRAMS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	277	295	318	342	366	1,598
Outlays	223	291	314	338	362	1,528
Carter Budget						
BA	118	60	60	60	60	358
Outlays	79	60	60	60	60	319

NOTE: Preliminary estimates, subject to change.

The Young Adult Conservation Corps (YACC) and the Youth Conservation Corps (YCC) are two federally funded youth employment programs that are not targeted on economically disadvantaged young people. YACC is a year-round program administered by the Department of Labor, while the YCC is a summer program operated by the Department of the Interior. Both programs employ young people in conservation projects on federal land. In fiscal year 1981, they will provide about 51,000 jobs. If funding was discontinued for both programs, the five-year savings would exceed \$1.5 billion.

The argument for eliminating these programs is that they are not targeted on people in financial need, and that their long-term effectiveness in improving the employment opportunities of participants has not been demonstrated. Furthermore, if the work performed in the programs is worth doing, it should be financed in the regular budgets of the state and federal agencies involved. The argument against the cut is that conservation yields real benefits and that the young people may gain useful work habits and experience from the programs.

The immediate consequence of eliminating the programs would be a loss of jobs and income. The number of youths served in federal youth employment programs would decline by about 5 percent, but the youth unemployment rate would rise by less than one percentage point. Some useful conservation work that would have been done through YACC and YCC would probably not be picked up in other programs.

The savings relative to President Carter's fiscal year 1982 budget recommendations are smaller because his budget phases out YACC in 1982, although it continues YCC at \$60 million annually through 1986.

PHASING OUT OF CETA TITLE VI

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,030	1,180	1,250	1,320	1,360	6,140
Outlays	980	1,170	1,240	1,310	1,350	6,050
Carter Budget						
BA	1,060	1,230	1,330	1,440	1,550	6,610
Outlays	980	1,180	1,280	1,380	1,490	6,310

NOTE: Preliminary estimates, subject to change.

The Comprehensive Employment and Training Act (CETA) authorizes public service employment (PSE) in Titles II-D and VI: Title II-D is intended to address structural employment problems; Title VI, cyclical employment problems. Actually, however, the two programs operate quite similarly and, since 1978, both have been more heavily targeted on disadvantaged groups. The continuing resolution for fiscal year 1981 provides funding for approximately 215,000 Title II-D jobs and 100,000 Title VI jobs. Compared with actual fiscal year 1980 job levels, this represents an 8 percent increase for Title II-D and a 46 percent decrease for Title VI.

Cutting the number of Title VI jobs funded by 15 percent a month (starting in April 1981), and phasing the program out entirely by the end of fiscal year 1982, would save about \$150 million in fiscal year 1981 and \$6.1 billion during the following five years, compared with maintaining the program at the planned 1981 level. The net effect would be less, however, because increases in other federal expenditures and decreases in revenues could reduce overall federal savings to approximately \$4.6 billion over the next five years.

Proponents of reduced Title VI funding argue that the program is not an effective countercyclical strategy and, in fact, may be partially substituting for state and local expenditures. To make Title VI more countercyclical--that is, more effectively serving the recently unemployed--would require major legislative changes and might worsen the problem of "fiscal substitution."

Others argue against decreased Title VI funding for two major reasons. First, eliminating Title VI, unless fully offset by increased Title II-D appropriations, would decrease the number of jobs targeted on the disadvantaged. Second, reducing PSE could also increase the costs of other federal programs (including unemployment compensation, welfare, Medicaid, and food stamps) and decrease revenues from income and Social Security taxes. Under the present PSE operations, these offsets in other federal spending and revenues could reach 25 percent of the PSE job cost.

The differences shown between estimated savings from the CBO baseline and from President Carter's fiscal year 1982 budget recommendations arise from slightly different methods for projecting costs.

LIMITING OF ELIGIBILITY FOR TARGETED JOBS TAX CREDIT

	Annual Revenue Effect (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Extension of Current Law	345	345	350	355	355	
Increase from Limiting Eligibility	40	115	165	175	175	670
Increase under Carter Budget	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The Targeted Jobs Tax Credit (TJTC) program is designed to help certain classes of unemployed workers find jobs by authorizing tax credits of up to \$3,000 in the first year and \$1,500 in the second year to employers who hire any member of seven targeted groups, including cooperative education students between the ages of 16 and 19. By the end of fiscal year 1980, 305,000 people had been certified for TJTC participation, of whom 151,000 were cooperative education students.

Cooperative education programs arrange for high school and, in some cases, postsecondary students to spend a part of the school day working in local businesses, thus gaining employment experience. Many cooperative education programs are well established and have little difficulty generating work placements for participating students. Therefore, eliminating cooperative education students from TJTC would focus the subsidy on people likely to experience the greatest difficulty in finding employment.

On the other hand, employers who have received tax credits for hiring cooperative education students may decide to hire members of other targeted groups instead, thus eliminating any increased revenues from this provision. Also, the recent increase in minimum wage rates may make cooperative education placements more difficult to generate; some program coordinators feel that TJTC helps to maintain the attractiveness of cooperative education programs.

President Carter's budget for fiscal year 1982 does not recommend that the TJTC be extended when the current law expires on October 1, 1981.

LOWERING OF THE FEDERAL SHARE FOR STATE MEDICAID AND AFDC PROGRAMS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	1,100	1,400	1,800	2,200	2,800	9,300
Outlays	1,100	1,400	1,800	2,200	2,800	9,300

NOTE: Preliminary estimates, subject to change.

States can choose between two different formulas to determine federal support for state Aid to Families with Dependent Childre (AFDC) programs: the regular AFDC formula, and the formula used to determine federal support for state Medicaid programs. Under both formulas, the federal share declines as state per capita income increases. All but a few states have found the Medicaid formula to be more generous than the regular AFDC formula. Under the Medicaid formula the federal government pays between a statutory minimum of 50 percent in states with the highest per capita incomes and 77 percent of Medicaid and AFDC costs in the poorest states.

Federal outlays could be reduced if the current formulas for calculating federal support for Medicaid and AFDC were modified or if new formulas were adopted. One possible modification would be to remove the statutory 50 percent minimum federal share from Medicaid and AFDC. This would lower outlays by \$700 million for Medicaid and \$400 million for AFDC in fiscal year 1982. Over the 1982-1986 period, Medicaid outlays would be reduced by \$6.0 billion and AFDC outlays by \$3.3 billion. Under this option, the decline in the federal share of state Medicaid and AFDC expenditures in the 13 affected states would range from about 2 percentage points to about 33 percentage points. An alternative proposal, one that would affect all states rather than just those with the highest per capita incomes, would be to reduce the federal share under the Medicaid formula by 3 percentage points. This would save roughly the same total amount as removing the 50 percent federal minimum.

One argument in favor of removing the 50 percent minimum is that it adds significantly to federal outlays and provides too great an incentive for the higher-income states to expand Medicaid and AFDC programs.

Opponents of this proposal would argue that the reduced level of federal support for these programs would strain state budgets if current services were maintained. In response, these jurisdictions might restrict eligibility or reduce benefits in their Medicaid and AFDC programs. Another possible argument against the option is that per capita income is not a good measure of the relative ability of states to pay the costs of welfare programs, and therefore penalizing those states benefiting from the 50 percent minimum federal share in the Medicaid formula would be unfair.

ADDED STATE FLEXIBILITY IN SETTING MEDICAID REIMBURSEMENT RATES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	250	280	320	350	390	1,590
Outlays	250	280	320	350	390	1,590

NOTE: Preliminary estimates, subject to change.

The federal government significantly limits the ability of states to bargain with hospitals when establishing the level of payment for Medicaid patients. Unless specific approval is obtained from the Department of Health and Human Services, each state must reimburse hospitals for the average cost of treating Medicaid patients. Since the federal government pays at least 50 percent of state expenditures for medical care under Medicaid, the level of hospital reimbursement in each state directly affects federal outlays.

If the states were permitted more flexibility, they might be able to set hospital reimbursement rates at levels lower than average costs but high enough to be acceptable to a sufficient number of hospitals to serve the needs of Medicaid patients. States could also more easily include Medicaid hospital reimbursement in statewide hospital rate-setting programs.

Proponents of this option argue that it could induce hospitals to cut their costs in response to this market-like constraint. They also argue that hospitals might prove willing to accept Medicaid patients at less than average cost, so long as they were reimbursed for the incremental cost of each Medicaid patient. If the Medicaid program were withdrawn, hospitals would receive little or no reimbursement for such patients.

Opponents of the proposal point out that, if hospitals received less than their average costs for Medicaid patients, they might not cut costs but simply raise charges to other patients. Moreover, some hospitals could refuse to accept Medicaid patients, thus

reducing access to health care by the poor. (Others argue that hospitals' abilities to take such actions are limited.)

The estimate given above is illustrative and assumes a 5 percent reduction in Medicaid hospital reimbursements. The suggested savings of \$1.6 billion in 1982-1986 are subject to considerable uncertainty because the effectiveness of the proposal would depend on the extent to which state Medicaid agencies reduced hospital reimbursement rates.

INCENTIVES TO STATES FOR HOSPITAL COST CONTAINMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	50	100	200	350	700
Outlays	0	100	400	800	1,100	2,400

NOTE: Preliminary estimates, subject to change.

Hospital costs have been rising rapidly for some time, averaging 15 percent a year from 1968 to 1979. These increases have contributed to the substantial growth in federal outlays for Medicare and Medicaid. The Carter Administration twice proposed to the Congress federal limits on increases in hospital revenues per admission, but neither proposal passed.

About eight states currently set maximum rates for hospital charges. Although the programs differ substantially from state to state, recent studies show that as a group they have been effective at restraining increases in hospital costs. The federal government, through financial incentives, could encourage additional states to adopt rate-setting programs. This could reduce not only federal and state outlays, but payments by private purchasers of hospital care.

One proposal would have the federal government share with the states some of the savings to Medicare that are attributable to state efforts in this area. Currently, states with effective rate-setting programs cut their outlays by only 11 cents (principally the state share of Medicaid) for every dollar that Medicare and Medicaid outlays are reduced. Allowing states to keep a higher share of these savings might induce additional states to initiate effective rate-setting efforts. Such incentives could be augmented by automatically granting waivers for alternative Medicare and Medicaid reimbursement policies to states participating in the program.

The major argument in favor of encouraging state rate-setting is that extensive third-party financing of hospital care (by

government agencies and private insurers) has eliminated the normal market restraints on hospital spending, leaving regulation as the only practical alternative. State-level limits on hospital revenues might be more effective than federal limits because of additional flexibility, the ability to tailor programs to local conditions, and opportunities for states to attempt a variety of approaches and learn from each other's experiences. Indeed, the House of Representatives, in amending the Carter Administration's hospital cost containment proposal so as to remove federal revenue limits, sought to encourage state-level programs (H.R. 2626, Hospital Cost Containment and Reporting Act of 1979).

The major argument against state rate-setting is that it is a regulatory approach. Although it has been effective at cutting costs thus far, there is no certainty that this success will continue or that it may not have been at the expense of quality of care and efficiency.

Savings to the federal government under this proposal would depend upon the number and size of states initiating rate-setting programs, the effectiveness of the program, and the details of the incentive formula. The estimate presented above, of \$2.4 billion in savings over five years, is based on assumptions that states accounting for 25 percent of hospital expenditures would implement programs in response to the proposal and that one-third of the Medicare savings would be returned to the states. Savings could be higher or lower, and could even be negative if few states initiated programs and those states that currently have programs were rewarded for continuation of their past efforts as well as for increased activity.

ELIMINATION OF MERCHANT SEAMEN HEALTH CARE ENTITLEMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	80	130	150	160	180	700
Outlays	75	130	140	155	165	665
Carter Budget						
BA	70	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	60	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

American merchant seamen have been entitled since 1798 to free, all-inclusive health care from the federal government. That care is now provided in 8 hospitals and 27 clinics operated by the Public Health Service (PHS). If the entitlement were ended beginning fiscal year 1982 and the PHS facilities were disposed of, the five-year savings would be about \$665 million.

The argument for ending this entitlement is that it is no longer necessary. It grew out of 18th-century circumstances, when seamen had high rates of communicable diseases that posed a danger to public health, and when health care facilities in ports were primitive. Improved health, the declining size of the merchant fleet, and the growth of collectively bargained health care plans have led to low demands by seamen on the PHS system, some of which needs extensive modernization.

Only one-third of PHS users are seamen, accounting for about 14,000 inpatient admissions and 600,000 outpatient visits in 1980. The system has sought to avoid severe underutilization by providing services, on a reimbursable basis from other government agencies, to military personnel and their dependents and to the beneficiaries of Community Health Services programs. Even so, PHS hospitals have more excess capacity than is the norm in private hospitals.

The argument against ending the entitlement and closing the PHS facilities is that many seamen would, at least in the short run, have to find and pay for their own health insurance coverage. Also, the facilities are providing useful services to

military personnel and other persons. Many of the PHS facilities are located in medically underserved neighborhoods, and their closing could mean reduced access to care for some low-income persons.

If the hospitals were closed without ending the entitlement, the savings would be much lower than shown above. Keeping the entitlement would require that federal health insurance benefits be provided for all seamen, even those currently receiving medical care outside the PHS system.

President Carter's budget recommendations for fiscal year 1982 do not contain sufficient detail for years after 1982 to calculate the savings this proposal would achieve in those years, relative to his budget.

TERMINATION OF SOME FEDERAL MEDICAID FUNDING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	320	350	390	440	490	1,990
Outlays	320	350	390	440	490	1,990

NOTE: Preliminary estimates, subject to change.

People eligible for Supplemental Security Income (SSI), a federal income support program for the needy aged, blind, and disabled, generally qualify automatically for Medicaid, the federal-state health care program for the poor. Thirty-eight states provide supplemental SSI benefits to some aged, blind, and disabled persons whose income disqualifies them for federal SSI payments. Thirty-four of these states have chosen to provide Medicaid to recipients of such supplemental payments, and the federal government pays a minimum of 50 percent of the Medicaid expenditures that result from their participation.

If the federal government were to cease paying any part of the Medicaid costs for recipients of these supplemental payments, the five-year savings through fiscal year 1986 could be almost \$2 billion.

This change would eliminate or reduce Medicaid benefits for about 600,000 persons. Those living in states with coverage for the medically needy could continue to receive some benefits, however.

Supporters argue that those affected by the change are among the least needy persons eligible for Medicaid. Further, such a change would lead to more equal nationwide treatment by the federal government in its income support programs for the needy aged, blind, and disabled.

On the other hand, most of the people disqualified under this proposal have low incomes, even though not eligible for SSI. Furthermore, federal policy in many welfare programs has been to

encourage states to extend eligibility beyond minimal levels. As an incentive, the federal government has agreed to finance part of the cost of including additional categories of persons or enriching benefits in some income support programs. Interstate variations result from this policy and, if accepted in programs such as Aid to Families with Dependent Children (AFDC), should be acceptable in Medicaid as well.

TIGHTENING OF THE MEDICAL EXPENSE DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	4.1	4.7	5.3	6.0	6.9	
Increase from Eliminating Health Insurance Deduction	0.4	0.4	0.5	0.6	0.7	2.6
Increase from Raising Floor for Deductible Expenses to 10 Percent of AGI	2.2	2.5	2.8	3.2	3.7	14.3
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

The 35 percent of taxpayers who itemize may claim as deductions up to \$150 for health insurance premiums, plus all out-of-pocket medical expenses that in total exceed 3 percent of adjusted gross income (AGI).

The separate deduction for health insurance premiums was adopted in 1965, in the belief that it would encourage the purchase of such insurance. There is no empirical evidence that it has had such effects. But there is substantial evidence that the financial assistance provided by this tax subsidy is not well targeted on those with the greatest need. The deduction is claimed by less than 4 percent of all taxpayers with incomes under \$10,000, but by more than 50 percent of those with incomes over \$100,000.

The deductibility of medical expenses above 3 percent of adjusted gross income has been justified on the ground that it assists people with extraordinary and involuntary expenses. But some of those expenses are optional rather than involuntary. The deduction has also been criticized for the characteristic it shares with all deductions: it provides a larger, rather than a smaller, subsidy rate the higher a person's income.

The basic argument for change in this instance is that, if the income tax system is to be used to shift part of a person's health

care costs to the federal treasury, the relief ought to be confined to taxpayers with genuine financial need. This is the same principle that governs Medicaid, the government's direct expenditure health care program for the poor. By this standard, the separate deduction for health insurance premiums would be repealed, and the 3 percent threshold for the medical expense deduction raised to a level considerably higher than the average family health care cost burden.

Repeal of the deduction for health insurance premiums would increase federal revenues by about \$2.6 billion over the 1982-1986 period. If the threshold for the medical expense deduction was raised to 10 percent effective January 1, 1981, revenues for the five-year period would increase by about another \$14.3 billion.

TAXATION OF SOME EMPLOYER-PAID HEALTH INSURANCE

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	21.4	25.3	29.8	35.1	41.4	
Increase from Limit- ing the Exclusion	1.9	2.5	3.3	4.4	5.9	17.9
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

Employees do not pay taxes on income received in the form of employer-paid health care coverage. This exclusion will reduce income tax revenues by about \$21 billion in fiscal year 1982, somewhat more than total federal spending on Medicaid, the major program financing health care services for the poor. This form of income also escapes payroll taxation, reducing Social Security trust fund revenues by about \$7 billion in 1982.

One proposal for limiting the present exclusion would restrict tax-free employer contributions to \$120 a month for family coverage in 1981, with the amount to be adjusted to inflation in the future. This is similar to the approach already adopted by the Congress in connection with employer-provided group life insurance. The proposal would raise income tax revenues by \$1.9 billion and payroll tax revenues by \$0.7 billion in fiscal year 1982. Over five years, the revenue increases would amount to \$17.9 billion and \$7.0 billion, respectively. In 1982, such a limitation would affect about 23 million employed persons--roughly one-third of those who participate in employer-sponsored health insurance plans. Similar proposals were introduced in the 96th Congress but did not come to a vote.

Both health policy and tax policy arguments have been made for limiting this exclusion. The exclusion leads to what many consider to be overly extensive health insurance coverage, which has expanded use of health care services and, consequently, driven up their prices. The provision disproportionately benefits persons with higher incomes, because they tend to have larger employer-paid

health insurance premiums that are excluded from taxation and because they are in higher marginal tax brackets.

Opponents of such a measure argue that present health insurance coverage is not excessive and that reductions in insurance coverage might cause some people to forgo important medical care. Also, they argue that a \$120 per month ceiling would have uneven effects, for that amount purchases differing levels of coverage depending on several factors, such as geographic location and the composition of the work force.

LIMITING OF HOSPITAL BOND TAX EXEMPTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.7	0.8	0.9	1.0	1.2	
Increase from Repeal of Tax Exemption on New Bonds	0.1	0.2	0.3	0.5	0.6	1.8
Increase under Carter Budget	0.1	0.2	0.4	0.5	0.7	1.9

NOTE: Preliminary estimates, subject to change.

About half the funding for capital projects at hospitals comes from tax-exempt bonds. Over \$3.4 billion of these bonds were issued in 1979 alone. More than 75 percent were used to finance private nonprofit hospital projects, with the rest supporting public government-owned hospitals. The federal revenue loss in fiscal year 1982 from all outstanding private hospital bonds will be about \$700 million.

The lower borrowing costs from tax-exempt bond financing provide savings to the hospital, which they may pass on in the form of lower charges to patients, to insurers, and to the federal government through Medicare and Medicaid. These potential cost savings are outweighed, however, by the revenue losses from the bonds. As with all tax-exempt bond subsidies, about a quarter of the subsidy goes to outsiders including bondholders, underwriters, and bond counsel. Every \$1 saved by the borrowing hospitals thus costs \$1.33 in lost federal revenue.

The effectiveness of the subsidy can also be questioned because it allocates resources on the basis of a hospital's financial standing, rather than on the need for such facilities in a particular area. At present, the United States does not have a general shortage of hospital beds, and thus the Congress has sharply reduced direct expenditure subsidies for hospital facilities.

Eliminating the tax exemption for private hospital bonds issued after July 1, 1981, would increase fiscal year 1982 revenues by about \$100 million, and the amount would grow significantly in later years, reaching about \$600 million by fiscal year 1986. The Carter budget contains a similar ban on further tax-exempt bond financing by private hospitals, effective January 1, 1981, but extends it to all tax-exempt private institutions, including colleges and universities. Both of these options would preserve tax-exempt financing for public hospitals.

TERMINATION OF CERTAIN SOCIAL SECURITY BENEFITS

Phasing Out Postsecondary Student Benefits. Both the Ford and the Carter Administrations recommended phasing out Social Security postsecondary student benefits, which are paid to unmarried full-time students between 18 and 22 who are dependents of retired, deceased, or disabled workers. Child dependent benefits otherwise stop at age 18.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-24	-96	-216	-391	-612	-1,339
Outlays	650	1,235	1,820	2,480	2,710	8,895

NOTE: Preliminary estimates, subject to change.

This entitlement was added to the Social Security system in 1965. Since that time, the Congress has greatly expanded other forms of student assistance. Thus, it can be argued that phasing out these Social Security student benefits would eliminate some duplicative payments; other federal student aid programs would ensure that those in need would not be denied access to higher education for financial reasons.

The argument against this reduction in Social Security benefits is that the vast majority of full-time students are still financially dependent upon their families. Therefore, the dependency notion behind the Social Security system's benefits would suggest that continued payments are warranted.

If no new student beneficiaries were added after July 1981, and if those already receiving benefits were phased out over the next three years, federal savings would amount to nearly \$8.9 billion in the 1982-1986 period. These savings would be partially offset by increases in the costs of other federal student assistance programs.

The increase in budget authority shown above and in the following tables represents additional interest that accrues to the trust funds because their balances are higher on account of the reduced outlays for benefits.

Phasing Out the Parent's Survivor Benefit. Survivor benefits are paid to the parent (typically, the mother) of children until they reach age 18. If the parent's benefit (but not the children's) was stopped when the youngest dependent turned 16, annual savings would be about \$500 million. If the benefit were phased out over three years, the savings in the 1982-1986 period would be nearly \$1.7 billion.

Savings from	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1982	1983	1984	1985		1986
CBO Baseline and Carter Budget						
BA	-1	-5	-27	-67	-112	-212
Outlays	25	90	500	525	535	1,675

NOTE: Preliminary estimates, subject to change.

The case for this change rests on the belief that a single parent whose youngest child is age 16 or 17 is not homebound and can join the work force; in fact, about half of such parents are in the work force. An argument against making this change is that many parents, typically the mothers, have little recent job experience, face problems finding a job in times of high unemployment, and are likely to receive relatively low earnings compared with the family income before the death or disability of the covered spouse.

President Carter proposed phasing out this benefit in his 1980 budget, but the Congress did not act on the proposal.

Phasing Out the Minimum Benefit. The minimum Social Security benefit for new beneficiaries was frozen at \$122 per month in 1979. Thus, as earnings rise over time, the minimum benefit will cease to be a factor boosting recipients' benefits over the levels that would result from the application of the regular benefit calculations based solely on past contributions. Eliminating the

minimum benefit immediately would save \$65 million in the first year and \$790 million over the 1982-1986 period.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-2	-10	-22	-44	-56	-134
Outlays	65	135	160	205	225	790

NOTE: Preliminary estimates, subject to change.

The argument for eliminating the minimum benefit is that a significant number of those receiving it are retirees who spent most of their working careers in noncovered employment, typically in government. In fact, about one-fifth of these recipients of the minimum benefit have earned pensions under other programs. The argument against eliminating this benefit immediately is that many of those helped by it are persons who had low earnings, not former government employees receiving a windfall. Elimination of the minimum benefit would increase the demands on the Supplemental Security Income (SSI), food stamps, and other welfare programs, thereby offsetting some of the savings to the Social Security system.

President Carter also proposed phasing out the minimum benefit in his 1980 budget, but the proposal was not enacted.

Phasing Out the Death Benefit. A lump sum death benefit of \$255 is paid to surviving families of fully insured workers. Since families do not receive a regular Social Security benefit for a deceased family member for the month in which the death occurred, the lump sum death benefit is the last benefit received for that person. The amount paid is meant to cover part of burial costs, but it normally covers only a small part of them. If the benefit was eliminated and the survivors experienced financial hardship, the SSI or other needs-based assistance programs could be used to provide assistance. Elimination of the death benefit could save over \$2 billion in the 1982-1986 period.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-15	-46	-80	-118	-159	-418
Outlays	400	410	420	435	450	2,115

NOTE: Preliminary estimates, subject to change.

Aside from the financial hardship that could result, elimination of the death benefit could pose certain administrative difficulties for the Social Security system. The request for the death benefit constitutes one method by which the system learns that a recipient has died, and that regular benefits should be stopped.

Again, in his 1980 budget, President Carter proposed phasing out the lump sum death benefit, but the Congress did not act on the proposal.

REPEAL OF EXTRA PERSONAL EXEMPTION FOR THE ELDERLY

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	2.5	2.8	3.1	3.4	3.8	
Increase from Repeal of Extra \$1,000 Exemption for the Elderly	2.5	2.8	3.1	3.4	3.8	15.6
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

Under current income tax law, taxpayers 65 or older are allowed an extra \$1,000 personal exemption. The extra exemption for the elderly dates back to the Revenue Act of 1948, and was added to take into account the reduction in income usually experienced by those over 65. But the subsidy is paid irrespective of financial need; and, as with all exemptions and exclusions from income, it is worth more in tax savings to those with higher incomes. More than 50 percent of all persons over 65 do not benefit at all from this provision, since their income is so low they would pay no taxes anyway. Of those that do benefit, the 7.4 percent of elderly taxpayers with incomes over \$50,000 receive more than 17 percent of the tax relief the extra exemption provides.

Repeal of this extra exemption effective January 1, 1981, would increase federal revenues by \$2.5 billion in 1982 and \$15.6 billion over the 1982-1986 period. Only about 15 percent of the elderly with incomes below \$7,000 would be affected; their average increase in liability would be about \$150 in 1982. The average for all those affected would be about \$300.

If the Congress wanted to continue providing some tax relief for the elderly, but at a lower cost and in a form more equal for those at different income levels, the present exemption could be converted to a credit. With credits, taxpayers subtract an amount directly from their final tax bill, rather than reducing the amount of income on which the tax is calculated. A credit of \$200, for example, would allow all those over 65 to reduce their taxes by

\$200. Relative to current law, elderly taxpayers with top marginal tax brackets below 20 percent would gain with such a credit, while those above the 20 percent bracket would lose. Thus, most of the elderly with incomes below about \$13,000 would pay less in taxes, while most with incomes above that level would pay more. A \$200 credit would raise about \$500 million in additional revenue in fiscal year 1982.

DELAY IN SOCIAL SECURITY COST-OF-LIVING ADJUSTMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-100	-361	-690	-1,062	-1,510	-3,723
Outlays	3,608	4,277	4,735	5,261	5,701	23,582

NOTE: Preliminary estimates, subject to change.

Each July, benefits for the Social Security, Railroad Retirement, Supplemental Security Income (SSI), and veterans' pensions programs are automatically adjusted to reflect increases in the cost of living (COLA). The adjustments are based on the increase in the Consumer Price Index (CPI) from the first calendar quarter of the previous year to the first quarter of the current year. These automatic increases began in 1975, when the federal government's fiscal year started on July 1; now it starts on October 1.

This option would change the date on which the COLA is made from July 1 to October 1, thus shifting the indexation of these benefits to the start of the fiscal year. The computation period for the amount of the COLA would remain as it is in current law.

Enactment of this option would result in large and continuing savings, \$4.1 billion in 1981 and nearly \$24 billion for the 1982-1986 period if the change was made effective in 1981. The savings in later years would occur because the change would increase the lag after which beneficiaries are compensated for inflation from 15 months to 18 months. This, of course, means that real benefit levels would be reduced for one quarter each year. If the lag were kept as it is now by changing the base period to the second calendar quarter of each year, the fiscal year 1981 savings would still be \$ 4.1 billion but the effects in later years are too small to be subject to precise calculation.

The increase in budget authority shown in the table represents the net effect of added interest earned on the higher Social Security and Railroad Retirement trust funds balances and the lower budget authority needed to support benefits in the veterans' pensions and SSI appropriations.

ELIMINATION OF EARNINGS TEST AND TAXATION OF BENEFITS FOR SOME
SOCIAL SECURITY RECIPIENTS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	13.7	16.4	19.5	23.1	27.3	
Higher Outlays from Liberalization of Earnings Test	0.0	1.8	2.1	2.2	2.2	8.3
Increase from Partial Taxation of Benefits	0.0	2.2	2.8	3.6	4.6	13.2
Net Revenue Increase	0.0	0.4	0.7	1.4	2.4	4.9
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

Under current law, Social Security recipients below age 72 and their dependents who continue working are penalized for earning more than \$5,500 a year by having their monthly cash benefit reduced one dollar for every two dollars earned over the threshold.

The earnings test, as this provision is called, has been a continuing source of controversy since Social Security was enacted in the 1930s. The Social Security Administration has repeatedly resisted attempts to have the test eliminated, arguing that those who remain in the work force have not experienced the income loss that retirement benefits are intended to cushion. But this argument has lost much of its force since the removal of the earnings test for those past 72, and the main objection now is based on the annual cost of about \$2 billion that removing the earnings test for recipients above 65 would entail.

The test imposes what amounts to a 50 percent marginal tax on the earnings of Social Security recipients, on top of the 6.65 percent payroll tax and the income tax they must pay on those same earnings. Eliminating this 50 percent tax for those 65 and over would provide such older workers with greater incentives to remain in the labor force, thus increasing payroll tax receipts of the cash-short Old Age and Survivors Insurance (OASI) trust fund, with

a side advantage of reducing the need to provide Supplementary Security Income benefits for some low-income beneficiaries.

The trust fund outlay costs of eliminating the earnings test could be more than offset by taxing half of Social Security benefits, with the tax applying only to those with incomes in excess of \$20-25,000, much as unemployment compensation is now taxed. If such a proposal was enacted effective January 1, 1982, it would result in \$13.2 billion in additional revenues in the 1982-1986 period. The increase in income tax revenues could be dedicated to the OASI trust fund. The effect would be to replace a 50 percent tax on the earnings of 65- to 72-year-old workers with a lower marginal tax on higher-income Social Security beneficiaries. More recipients would experience an income tax increase than would realize a gain from higher benefits, however. A significant benefit increase for those over 65 would thus be financed with a tax on those beneficiaries who have the greatest ability to pay.

The cash position of the OASI trust fund could be even further strengthened if half of benefits were taxed for all recipients, and the resulting revenues dedicated to the trust fund. Taxing benefits in this way was recommended by the most recent Social Security Advisory Council. Another option would be to tax not half, but all, Social Security income, after the employee's own contributions have been paid back in retirement benefits. Social Security would then be taxed in exactly the same way as private pension payments.

CHANGES IN SOCIAL SECURITY INDEXING

Since 1975, Social Security benefit payments have been adjusted automatically, or indexed, to reflect increases in the cost of living. In recent years, the specific index used to calculate this cost-of-living adjustment, as well as the automatic nature of the adjustment itself, have come under increasing scrutiny. The specific index used is the revised Consumer Price Index (CPI) for urban earners and clerical workers. The CPI has been thought to overstate the actual rise in the cost of living over the past few years because it reflects an outdated consumption pattern (1972-1973) and because of the manner in which it treats homeownership costs. The first defect causes an upward bias in the index because it does not recognize that consumers adjust their purchases when prices are rising--buying less of goods whose prices have risen most rapidly, and more of substitutes with more slowly rising prices. For example, despite the reduced level of energy consumption brought on by price increases, the CPI still reflects oil consumption levels antedating the OPEC embargo of 1973-1974. In addition, the CPI treatment of homeownership costs exaggerates actual shelter costs because it uses housing purchase prices that reflect not only the cost of shelter but also the investment value of housing. In addition, mortgage interest rates are given inordinant significance in the CPI, a fact that makes the index rather volatile.

The use of automatic indexing has come into question because of the large costs it entails for the federal budget during inflationary periods, and because of the question of fairness that arises when retired workers are given more protection against inflation than those still in the work force. The 14.3 percent cost-of-living adjustment paid in July 1980 will add nearly \$17 billion to Social Security outlays in fiscal year 1981 alone. This will be compounded in future years as successive cost-of-living adjustments are calculated on benefit levels that have been increased by previous adjustments.

Using Lower of Wage or Price Index. Several proposals have been advanced for dealing with these problems. One option would be to limit the annual cost-of-living increase to the lower of the rise in the CPI or of a wage index. Wages ordinarily rise faster than prices because of productivity increases. During the 1970s, however, there were two periods (1974-1975 and 1980) when large oil price shocks combined with recessions to make prices rise faster than wages. During these two periods, when the purchasing power of workers declined, Social Security benefits were fully protected through automatic indexing.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-211	-529	-916	-1,350	-1,925	-4,931
Outlays	3,815	4,355	5,053	5,643	6,325	25,191

NOTE: Preliminary estimates, subject to change.

If benefit increases were limited to the lower of the rise in wages or of the CPI starting with the adjustment scheduled for July 1981, the estimated savings would total about \$26 billion through 1986. Choosing the lower of a wage or a price index would prevent the benefits of retirees from rising faster than the incomes of workers in times of falling real wages. This option, however, would result in lower real benefits for Social Security recipients than under current law. The National Commission on Social Security, which has endorsed this option in its preliminary report, has also proposed that beneficiaries ultimately be compensated for such losses by allowing Social Security benefits to rise by more than the increase in prices when wages are rising faster than prices. Such a catch-up provision would reduce the savings estimated in the table.

The increased budget authority shown above and in the following tables represents additional interest that accrues to the trust funds because their balances are higher on account of the reduced outlays for benefits.

Limiting Increase to 85 Percent of CPI. A second option would be to increase the government's discretion with respect to the automatic cost-of-living increases. One way of doing this would be to follow the procedure now used to adjust white-collar federal pay scales. Each year, after reviewing the nation's budgetary and economic health, the President could propose to the Congress a cost-of-living increase for Social Security not to exceed the rise in the CPI. The recommendation would take effect unless the Congress acted to alter it. If the President and the Congress held the increases in benefits to 85 percent of the expected rise in the CPI starting in July 1981, savings in Social Security outlays over the 1982-1986 period would total about \$43 billion. These savings, of course, would represent a substantial erosion of real benefit

levels--amounting to an 8.2 percent reduction from what the level would be under the current system by 1986.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-105	-410	-934	1,739	2,893	-6,081
Outlays	2,848	5,178	8,158	11,745	15,959	43,888

NOTE: Preliminary estimates, subject to change.

Shifting to the PCE. A third option, one that would respond to the criticisms of the dated nature of the CPI's consumption pattern and its treatment of shelter costs, would be to base the cost-of-living adjustments for Social Security on rises in the Personal Consumption Expenditures (PCE) chain index of the National Income and Product Accounts. The PCE measures housing by using a rental equivalency concept and continually changes the market basket of goods and services that are priced to reflect changing consumption patterns. Such a shift, if implemented before the July 1981 adjustment, would save an estimated \$11 through 1986.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-73	-187	-314	-503	-733	-1,810
Outlays	1,863	1,185	1,953	2,442	2,791	10,234

NOTE: Preliminary estimates, subject to change.

The savings estimates presented for all three options refer only to Social Security. Several other federal retirement and disability programs are also indexed to the CPI, including Railroad Retirement, Supplemental Security Income, veterans' pensions, Military Retirement, and Civil Service Retirement. If the same method of adjustment were applied to those programs, additional savings would result.

CHANGES IN CIVIL SERVICE AND MILITARY RETIREMENT BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,221	1,401	1,385	1,423	1,474	6,904
Outlays						
Annual adjust- ments with Social Security base	1,696	2,026	2,087	2,198	2,222	10,229
Wage increase limitation	<u>315</u>	<u>344</u>	<u>369</u>	<u>395</u>	<u>422</u>	<u>1,845</u>
Total	2,011	2,370	2,456	2,593	2,644	12,074
Carter Budget						
BA	46	416	399	385	429	1,675
Outlays	900	1,412	1,468	1,546	1,587	6,913

NOTE: Preliminary estimates, subject to change.

Federal civilian and military retirement annuities are currently adjusted twice a year to reflect changes in the Consumer Price Index (CPI). These adjustments are more frequent than the once-a-year increases provided Social Security beneficiaries, and in recent years have exceeded the pay adjustments provided active employees. From October 1978 through October 1980, cumulative adjustments for federal retirees totaled 33 percent while the comparable pay adjustments for federal white-collar employees totaled 23 percent.

The Senate in 1980 approved a proposal that would have limited the frequency of federal postretirement adjustments to once a year, but the item was dropped in conference. In reconsidering this measure, the Congress could also change the base period and index used to calculate such adjustments. If the postretirement increases were limited to one annual increase occurring in October,

and the method used to make the adjustments was the same as for Social Security, the federal government would save \$10.2 billion in outlays through fiscal year 1986. This estimate assumes that the annual adjustments would, beginning with October 1982, reflect the calendar-year increase in the CPI from first quarter to first quarter. The October 1981 increase, a transition adjustment, would reflect the CPI change between December 1980 and the first quarter of 1981.

Further savings could be achieved if the size of future increases was limited to the lesser of changes in prices or wages as measured by the CPI and the average wage index (discussed in the item on Changes in Social Security Indexing). If this action was taken in conjunction with switching to annual adjustments, cumulative five-year savings would rise by \$1.8 billion.

The argument for having an annual rather than a twice-a-year adjustment is that federal retirees should not receive greater protection against inflation than Social Security retirees. But the protection would not be identical unless the adjustment date was also the same. This proposal assumes that the Social Security adjustment would also occur in October, rather than in July as the law now provides. If the uniform date was July 1 rather than October 1, the savings would be less than stated above.

Opponents of annual indexing argue that twice-a-year indexation for federal employees is a recompense for pay limitations imposed on federal employees and for the taxation of their retirement benefits. Federal pay is sometimes held below private-sector rates, mainly for budgetary reasons, and federal pensions are subject to income tax but Social Security benefits are not.

President Carter's budget recommendations for fiscal year 1982 incorporate savings from a change to once-a-year indexation for federal retirees. The Carter budget, however, uses a different date and base period from those in the proposal presented here, and it does not assume a switch to using the lower of price or wage increases. This, together with different economic assumptions, accounts for the additional savings from the Carter budget that would occur from the proposal presented here.

TAXATION OF ALL UNEMPLOYMENT BENEFITS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	4.5	3.9	4.2	4.6	5.1	
Increase from Taxation of All Unemployment Benefits	0.0	3.9	4.2	4.6	5.1	17.8
Increase from Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

In principle, there is no reason to exempt unemployment compensation from income taxation. The payments are in fact income to the recipient, and ability to pay rather than the source of income should determine income tax liability. The lowered ability of a jobless person to pay taxes is already taken into account for income tax purposes through exemptions, deductions, the "zero bracket amount," and graduated tax rates.

The Congress partially acknowledged these points in 1978, when it changed the law to make a portion of unemployment benefits paid under government programs taxable for individuals with incomes over \$20,000 and for married couples with incomes above \$25,000. If all government-sponsored benefits of this kind were taxed effective January 1, 1982, the estimated revenue gain would be \$3.9 billion in fiscal year 1983, and \$17.8 billion over the 1983-1986 period. There would also be some lessening of the work disincentives associated with such benefits, including those in the rapidly growing Trade Adjustment Assistance program.

Opponents of such a change argue that unemployment benefits for the most part replace only a portion of lost wages, and that to tax such already inadequate payments runs counter to the basic income-support purpose of unemployment insurance programs. They also point out that existing benefit levels were set on the assumption that benefits would not be taxed; if they were now to be taxed, some rise in benefit levels would likely be necessary, thereby reducing the potential budgetary savings.

ELIMINATION OF NATIONAL TRIGGER FOR UNEMPLOYMENT INSURANCE EXTENDED BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	400	100	100	100	0	700
Outlays	700	0	0	0	0	700
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

Under current law, the federal government and the state governments each pay half of the cost of 13 weeks of additional unemployment insurance benefits for those who have exhausted the regular benefits provided under state law. The federal share is financed through the federal unemployment tax, a payroll tax of 0.7 percent on wages up to \$6,000. The state portion is financed by state unemployment taxes. Since the state unemployment insurance accounts are included in the unified federal budget, both federal and state extended benefit payments are included in the unified federal budget.

Extended benefits are payable only when the state's insured unemployment rate (IUR) exceeds a prescribed level, or when the national IUR exceeds 4.5 percent. When the national trigger is reached, extended benefits are payable in every state, including those with low unemployment rates. If the national trigger was eliminated, the savings would reach \$700 million during the next five years, given current CBO economic assumptions. Half of these savings, \$350 million, would accrue to those states with low unemployment, but the unified federal budget would reflect the entire \$700 million reduction. If unemployment rates over the next five years should be higher than projected, the savings could be much larger than those shown here.

The immediate losers from this option would be unemployed persons in states with low unemployment rates. The argument in favor

of the proposal is that providing extended benefits to those persons acts as a disincentive to seeking work despite the comparatively better job opportunities in their areas. The argument against this proposal is that pockets of high unemployment often exist within states with low overall unemployment rates, and that the extended benefit program has provided a way to alleviate part of the problem.

This option was included in the Senate-passed 1980 reconciliation bill, but was not agreed to in the reconciliation conference.

This option is not included in President Carter's budget recommendation for fiscal year 1982; however, an option to change the definition of the insured unemployment rate (IUR) is included. If the IUR was changed as proposed in the Carter budget, the extended benefit program would not trigger on under current CBO economic assumptions. For this reason, no savings are shown relative to the Carter budget.

CHANGE IN COMPUTING INSURED UNEMPLOYMENT RATES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	850	455	620	775	515	3,215
Outlays	1,370	500	470	590	590	3,520
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The preceding item describes the unemployment insurance extended benefits program. Those benefits are triggered on or off within a state, or nationally, when the insured unemployment rate (IUR) reaches a particular figure. The IUR is now defined as the ratio of the number of persons currently claiming regular or extended benefits (EB) to the number of persons in covered employment in a base period (the first four of the six preceding quarters).

The inclusion of EB claimants in calculating the IUR has the effect of keeping a state trigger on longer after the economy has started to improve than would otherwise be the case. Their inclusion also keeps the national trigger on longer and invokes it sooner as well.

In February 1980, the Carter Administration issued a regulation that would have excluded EB claimants in calculating IUR. Its implementation was blocked by a court ruling that such a change requires legislation. If the Congress enacts the change in time to apply to fiscal year 1982, the five-year savings would be about \$3.5 billion.

Under current economic projections, the present IUR definition will trigger nationwide extended benefits in 1981 and 1982, but not during the following four years. If the definition is changed as proposed, not only will the national trigger not be reached in 1982, but several state triggers that would otherwise be reached during the five-year period will not be reached.

The argument for the proposal is that extended benefits may act as a work disincentive, and that counting EB claimants in calculating the IUR artificially prolongs the period in which such disincentives may have effects. The argument against the proposal is that a person is no less unemployed while receiving extended benefits, and that not to count such people is to understate the true impact of a recession.

President Carter's budget recommendations for fiscal year 1982 already capture the savings attributable to changing the definition of the IUR.

MODIFICATION IN TRADE ADJUSTMENT ASSISTANCE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	1,275	500	450	450	450	3,125
Outlays	1,275	500	450	450	450	3,125

NOTE: Preliminary estimates, subject to change.

Workers who lose their jobs because of foreign competition qualify for Trade Adjustment Assistance (TAA) payments. TAA benefits currently are set at 70 percent of a worker's former average gross weekly wage, not to exceed the current average weekly manufacturing wage. These benefits, which can continue for up to 52 weeks, are considerably more generous than regular unemployment compensation. Any regular unemployment compensation the individual receives, however, reduces his TAA payment dollar for dollar.

Because of the recent recession and the concomitant problems facing the automobile industry, TAA outlays grew from about \$270 million in fiscal year 1979 to \$1.7 billion in fiscal year 1980. The General Accounting Office has suggested that TAA payments be limited to those who have exhausted their unemployment insurance benefits, be payable at the same level as the unemployment benefits, and be payable for up to 52 weeks following exhaustion of the unemployment benefits. If this approach was adopted before October 1, 1981, it could save almost \$1.3 billion, or nearly 90 percent of the program's anticipated costs in fiscal year 1982. The savings would decrease after fiscal year 1982, because total program outlays are expected to drop.

In the near term, those most likely to be affected by the change would be workers in durable goods manufacturing industries (notably automobiles), and, to a lesser extent, steel and rubber. In the longer run, workers in the electronics, leather, textile, and apparel manufacturing industries would also be affected significantly.

The argument for the change is that TAA recipients should not receive more generous payments than those provided by regular unemployment compensation simply because they happen to be unemployed for a specialized reason. The counterargument is that higher tariffs could prevent this type of unemployment, but would be costly to consumers generally. Special TAA benefits are, therefore, justified as compensation for those who must pay the price of the government's policy of lowering trade barriers.

Aside from budgetary savings, the proposed changes could well improve the functioning of labor markets. TAA, like other unemployment-based assistance programs, creates a disincentive for seeking work, an effect probably magnified in TAA's case by the greater relative size of the payments. This disincentive may result in deterring workers from seeking jobs in other industries, thus bolstering their attachment to a vulnerable industry and vitiating the adjustment goals the program is intended to attain.

CHARGING OF INTEREST ON LOANS TO STATES FOR UNEMPLOYMENT
COMPENSATION

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget	245	655	875	995	1,075	3,845

NOTE: Preliminary estimates, subject to change.

The federal government makes interest-free loans to states that, because of high unemployment, have overdrawn their Unemployment Trust Fund accounts. At the same time, the federal government pays interest on state balances in trust fund accounts. State borrowing to cover fund deficits from 1982 to 1986 is expected to total \$10 billion. If the states paid interest equal to federal borrowing costs, receipts would total almost \$4 billion through 1986.

The argument for such a change is that the present arrangement disguises what are in fact federal grants to bolster state systems that were intended by law to be self-financing. The states decide the level and duration of unemployment insurance benefits to be paid, and they set the state payroll tax rates to finance the benefits selected. While it is appropriate for the federal government to cover overdrawn state accounts, it is not appropriate, according to this argument, to do so interest-free, because that effectively shifts part of the cost from the taxpayers in a particular state to federal taxpayers.

On the other hand, charging interest on state debts might well lead to higher payroll taxes in states already experiencing high unemployment, thus worsening the business climate, employment levels, and inflation. According to this view, there is a national interest in mitigating the unemployment compensation burden in particularly hard-hit states, and the interest-free advances to those states are a recognition of that national interest.

REDUCED FUNDING FOR LOWER-INCOME RENTAL ASSISTANCE

Each year, the federal government makes 15- to 40-year commitments under the Section 8 and public housing programs to subsidize the rents of some lower-income households in addition to those already receiving aid. The amount of additional assistance and the mix among programs is set annually by the Congress.

By the end of fiscal year 1981, approximately 3.3 million subsidy commitments will be outstanding and up to 2.6 million households will actually be receiving aid. Outlays for all assisted housing programs will total about \$6.6 billion in 1981. Because of the many outstanding assistance commitments that have not yet resulted in occupied units, expenditures would rise to more than \$11 billion by 1986, even if no additional subsidy commitments were made after 1981. If 255,000 new commitments were made in 1982--the estimated 1981 level--and if that annual assistance increment was maintained through 1986, outlays in that fiscal year would exceed \$15 billion.

Making Fewer Commitments. Future outlays for lower-income housing assistance could be cut back in a number of ways. If the fiscal year 1982 assistance increment was fixed at 150,000 and sustained at that rate through 1986 rather than kept at the 1981 level of 255,000, savings would total about \$2.4 billion over the five-year period, as shown in the table below. Still greater savings could be realized by rescinding authority to enter into commitments in 1981.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	11,249	12,470	13,717	14,996	16,341	68,773
Outlays	5	132	308	708	1,270	2,423
Carter Budget						
BA	9,986	11,070	12,177	13,311	14,505	61,049
Outlays	5	117	274	628	1,128	2,152

NOTE: Preliminary estimates, subject to change.

Raising Tenant Rents. Increasing the maximum proportion of income that new tenants are required to pay for rent from the current 25 percent ceiling to 30 percent could reduce outlays

through 1986 by \$2.8 billion, as shown in the table below. Such a change would raise the typical family's monthly rent by about \$30, but assisted households would still pay appreciably less than the nearly 40 percent of income now devoted to housing costs by the average unassisted lower-income renter.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	38	123	212	316	419	1,108
Outlays	68	279	534	803	1,146	2,830
Carter Budget						
BA	38	123	212	315	418	1,106
Outlays	69	277	530	795	1,132	2,803

NOTE: Preliminary estimates, subject to change.

Increasing Use of Existing Housing. A third option relates to the housing mix. The Congress specified a funding mix for 1981 that was expected to result in about one-half the subsidy commitments going to persons living in newly built or substantially rehabilitated units, and the other half aiding persons living in existing dwellings. This action has reversed the recent trend toward a greater emphasis on new construction. Increasing the reliance on existing-housing assistance to 60 percent of the additional households assisted in 1982 and thereafter would increase outlays somewhat during the next few years (because of the shorter lead time to lease existing units) but would begin to result in savings by 1986, as shown below. Shifting the program

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	2,758	3,152	3,544	3,930	4,348	17,732
Outlays	-3	-63	-116	-77	26	-233
Carter Budget						
BA	2,651	3,028	3,404	3,773	4,174	17,030
Outlays	-2	-60	-110	-72	28	-216

NOTE: Preliminary estimates, subject to change.

mix in this manner would reduce long-term obligations--and, therefore, eventually outlays--by more than \$17 billion even if the number of new commitments was not reduced.

The savings estimates from the three options given above are not additive. Adoption of all three or any two would have different consequences from merely summing the parts.

REPEAL OF THE CASUALTY LOSS DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.9	1.0	1.1	1.3	1.4	
Increase from Repeal of Deduction	0.4	1.0	1.1	1.3	1.4	5.2
Increase under Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

Under current law, taxpayers who itemize their deductions may deduct losses caused by fire, storm, shipwreck or other casualty, or theft, to the extent that the taxpayer is not reimbursed for the loss through insurance, disaster assistance, or other compensation. In 1964, the Congress limited the deduction to the amount of each loss in excess of \$100.

If the deduction was repealed effective July 1, 1981, revenues would increase by about \$400 million in fiscal year 1982 and by about \$5.2 billion over the 1982-1986 period.

The main argument for allowing the deduction is that taxpayers who suffer large, unpredictable, and unavoidable losses have a diminished ability to pay their federal income taxes and should thus be granted some financial assistance.

The present system, however, has three drawbacks: it is difficult to administer, it provides an uneven kind of disaster assistance, and it creates perverse incentives. The deduction is difficult to administer because defining a casualty loss is inherently difficult and valuing the loss is even more difficult. The definition, for instance, includes the loss of nonessential luxury items such as jewelry, furs, and ornamental shrubs, whose loss probably does not diminish an individual's ability to pay tax. A deduction is allowed only for sudden and unexpected losses. A deduction is allowed, for instance, for ornamental shrubs struck by lightning but not for the same shrubs lost gradually to winterkill.

The deduction provides uneven disaster assistance because the assistance is granted only to those who itemize their deductions, and the amount of the assistance for a given loss increases with the taxpayer's marginal tax rate. Only about 3 percent of all taxpayers claim the deduction, but it is skewed toward those with the highest incomes: the top 5 percent will receive about 40 percent of the financial assistance provided in 1981.

Finally, the current system discourages some taxpayers from taking precautions of their own against disaster--encouraging them to buy less insurance than they otherwise might.

An alternative to outright repeal would be to establish a higher floor for the deduction. Raising it from \$100 to \$250 would simply be an adjustment for the inflation that has occurred since 1964, and would cut the projected revenue loss by about \$150 million a year. In 1978, President Carter recommended that the floor be made dependent on income, and that the personal casualty and theft loss deduction be combined with the medical expense deduction, but the Congress took no action on that recommendation.

LIMITATION ON FEDERAL DISABILITY BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
All awards						
BA	190	170	150	140	120	770
Outlays	365	375	380	382	386	1,888
New awards						
BA	12	30	45	55	60	202
Outlays	25	65	100	130	160	480

NOTE: Preliminary estimates, subject to change.

Under current law, disabled workers can collect Social Security disability payments while they are also receiving benefits--without reduction--under one or more of the following programs: veterans' service-connected compensation, military disability retirement benefits, civil service disability retirement benefits, and black lung (Part B) benefits. Recent Social Security Administration data show that approximately 6 to 11 percent of Social Security disability beneficiaries received nonintegrated payments in 1978 from other federal disability programs. It is probable that a significant portion of them received federal payments greater than their pre-disability, pre-tax Social Security earnings.

Federal savings could be realized by limiting the total of benefits received from federal disability programs. Estimated savings for this example are based on a cap equal to the larger of disability benefits from a single program or 80 percent of combined federal disability benefits. In this case, savings would be about \$365 million in fiscal year 1982. Cumulative five-year savings of about \$1.9 billion could be realized by 1986. Capping only the benefits of new disability awards would result in smaller savings--around \$25 million in fiscal year 1982 and \$480 million through 1986.

Proponents of limiting the total amount of federal disability benefits argue that it could improve work incentives among disabil-

ity beneficiaries and promote equity in family benefit levels, which vary widely among beneficiaries of different programs. Since the combined benefits from Social Security disability insurance and state workmen's compensation are now limited, proponents feel that total federal program benefits should be treated in a similar way.

Opponents of the proposal argue that beneficiaries are entitled to their total compensation because of past services, large medical expenses, or personal losses resulting from impairment. This argument applies primarily to recipients of veterans' service-connected compensation--the largest group affected by the proposal.

FUNDING FOR AFDC AND MEDICAID WITH A BLOCK GRANT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	550	600	670	740	800	3,360
Outlays	550	600	670	740	800	3,360

NOTE: Preliminary estimates, subject to change.

Aid to Families with Dependent Children (AFDC) and Medicaid are entitlement programs, in which federal and state expenditures depend upon the number of applicants meeting the eligibility standards and on the level of benefit allowed per recipient. States administer both programs in accordance with broad federal requirements that allow considerable state discretion with respect to eligibility and benefit levels. The federal government pays a proportion of each state's program costs, varying according to the state's per capita income.

One method of reducing federal outlays would be to terminate the entitlement aspect of these two programs and instead provide each state with a welfare block grant designed to meet the subsistence and health care needs of its low-income population. The Congress could explicitly establish a lower level of funding for such a block grant program and at the same time relax federal eligibility and benefit requirements. Block grant welfare proposals were introduced in the 96th Congress for AFDC, but Medicaid could be added because, for many persons, Medicaid eligibility depends upon meeting AFDC eligibility criteria.

The size of each state's block grant would be determined by a formula chosen by the Congress. Proposed formulas have included many factors, such as allowances for past state welfare expenditures, fiscal capacity, population changes, unemployment rates, inflation, and the size of a state's low-income population.

Proponents argue that block grant funding for welfare would allow each state to design a welfare program that would best serve

the needs of its poor within the limits of its budget. This flexibility would encourage innovation. For example, states could rely more heavily upon family income in determining eligibility and less upon whether a person is aged, disabled, or a member of an AFDC family.

Opponents argue that the federal government would have difficulty both in controlling the use of block grants and in monitoring compliance with any federal requirements accompanying them. State cutbacks in eligibility and benefits would likely occur because the cost of continuing to provide current services would probably eventually exceed the funds provided in a state's block grant. Since the additional cost of current services would be borne fully by the state, reductions in services would likely occur.

If the welfare block grants were funded at a level 2 percent below currently projected levels of spending for categorical purposes, the federal savings would amount to over \$3 billion through 1986. Several of the welfare block grant proposals introduced in the 96th Congress would have increased outlays initially, but led to savings after several years.

REDUCED FUNDING FOR CHILD NUTRITION PROGRAMS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	410	450	485	510	575	2,430
Outlays	410	450	485	510	575	2,430
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

About 27 million children participate in federally supported school lunch, school breakfast, child care, and summer food programs. Fiscal year 1981 outlays will be about \$3.5 billion, a 2 percent increase from 1980, but \$400 million lower than projected because of various cost savings enacted as part of the Omnibus Reconciliation Act of 1980.

Some of the changes, such as making once-a-year instead of twice-a-year inflation adjustments for all feeding programs, will apply in fiscal year 1981 but not in the future. If the Congress now extended these changes to 1982 and succeeding fiscal years, the estimated five-year savings would be about \$2.4 billion. Additional savings could be achieved if the Congress limited the school lunch cash and commodity subsidies for children from families with incomes over \$15,500. Those subsidies, which are about \$1.80 per week per child, will cost approximately \$800 million in 1982.

The argument for such proposals is that they result in better targeting of federal subsidies on needy children. The argument for subsidizing nonpoor children is that their participation in the school meal programs helps hold down the per meal preparation and service costs for needy children. If school districts cannot operate feeding programs without larger local subsidies, some may opt out of providing this service, thus denying reduced-price or free meals to low-income children.

President Carter's 1982 budget already captures the savings from applying the 1981 changes to 1982 and succeeding years.

FUNDING OF CHILD NUTRITION PROGRAMS WITH A BLOCK GRANT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	1,600	1,770	1,950	2,125	7,445
Outlays	0	1,600	1,770	1,950	2,125	7,445

NOTE: Preliminary estimates, subject to change.

The federal child nutrition programs, which will cost about \$4.5 billion in fiscal year 1981, have been characterized as fragmented, overlapping, and administratively complex. At least 37 different federal reimbursement schemes are used for the 10 major programs.

Both Presidents Nixon and Ford recommended financing the separate programs with a single block grant. Had their proposals been accepted by the Congress, federal spending on child nutrition in fiscal year 1980 would have been about \$1.3 billion less than it actually was.

If a block grant funded at \$3.5 billion and adjusted for inflation was adopted in 1981, federal child nutrition expenditures over the 1982-1986 period would be about \$7.4 billion less than would be spent under a continuation of the present system.

The argument for the proposal is that it would simplify administration and enhance flexibility at the state and local level, and would permit federal budgetary savings without reducing nutrition assistance for needy children. At present, about 15 million non-poor children (from families with incomes over \$15,500) receive about \$800 million annually in federal subsidies from child nutrition programs. Block grant proposals for child nutrition programs usually do not include such children in calculating the states' block grants.

Opponents of such a change argue that the states might continue to assist nonpoor children, and that the block grants

would lead either to a cutback in assistance to poor children or force an increase in the federal appropriation. They also contend that some states may lack experience in planning and executing programs to meet the nutritional needs of children.

President Carter's budget recommendations for fiscal year 1982 do not include a proposal to fund child nutrition programs with a block grant. The Carter budget does, however, assume some reduction in child nutrition programs, as shown in the preceding example.

CHANGES IN FOOD STAMP PROGRAM

The Food Stamp Program subsidizes the purchase of food by low-income households. In fiscal year 1982, the program is expected to cost \$12.4 billion and provide assistance to nearly 22.7 million persons monthly. The program has been subject to extensive public criticism and has undergone major legislative changes in 1977, 1979, and 1980. Authorization for the program will expire at the end of fiscal year 1981. Many changes could be made that would reduce future program costs; three examples are given here.

Shifting Base Period. Food stamp allotments during calendar year 1981 will be based on September 1980 food prices. If the expiring authorization were merely extended, the 1982 allotments would be based on projected December 1981 food prices. Retaining the previous September as the base period would reduce projected fiscal year 1982 outlays by about \$470 million as shown in the table below. President Carter's budget recommendations for fiscal year 1982 already incorporate this proposal.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	470	500	530	570	630	2,700
Outlays	470	500	530	570	630	2,700
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

Proponents argue that this proposal would avoid the uncertainty involved in projecting food prices and that the increased time lag would not be unusually long in comparison to those employed in other indexed programs serving low-income persons. Opponents argue that the 1980 legislation switching foods stamps from twice-a-year to once-a-year indexing has already meant a decline in benefit levels, and that the further decline attributable to using a September base would be inappropriate in the face of rapid food price inflation.

Increasing Marginal Reduction Rate. Before 1977, food stamp benefits were reduced by 30 cents for each one dollar in earned or unearned income of recipients above a prescribed amount. In 1977, the effective reduction rate was changed to 24 cents for each additional dollar of earned income. If that rate was raised to 26 cents, the fiscal year 1982 savings would be about \$675 million as shown in the following table.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	675	725	760	830	900	3,890
Outlays	675	725	760	830	900	3,890

NOTE: Preliminary estimates, subject to change.

Proponents argue that, since poverty households spend on average about 30 percent of their incomes for food, the reduction rate could properly be even higher than 26 percent. Opponents counter that the higher reduction rate, in conjunction with earnings-related reductions in other assistance programs, could result in high cumulative reduction rates that would create work disincentives.

Reducing Gross Income Limit. A final example of a possible change would be to reduce the maximum qualifying income for food stamp households. The expected maximum in fiscal year 1982 for a household of four (not including anyone past 59) will be \$13,600. Such a family would be eligible for nearly \$262 in annual benefits. If the maximum was cut back to the poverty line, the gross income ceiling for the four-person household would become \$8,448. Participation would decline by 23 percent (5.3 million people). Outlays in 1982 would go down \$1.3 billion, as shown in the following table.

Merely reducing the maximum qualifying income would, however, lead to a severe notch problem. A family with an income of \$8,448 would qualify for about \$1,070 in food stamp benefits, but if its income were one dollar higher, the family would receive nothing. To avoid this problem, changes would have to be made in other basic aspects of the program, such as the guarantee levels, the benefit reduction rate, or the various allowable income deductions.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	1,285	1,380	1,450	1,580	1,725	7,420
Outlays	1,285	1,380	1,450	1,580	1,725	7,420

NOTE: Preliminary estimates, subject to change.

The savings estimates for the three examples given above are not cumulative. Adoption of all three or any two would have different consequences from merely summing the parts.

RECOUPMENT OF FOOD STAMP BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-10	-10	120	130	140	370
Outlays	-10	-10	120	130	140	370

NOTE: Preliminary estimates, subject to change.

The Congress has recently debated several proposals that would recoup benefits from part-year participants in the food stamp program. One such proposal, adopted by the House in 1980 but later dropped in conference, would have recouped half of all food stamp benefits from participants whose annual income exceeded 175 percent of their poverty threshold income. This would have been accomplished through the tax system. Under such a proposal, beginning with the return due on April 15, 1983, recipients would be required to report their annual food stamp benefits on their federal income tax forms and repay the government any liability incurred as a result of these benefits at the time they pay their taxes. For most of those affected by this proposal, recoupment would mean a smaller income tax refund rather than an out-of-pocket expense on April 15. Reduced federal benefit costs would be partially offset by increased federal, state, and local administrative costs. Some of the federal saving would be returned to the states by reducing their required matching of federal funds for program administration.

During the first two fiscal years of such a program, start-up and administrative costs would be higher than the increase in federal revenues. Over the 1982-1986 period, net savings would amount to \$370 million. These savings would be significantly reduced if other changes directed at recipients with relatively high annual incomes, such as retrospective accounting, were also implemented. Recoupment would affect about 7 percent of the households that participate in the food stamp program, primarily those that receive food stamps for relatively short periods. These

households would have to repay about 1.5 percent of the food stamp benefits paid to all recipients during the year.

Proponents argue that recoupment would make the program more equitable. Households with sporadic periods of low income that qualify them for food stamp benefits despite relatively high annual incomes would be treated similarly to households with steady monthly and equivalent annual incomes. In addition, the proposal could give states incentives to improve management by computerizing the record keeping of all public assistance programs, not just food stamps. Because the Internal Revenue Service would collect the recoupment, the system would require only slightly more administrative staff. Most households required to return food stamp benefits would do so through reduced income tax refunds.

Opponents argue that a long lead time would be required to implement the proposal fully, and that start-up costs could reach \$10 million a year. Although only 7 percent of recipients would be subject to recoupment, food stamp offices would have to maintain a cumulative record of benefits actually received together with addresses of all former recipients in order to send them "W-2 food stamp forms." The federal income tax return would have additional lines for all filers, not just food stamp recipients. The proposal could work to discourage participation for households with uncertain knowledge of their future incomes. Finally, some opponents argue that it is unfair to single out the food stamp program for this proposal. Other programs with high turnover rates and short accounting periods, such as the unemployed fathers program of Aid to Families with Dependent Children (AFDC) and unemployment insurance, could also be considered for recoupment.

CHANGE IN THE LOW INCOME ENERGY ASSISTANCE PROGRAM

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	574	659	762	880	1,024	3,899
Outlays	574	659	762	880	1,024	3,899
Carter Budget						
BA	463	463	463	463	463	2,315
Outlays	463	463	463	463	463	2,315

NOTE: Preliminary estimates, subject to change.

In recent years, the Congress has appropriated funds for a special program that helps low-income households meet rising home heating or cooling costs. For fiscal year 1981, \$1.85 billion was appropriated--95 percent of which will be distributed by formula to the states as a block grant. The remaining 5 percent will be allocated to the crisis assistance program of the Community Services Administration.

If instead of the current program the states were offered matching grants, with the federal matching rate set at 75 percent, federal savings would approach \$3.9 billion over the next five years. This estimate assumes that all states would meet the matching requirement; if some did not, the federal savings would be larger but there would be a reduction in benefits to some households.

Proponents of such a proposal argue that providing assistance to the low-income population is a state, as well as a federal, responsibility. Furthermore, if states in which increased energy costs do not severely burden the low-income population chose not to participate in a matching grant program, funds could be reallocated to those states experiencing greater need.

Opponents of the proposal argue that high energy prices are comparable to a highly regressive tax, and that one of the purposes of the Windfall Profits Tax was to generate federal revenues that could be redistributed to low-income households burdened by

the extraordinary rise in energy costs. Consequently, since the states do not share in revenues from the Windfall Profits Tax, they should not be asked to share the cost of the low-income energy assistance program.

President Carter's budget recommendations for fiscal year 1982 propose to hold the funding level for this program constant at \$1.85 billion. This accounts for the lower savings compared with those from the CBO baseline.

ADMINISTRATIVE IMPROVEMENTS IN AFDC

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	N.A.	187	195	201	207	790
Outlays	N.A.	187	195	201	207	790
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Savings may be possible in the Aid to Families with Dependent Children (AFDC) program from the establishment of a mandatory nationwide monthly income reporting system and a one-month retrospective accounting system.

Currently, most AFDC programs base initial eligibility and benefit levels on estimates of the income the applicant expects to receive in the following month. Benefits then continue until the recipient reports a change in income, or until a change is determined in the course of casework.

This proposal would require the determination of each month's benefits on the basis of the previous month's income. The recipient would be required to mail a monthly income status form to the public assistance office before benefits were calculated and a check mailed. Information from a 1976-1977 pilot program suggested that such changes could result not only in budgetary savings, but also in simplified eligibility determinations, more rapid processing of initial applications, and increased responsiveness to changing needs of recipients.

The major savings would be generated through the monthly reporting requirement, which would reveal changes in income not reported or detected under the current system. Such a system would improve the efficiency of program operation through more accurate calculations of benefits for those with fluctuating incomes and by more rapid elimination of those cases that become ineligible.

Because of offsetting start-up costs, it is not known whether there would be a net savings or cost in the first year.

Arguments against monthly reporting and retrospective accounting are twofold: First, the procedure would require increased processing of records and thus would generate additional administrative costs. Second, part of the savings would be related to the failure of the system to make legitimate payments, rather than to the elimination of overpayments or ineligibles. This system failure would occur when AFDC recipients failed to send in their monthly income reports or reported their income incorrectly. Lack of education, an inability to deal with administrative forms, or an English-language deficiency could cause such failure rather than factors more in the recipient's control.

Because AFDC recipients are automatically eligible for Medicaid, a reduction in the number of AFDC recipients caused by this proposal would also result in fewer Medicaid cases and, thereby, would generate about \$85 million in savings in Medicaid over the 1982-1986 period.

Monthly reporting and retrospective accounting were mandated in H.R. 4904, the Social Welfare Amendments of 1979. The House of Representatives passed this bill, but the Senate did not act on it.

President Carter's budget recommendations for fiscal year 1982 contain a similar proposal, but insufficient details are available to permit calculating a comparison with the savings against the CBO baseline.

STANDARDIZING OF THE AFDC WORK EXPENSE DISREGARD

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	178	184	191	198	206	957
Outlays	178	184	191	198	206	957
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Monthly benefits under the Aid to Families with Dependent Children program (AFDC) are reduced by two dollars for every three dollars a recipient earns above the monthly earnings disregard of \$30. An amount equal to all child-care and work expenses is also disregarded. Proposals have been made to change the work-expense disregard to a flat amount, a percentage of earnings, or some combination of both, and to allow the deduction of only a fraction of child-care expenses.

One such proposal (the Senate Finance Committee's version of H.R. 3434) was passed by the Senate in 1980. It would have eliminated itemized work expenses from the calculation and replaced them with a standardized deduction equal to a fixed percentage of earnings. In addition it would have raised the initial earnings disregard from \$30 to \$70 a month and allowed only a fraction of child-care expenses to be deductible. Under this proposal, the recipient would have been able to keep earnings equal to the \$70 disregard plus child-care expenses plus 40 percent of earnings in excess of \$70 plus child-care expenses.

If this revised formula were enacted, federal AFDC expenditures would decrease by about \$178 million in fiscal year 1982. In addition, because AFDC recipients are automatically eligible for Medicaid, the reduction in the number of AFDC cases caused by this provision would also result in fewer Medicaid cases, resulting in Medicaid savings of about \$19 million in 1982 and \$106 million over

the five-year period. States would also experience savings under this proposal.

The arguments in favor of standardizing the various disregards are that it would save money, simplify the program's administration, and curtail the practice of claiming inappropriate work expenses. The argument against making such a change is that standardized methods for taking into account highly variable expenses, such as work- and child-related expenses, are likely to provide some AFDC recipients with windfalls and impose hardships on others. For the latter, this might prove to be a powerful disincentive to seek or expand employment.

President Carter's budget recommendations for fiscal year 1982 contain a similar proposal, but insufficient details are available to permit calculating a comparison with savings against the CBO baseline.

CHANGES IN VA PENSION BENEFITS FOR SURVIVING SPOUSES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	11	7	124	128	159	429
Outlays	10	7	114	127	156	414

NOTE: Preliminary estimates, subject to change.

Under the Veterans' and Survivors' Pension Improvement Act of 1978 (P.L. 95-588), a veteran without a service-connected disability can qualify for a pension only if his income is below a prescribed standard and he is over age 64 or totally and permanently disabled. On his death, his widow qualifies for a pension equal to two-thirds the amount payable to a veteran with similar income, if she meets the income test. She does not have to meet the age or disability test.

This option would require a surviving widow to meet the same age or disability test that a veteran must meet, except that having a dependent child under age 6 would also qualify her for benefits. Under this proposal, the widow's pension would be equal to, rather than two-thirds of, a veteran's pension. If such changes were phased in over the three years beginning October 1, 1981, savings would amount to over \$400 million during the 1982-1986 period. This proposal would ultimately disentitle about half the estimated 200,000 widows who would otherwise be receiving pensions in fiscal year 1982. When the transition was complete, those remaining on the roll would have had their benefits increased by 50 percent.

The equalization of eligibility requirements and benefits was included in several early versions of the 1978 legislation but was dropped because the veterans' service organizations strongly opposed it. Their representatives argued that, because many of the widows under age 65 had probably never held jobs, they should not be expected to find employment after the deaths of their veteran husbands. This position, however, is not consistent with other federal income security programs.

LIMITATION OF VA BURIAL BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	160	169	178	188	205	900
Outlays	147	168	177	187	204	883

NOTE: Preliminary estimates, subject to change.

All veterans of wartime service are eligible for an allowance of \$300 to help defray the expenses of their funerals and burial, plus an allowance of \$150 to be applied to the cost of a burial plot. The vast majority of such veterans are also eligible for a \$255 death benefit from Social Security. In addition, all veterans are eligible for burial in national cemeteries free of charge. In such cases, however, the Veterans Administration (VA) plot allowance is not paid.

This proposal would discontinue the payment of VA burial and plot allowances for veterans dying after September 30, 1981. Burial allowances of up to \$1,100 for veterans dying as a result of service-connected disabilities would not be affected. Veterans dying of causes unrelated to military service could still be buried in national cemeteries and would retain eligibility for Social Security death benefits. Under this proposal, close to \$1 billion could be saved over the next five fiscal years.

Proponents of such a change argue that the federal government should not be expected to contribute toward the burial expenses of a veteran solely because of that status and without regard to the financial circumstances of the veteran's survivors. For surviving families with limited incomes, the option of burial in a national cemetery would still be available. Although this proposal would undoubtedly increase the number of applications for burial in national cemeteries, the operation of the entire system of 108 national cemeteries is expected to cost less than \$35 million in fiscal year 1981. The savings that would be realized from the elimination of non-service-connected burial benefits should be

considerably greater than the cost of expanding the national cemetery system to accommodate the likely increase in applications.

On the other hand, burial in a national cemetery would not be an acceptable alternative for the surviving families of many veterans whose homes are hundreds of miles from the nearest cemetery site, and who would also have to absorb the loss of the \$300 in funeral expenses currently covered by the VA allowance.

ELIMINATION OF DUAL LIVING EXPENSES PAID BY UNEMPLOYMENT INSURANCE
AND GI BILL BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	39	35	33	30	26	163
Outlays	39	35	33	30	26	163

NOTE: Preliminary estimates, subject to change.

In most states, GI Bill participants who are also unemployed workers can collect living expenses from two federal sources, subject to varying restrictions of state unemployment compensation laws. During fiscal year 1982, an estimated 33,000 persons will qualify for and receive both unemployment insurance and GI Bill benefits concurrently. If these benefits were limited to either the total GI Bill monthly stipend or the unemployment benefit plus the GI Bill allowance for tuition and fees, the savings would be about \$39 million in fiscal year 1982.

Since most eligible persons would be better off choosing to take unemployment benefits plus GI Bill reimbursement for tuition and fees, rather than the full GI Bill benefits, the savings would appear in the GI Bill budget account.

While enactment of this proposal would reduce the income of approximately 33,000 unemployed veterans, the reduction would only apply to individuals who are receiving two federal benefits designed to meet the same need.

INCREASE IN IRS RESOURCES

	Annual Effect (billions of dollars)					Cumulative Five-Year Effect
	1982	1983	1984	1985	1986	
Revenue Increase	0.4	0.4	0.4	0.4	0.4	2.0
Increased Outlays for IRS	0.1	0.1	0.1	0.1	0.1	0.5
Net Revenue Increase	0.3	0.3	0.3	0.3	0.3	1.5
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

The Treasury Department has estimated that as much as \$20 billion a year in interest and dividend income is not reported by taxpayers, resulting in a revenue loss of \$2 billion to \$3 billion a year. In 1980, President Carter proposed that taxes be withheld on interest and dividend income to deal with this problem, but the proposal met with overwhelming opposition in the Congress.

A major argument against the President's proposal was that a significant share of this revenue could be collected if the Internal Revenue Service (IRS) increased its efforts to match information returns from dividend and interest payors with individual tax returns. Approximately 80 percent are normally involved, little effort is made to follow up on discrepancies. Simply sending out more follow-up letters could significantly increase collections. CBO estimates that each one dollar spent on this type of minimal follow-up could produce as much as four dollars in additional revenues.

An increase of \$100 million a year in IRS resources for document matching and follow-up of income and dividend reports could thus generate added revenues of \$400 million a year, or a net revenue increase of \$1.5 billion over the 1982-1986 period.

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STRENGTHENING OF AGENCY DEBT COLLECTION ACTIVITIES

	Annual Revenue Effect (millions of dollars)					Cumulative Five-Year Effect
	1982	1983	1984	1985	1986	
CBO Baseline						
Increased Revenue	1,700	2,400	1,900	1,600	1,300	8,900
Additional expenditures	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-500</u>
Net Increase	1,600	2,300	1,800	1,500	1,200	8,400
Carter Budget						
Increased Revenue	115	115	115	115	115	575
Additional expenditures	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-75</u>
Net Increase	100	100	100	100	100	500

NOTE: Preliminary estimates, subject to change.

Back taxes owed to the federal government, and other debts past due by more than 90 days, amounted to about \$20 billion at the end of fiscal year 1979. Such delinquencies represent about 40 percent of current federal accounts receivable. The many federal agencies responsible for collecting these debts follow inconsistent practices in reporting delinquencies to commercial credit bureaus, imposing interest or penalties on overdue accounts, establishing adequate reporting and debt management systems, and allocating resources to debt collection activities. Significant budgetary savings could be achieved by strengthening agency collection activities.

The General Accounting Office supports legislation to clarify federal agency debt collection powers and remedies, including: disclosure of delinquencies to commercial credit bureaus, a direct role for agencies in debt litigation, more adequate interest rates on overdue accounts, application of Internal Revenue Service (IRS) refunds against nontax debts owed the government, and garnishment of federal salaries.

Those who oppose more vigorous debt collection activity by the government have expressed concern over the invasion of privacy, doubts about the practicality of collecting debts from low-income persons, and fear of the potential abuse of centralized financial records. Also, such an effort would require either increasing appropriations to the various agencies or reducing resources allocated to other public purposes.

Any estimate of the increases in federal receipts that might result from better management of federal debt collection activity is subject to considerable uncertainty. The collection estimates provided in the table assume savings from accelerated collection of outstanding debt, reduced debt write-offs, and some avoidance of future debt. The cumulative savings estimate of \$8.4 billion may be conservative, and could perhaps be achieved by increasing resources and improving agency collection procedures, without relying on IRS offsets or the garnishment of federal salaries.

President Carter's budget recommendations for fiscal year 1982 include a similar proposal, but at a much lower level of effort than that assumed in the CBO baseline. This accounts for the differences in the projected debt collections.

REPEAL OF TAX CREDIT FOR "POSSESSIONS CORPORATIONS"

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	1.1	1.1	1.3	1.5	1.7	
Increase from Repeal of Tax Credit	0.4	1.1	1.3	1.5	1.7	6.0
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

"Possessions corporations" are companies incorporated in the United States that are exempt from U.S. income tax on their operations in Puerto Rico, American Samoa, and Guam. Ninety-nine percent of the revenue loss is attributable to Puerto Rico.

If the possessions corporation exemption was repealed effective January 1, 1982, the revenue increase would be about \$400 million in 1982 and \$6 billion over the 1982-1986 period.

The exemption was originally enacted in 1921, mainly to provide U.S. firms doing business in the Philippines, then a U.S. possession, with the same favorable tax treatment enjoyed by their British competitors. In 1975, the House Ways and Means Committee considered repeal of the exemption on the grounds that its original purpose was no longer being served, since the Philippines ceased being a U.S. possession in 1946. Proponents of the exemption argued, however, that it had become crucial to the economic development of another U.S. possession, Puerto Rico. A large number of U.S. firms had established plants in Puerto Rico after Puerto Rico enacted special tax exemption provisions of its own in 1948, and it was argued that these firms were a primary source of jobs in Puerto Rico. It was also argued that the loss of revenue from the provision was quite modest—about \$200-300 million a year—and that this was a small price to pay for the benefits achieved. The Tax Reform Act of 1976 narrowed the possessions corporation exemption somewhat, and required that the Treasury Department report annually on the "operation and effect" of the exemption.

The third of these annual reports, released in June 1980, shows that the revenue loss from the possessions corporation exemption is much larger than originally estimated. A loss of \$1.1 billion is expected in fiscal year 1982, increasing to \$1.5 billion by fiscal year 1985. Almost 50 percent of the revenue loss in 1978 was attributable to 55 pharmaceutical companies, according to the Treasury report. Relative to their profits, these companies employ few people; the annual revenue loss per pharmaceutical company employee in 1978 was an estimated \$43,261, while average compensation in Puerto Rico per pharmaceutical company employee was estimated at \$13,618. For all 374 manufacturing companies benefiting from the possessions corporations exemption, the federal revenue loss per employee in 1978 was estimated to be \$12,667, compared to average employee compensation of \$10,697. The Treasury reports suggest that a major effect of the exemption in the 1970s has been to induce U.S. firms to shift high-profit, low-labor activities to Puerto Rico, with relatively few benefits to the Puerto Rican economy. Defenders of the exemption argue that it is crucial to long-term Puerto Rican economic growth, that the job loss and economic dislocation that would result from repeal would impose additional costs on the U.S. and Puerto Rican governments, and that the exemption is an important underpinning of the U.S.-Puerto Rican political relationship.

If, as the Treasury reports indicate, the possessions corporation exemption is not an efficient job-creating mechanism, it could be either phased out or replaced by some less costly form of assistance. Revenue-sharing funds could be extended to Puerto Rico, for example, to be used for whatever job-creating purposes the Puerto Rican government saw fit, or eligibility for the existing targeted jobs tax credit could be broadened to include more Puerto Rican workers. The cost of any alternative form of assistance would, of course, reduce the budgetary savings from repeal of the exemption.

**APPENDIX. SUMMARY TABLES OF ILLUSTRATIVE EXAMPLES
CATEGORIZED BY BUDGET FUNCTION**

TABLE A-1. ILLUSTRATIVE SAVINGS IN BUDGET AUTHORITY FROM CBO BASELINE PROJECTIONS, BY BUDGET FUNCTION,
FISCAL YEARS 1982-1986 (In millions of dollars)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
050 National Defense						
Continued Restructuring of Military Bases	0	38	135	150	166	489
Increase in Joint Service Advertizing	18	21	24	26	29	118
Streamlining of Military Recruiting						
Support Operation	66	73	60	88	96	403
Ending of Certain Social Security Credits for Military Personnel	0	0	0	0	0	0
Continued Restructuring of Active-Duty Military Retirement	0	0	0	0	0	0
Restructuring of Reserve Retirement Pay	0	0	0	0	0	0
Increase in the States' Share of Army National Guard Costs	210	230	250	270	300	1,260
Substitution of KC-10 Procurement for KC-135 Reengining	-353	507	701	764	1,715	3,334
Termination of E-4B Aircraft Procurement	0	0	388	320	0	708
Accelerated Buyout of Aircraft	-790	502	540	0	0	252
Limiting of Defense Investment Increases to 3 Percent Real Growth	3,100	6,600	9,000	6,500	-7,600	17,600
Increased Efficiency in Defense Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reform of Federal Wage-Setting Provisions	370	890	1,090	1,200	1,310	4,860
Elimination of Dual Pay for Reservists Who Are Federal Employees	53	58	63	69	75	318
Sale of Surplus Silver	229	229	229	229	229	1,145

(Continued)

TABLE A-1. (Continued)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
150 International Affairs						
Reduction of P.L. 480 Title I Sales	100	214	347	499	673	1,833
Increased Interest Charges on Development Loans	8	24	41	59	75	207
250 General Science, Space and Technology						
Elimination of One Space Shuttle Orbiter	199	262	122	0	0	583
270 Energy						
Elimination of DOE Funding for Synthetic Fuel Development	545	690	600	710	700	3,245
Termination of the Clinch River Breeder Reactor Project	300	350	350	300	200	1,500
Private Financing of the Strategic Petroleum Reserve	3,450	4,600	3,815	3,740	2,820	18,425
Reduced Funding for the Economic Regulatory Administration	62	69	77	84	93	325
300 Natural Resources and Environment						
Elimination of the States' Share of Land and Water Conservation Fund	290	315	345	370	400	1,720
Elimination of Urban Park Grants	70	80	85	90	100	425
Reduced Funding for EPA Construction Grants	1,260	1,390	1,530	1,670	1,820	7,670
350 Agriculture						
Elimination of Farm Deficiency Payments	0	0	90	131	187	408
Reduction in Dairy Price Support Levels	0	0	400	700	900	2,000

(Continued)

TABLE A-1. (Continued)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
370 Commerce and Housing Credit						
Increased Interest Rate on Rural Housing Loans	30	85	145	215	290	765
Discontinuance of Postal Service Subsidies	1,756	1,727	1,761	1,746	1,760	8,750
Change in Timing of Payments to the Postal Service	64	62	65	57	58	306
400 Transportation						
Reduced Funding for Amtrak	200	340	400	425	550	1,915
Phasing Out of Conrail Funding	0	250	300	300	300	1,150
Reduction in New Subway Commitments	290	910	1,120	1,230	1,310	4,860
Reduced Spending on Highways	1,200	1,300	1,500	1,600	1,800	7,400
Repeal of Davis-Bacon Requirements	130	155	172	199	215	870
Shifting Certain Airways Costs						
Ending Grants-in-Aid	260	300	330	360	390	1,640
Elimination of Maritime Industry Subsidies	168	206	245	292	339	1,250
450 Community and Regional Development						
Reduced Funding for Urban Development Action Grants	135	135	150	165	180	765
Elimination of Energy Impact Assistance	46	51	56	61	67	281
Increased Interest Rates on Disaster Loans	75	225	375	500	625	1,800

(Continued)

TABLE A-1. (Continued)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
500 Education, Training, Employment, and Social Services						
Reduced Funding for Vocational Education	343	379	421	466	516	2,125
Reduced Funding for Impact Aid	451	498	553	613	678	2,793
Reduced Funding for Emergency School Aid	52	58	64	71	78	323
Reduced Student Loan Subsidies	124	539	1,070	1,772	2,057	5,562
Reduction in Dairy Price Support Levels						
Elimination of Two Youth Employment and Conservation Programs	277	295	318	342	366	1,598
Phasing Out of CETA Title VI	1,030	1,180	1,250	1,320	1,360	6,140
550 Health						
Lowering of the Federal Share for State Medicaid and AFDC Programs	1,100	1,400	1,800	2,200	2,800	9,300
Added State Flexibility in Setting Medicaid Reimbursement Rates	250	280	320	350	390	1,590
Incentives to States for Hospital Cost Containment	0	50	100	200	350	750
Elimination of Merchant Seaman Health Care Entitlement	80	130	150	160	180	700
Termination of Some Federal Medicaid Funding	320	350	390	440	490	1,990
600 Income Security						
Termination of Certain Social Security Benefits						
Phasing Out Postsecondary Student Benefits	-24	-96	-216	-391	-612	-1,339
Phasing Out the Minimum Benefit	-1	-5	-27	-67	-112	-212
Phasing Out the Death Benefit	-2	-10	-22	-44	-56	-134
-----						(Continued)

TABLE A-1. (Continued)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Delay in Social Security						
Cost-of-Living Adjustment	-100	-361	-690	-1,062	-1,510	-3,723
Elimination of Earnings Test and Taxation of Benefits for Some Social Security Recipients						
Changes in Social Security Indexing						
Using Lower of Wage or Price Index	-211	-529	-916	-1,350	-1,925	-4,931
Limiting Increase to 85 Percent of CPI	-105	-410	-934	-1,739	-2,893	-6,081
Shifting to the PCE	-73	-187	-314	-503	-733	-1,810
Changes in Civil Service and Military Retirement Benefits						
Elimination of National Trigger for Unemployment Insurance Extended Benefits	400	100	100	100	0	700
Change in Computing Insured Unemployment Rates	850	455	620	775	515	3,215
Modification in Trade Adjustment Assistance	1,275	500	450	450	450	3,125
Reduced Funding for Lower-Income Rental Assistance						
Making Few Commitments	11,249	12,470	13,717	14,996	16,341	68,773
Raising Tenant Rents	38	123	212	316	419	1,108
Increasing Use of Existing Housing	2,758	3,152	3,544	3,930	4,348	17,732
Limitation on Federal Disability Benefits-						
All Awards	190	170	150	140	120	770
New Awards	12	30	45	55	60	202
Funding for AFDC and Medicaid with a Block Grant	550	600	670	740	800	3,360
Reduced Funding for Child Nutrition Programs	410	450	485	510	575	2,430
Funding of Child Nutrition Programs with a Block Grant	0	1,600	1,770	1,950	2,125	7,445

TABLE A-1. (Continued)

Budget Function	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Changes in Food Stamp Program						
Shifting Base Period	470	500	530	575	630	2,700
Increasing Marginal Reduction Rate	675	725	760	830	900	3,890
Reducing Gross Income Limit	1,285	1,380	1,450	1,580	1,724	7,420
Recoupment of Food Stamp Benefits	-10	-10	120	130	140	370
Change in the Low-Income Energy Assistance Program	574	659	762	880	1,024	3,899
Administrative Improvements in AFDC	N.A.	187	195	201	207	790
Standardizing of the AFDC Work Expense Disregard	178	184	191	198	206	957
700 Veterans Benefits						
Changes in VA Pension Benefits for Surviving Spouses	11	7	124	128	159	429
Limitation of VA Burial Benefits	160	169	178	188	205	900
Elimination of Dual Living Expenses Paid by Unemployment Insurance and GI Bill Benefits	39	35	33	30	26	163
800 General Government						
Strengthening Agency Debt Collection Activities	1,600	2,300	1,800	1,500	1,200	8,400

NOTE: Preliminary estimates, subject to change.

TABLE A-2. ILLUSTRATIVE SAVINGS IN OUTLAYS FROM CBO BASELINE PROJECTIONS, BY BUDGET FUNCTION, FISCAL YEARS 1982-1986 (In millions of dollars)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
050 National Defense						
Continued Restructuring of Military Bases	0	32	118	144	161	455
Increase in Joint Service Advertising	15	20	23	26	29	113
Streamlining of Military Recruiting						
Support Operations	59	71	79	87	95	391
Ending of Certain Social Security Credits for Military Personnel	0	0	0	0	0	0
Continued Restructuring of Active-Duty Military Retirement	0	0	0	0	0	0
Restructuring of Reserve Retirement Pay	0	0	0	0	0	0
Increase in the States' Share of Army National Guard Costs	210	230	250	270	300	1,260
Substitution of KC-10 Procurement for KC-135 Re-engineing	-36	-105	169	536	813	1,377
Termination of E-4B Aircraft Procurement	0	0	39	204	281	524
Accelerated Buyout of Aircraft	-126	-374	-7	408	264	165
Limiting of Defense Investment Increases to 3 Percent Real Growth	400	1,700	3,100	4,200	2,500	11,900
Increased Efficiency in Defense Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Perform of Federal Wage-Setting Provisions	370	890	1,090	1,200	1,310	4,860
Elimination of Dual Pay for Reservists Who Are Federal Employees	52	58	63	69	76	318
Sale of Surplus Silver	229	229	229	229	229	1,145

(Continued)

TABLE A-2. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
150 International Affairs						
Reduction of P.L. 480 Title I Sales	100	214	347	499	673	1,833
Increased Interest Charges on Development Loans	8	24	41	59	75	207
250 General Science, Space and Technology						
Elimination of One Space Shuttle Orbiter	147	240	157	36	3	583
270 Energy						
Elimination of DOE Funding for Synthetic Fuel Development	250	465	605	710	725	2,755
Termination of the Clinch River Breeder Reactor Project	175	275	325	330	275	1,380
Private Financing of the Strategic Petroleum Reserve	4,100	4,850	4,395	4,030	3,020	20,395
Reduced Funding for the Economic Regulatory Administration	60	67	74	82	90	373
300 Natural Resources and Environment						
Elimination of the States' Share of Land and Water Conservation Fund	135	185	255	315	345	1,235
Elimination of Urban Park Grants	5	30	50	70	70	225
Reduced Funding for EPA Construction Grants	70	260	600	1,030	1,360	3,320
350 Agriculture						
Elimination of Farm Deficiency Payments	90	131	187	117	122	647
Reduction in Dairy Price Support Levels	400	700	900	1,200	1,400	4,600

(Continued)

TABLE A-2. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
370 Commerce and Housing Credit						
Increased Interest Rate on Rural Housing Loans	30	85	150	220	295	780
Discontinuance of Postal Service Subsidies	1,756	1,727	1,761	1,746	1,760	8,750
Change in Timing of Payments to the Postal Service	64	62	65	57	58	306
400 Transportation						
Reduced Funding for Amtrak	200	340	400	425	550	1,915
Phasing Out of Conrail Funding	0	250	300	300	300	1,150
Reduction in New Subway Commitments	20	120	300	560	800	1,800
Reduced Spending on Highways	95	475	885	1,145	1,340	3,940
Repeal of Davis-Bacon Requirements	124	140	149	170	193	776
Shifting Certain Airways Costs						
Ending Grants-in-Aid	50	180	250	300	350	1,130
Elimination of Maritime Industry Subsidies	33	83	154	241	300	811
450 Community and Regional Development						
Reduced Funding for Urban Development Action Grants	15	50	120	140	155	480
Elimination of Energy Impact Assistance	3	25	38	50	58	174
Increased Interest Rates on Disaster Loans	75	225	375	500	625	1,800

(Continued)

TABLE A-2. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
500 Education, Training, and Social Services						
Reduced Funding for Vocational Education	34	347	383	426	471	1,661
Reduced Funding for Impact Aid	361	488	542	601	665	2,657
Reduced Funding for Emergency School Aid	5	53	59	65	72	254
Reduced Student Loan Subsidies	96	429	945	1,602	1,993	5,065
Elimination of Two Youth Employment and Conservation Programs	223	291	314	338	362	1,528
Phasing Out of CETA Title VI	980	1,170	1,240	1,310	1,350	6,050
550 Health						
Lowering of the Federal Share for State Medicaid and AFDC Programs	1,100	1,400	1,800	2,200	2,800	9,300
Added State Flexibility in Setting Medicaid Reimbursement Rates	250	280	320	350	390	1,590
Incentives to States for Hospital Cost Containment	0	100	400	800	1,100	2,400
Elimination of Merchant Seaman Health Care Entitlement	75	130	140	155	165	665
Termination of Some Federal Medicaid Funding	320	350	390	440	490	1,990
600 Income Security						
Termination of Certain Social Security Benefits						
Phasing Out Postsecondary Student Benefits	650	1,235	1,820	2,480	2,710	8,895
Phasing Out the Parent's Survivor Benefit	25	90	500	525	535	1,675
Phasing Out the Minimum Benefit	65	135	160	205	225	790
Phasing Out the Death Benefit	400	410	420	435	450	2,115

(Continued)

TABLE A-2. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Delay in Social Security Cost-of-Living Adjustment	3,608	4,277	4,735	5,261	5,701	23,582
Changes in Social Security Indexing						
Using Lower of Wage or Price Index	3,815	4,355	5,053	5,643	6,325	25,191
Limiting Increase to 85 Percent of CPI	2,848	5,178	8,158	11,745	15,959	43,888
Shifting to the PCE	1,863	1,185	1,953	2,442	2,791	10,234
Changes in Civil Service and Military Retirement Benefits	2,011	2,370	2,456	2,593	2,644	12,074
Elimination of National Trigger for Unemployment Insurance Extended Benefits	700	0	0	0	0	700
Change in Computing Insured Unemployment Rates	1,370	500	470	590	590	3,520
Modification in Trade Adjustment Assistance	1,275	500	450	450	450	3,125
Reduced Funding for Lower-Income Rental Assistance						
Making Fewer Commitments	5	132	308	708	1,270	2,423
Raising Tenant Rents	68	279	534	803	1,146	2,830
Increasing Use of Existing Housing	-3	-63	-116	-77	26	-233
Limitation on Federal Disability Benefits						
All Awards	365	375	380	382	386	1,888
New Awards	25	65	100	130	160	480
Funding for AFDC and Medicaid with a Block Grant	550	600	670	740	800	3,360
Reduced Funding for Child Nutrition Programs	410	450	485	510	575	2,430
Funding of Child Nutrition Programs with a Block Grant	0	1,600	1,770	1,950	2,125	7,445

(Continued)

TABLE A-2. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Changes in Food Stamp Program						
Shifting Base Period	470	500	530	570	630	2,700
Increasing Marginal Reduction Rate	675	725	760	830	900	3,890
Reducing Gross Income Limit	1,285	1,380	1,450	1,580	1,725	7,420
Recoupment of Food Stamp Benefits	-10	-10	120	130	140	370
Change in the Low-Income Energy Assistance Program	574	659	762	880	1,024	3,899
Administrative Improvements in AFDC	N.A.	187	195	201	207	790
Standardizing of the AFDC Work Expense Disregard	178	184	191	198	206	957
700 Veterans Benefits						
Changes in VA Pension Benefits for Surviving Spouses	10	7	114	127	156	414
Limitation of VA Burial Benefits	147	168	177	187	204	883
Elimination of Dual Living Expenses Paid by Unemployment Insurance and GI Bill Benefits	39	35	33	30	26	163

NOTE: Preliminary estimates, subject to change.

TABLE A-3. ILLUSTRATIVE SAVINGS IN BUDGET AUTHORITY FROM CARTER BUDGET PROJECTIONS, BY BUDGET FUNCTION, FISCAL YEARS 1982-1986 (In millions of dollars)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
050 National Defense						
Continued Restructuring of Military Bases	0	38	135	150	166	489
Increase in Joint Service Advertising	18	21	24	26	29	118
Streamlining of Military Recruiting						
Support Operations	66	73	80	88	96	403
Ending of Certain Social Security Credits for Military Personnel	0	0	0	0	0	0
Continued Restructuring of Active-Duty Military Retirement	0	0	0	0	0	0
Restructuring of Reserve Retirement Pay	0	0	0	0	0	0
Increase in the States' Share of Army National Guard Costs	210	230	250	270	300	1,260
Substitution of KC-10 Procurement for KC-135 Re-engineing	0	N.A.	N.A.	N.A.	N.A.	N.A.
Termination of E-4B Aircraft Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Accelerated Buyout of Aircraft	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Limiting of Defense Investment Increases to 3 Percent Real Growth	1,600	N.A.	N.A.	N.A.	N.A.	N.A.
Increased Efficiency in Defense Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reform of Federal Wage-Setting Provisions	0	0	0	0	0	0
Elimination of Dual Pay for Reservists Who Are Federal Employees	23	28	33	39	45	168
Sale of Surplus Silver	0	0	0	0	0	0

(Continued)

TABLE A-3. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
150 International Affairs						
Reduction of P.L. 480 Title I Sales	53	102	260	373	433	1,221
Increased Interest Charges on Development Loans	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
250 General Science, Space and Technology						
Elimination of One Space Shuttle Orbiter	199	262	122	0	0	583
270 Energy						
Elimination of DOE Funding for Synthetic Fuel Development	802	1,285	838	352	425	3,702
Termination of the Clinch River Breeder Reactor Project	0	0	0	0	0	0
Private Financing of the Strategic Petroleum Reserve	3,898	3,645	2,517	2,948	7,127	20,135
Reduced Funding for the Economic Regulatory Administration	51	27	18	12	12	120
300 Natural Resources and Environment						
Elimination of the States' Share of Land and Water Conservation Fund	185	220	240	255	270	1,170
Elimination of Urban Park Grants	75	75	75	75	75	375
Reduced Funding for EPA Construction Grants	1,240	1,330	1,470	1,570	1,670	7,280
350 Agriculture						
Elimination of Farm Deficiency Payments	0	0	90	131	187	408
Reduction in Dairy Price Support Levels	0	0	0	0	0	0

(Continued)

TABLE A-3. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
370 Commerce and Housing Credit						
Increased Interest Rate on Rural Housing Loans	25	80	140	205	280	730
Discontinuance of Postal Service Subsidies	1,050	800	738	726	758	4,072
Change in Timing of Payments to the Postal Service	50	40	38	32	35	195
400 Transportation						
Reduced Funding for Amtrak	120	270	335	370	480	1,575
Phasing Out of Conrail Funding	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reduction in New Subway Commitments	400	970	1,140	1,210	1,230	4,950
Reduced Spending on Highways	1,240	1,290	1,330	1,360	1,390	6,610
Repeal of Davis-Bacon Requirements	160	179	194	210	228	971
Shifting Certain Airways Costs						
Ending Grants-in-Aid	250	260	280	300	320	1,410
Elimination of Maritime Industry Subsidies	128	176	232	295	369	1,200
450 Community and Regional Development						
Reduced Funding for Urban Development Action Grants	135	135	135	135	135	675
Elimination of Energy Impact Assistance	50	50	50	50	50	250
Increased Interest Rates on Disaster Loans	25	75	150	200	250	700

(Continued)

TABLE A-3. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
500 Education, Training, Employment, and Social Services						
Reduced Funding for Vocational Education	257	266	265	272	261	1,321
Reduced Funding for Impact Aid	-26	-37	-53	-76	-106	-298
Reduced Funding for Emergency School Aid	41	40	34	25	14	154
Reduced Student Loan Subsidies	-735	N.A.	N.A.	N.A.	N.A.	N.A.
Elimination of Two Youth Employment and Conservation Programs	118	60	60	60	60	358
Phasing Out of CETA Title VI	1,060	1,230	1,330	1,440	1,550	6,610
550 Health						
Lowering of the Federal Share for State Medicaid and AFDC Programs	1,100	1,400	1,800	2,200	2,800	9,300
Added State Flexibility in Setting Medicaid Reimbursement Rates	250	280	320	350	390	1,590
Incentives to States for Hospital Cost Containment	0	50	100	200	350	700
Elimination of Merchant Seaman Health Care Entitlement	70	N.A.	N.A.	N.A.	N.A.	N.A.
Termination of Some Federal Medicaid Funding	320	350	390	440	490	1,990
600 Income Security						
Termination of Certain Social Security Benefits						
Phasing Out Postsecondary Student Benefits	-24	-96	-216	-391	-612	-1,339
Phasing Out the Parent's Survivor Benefit	-1	-5	-27	-67	-112	-212
Phasing Out the Minimum Benefit	-2	-10	-22	-44	-56	-134
Phasing Out the Death Benefit	-15	-46	-80	-118	-159	-418

(Continued)

TABLE A-3. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Delay in Social Security Cost-of-Living Adjustment	-100	-361	-690	-1,062	-1,510	-3,723
Changes in Social Security Indexing						
Using Lower of Wage or Price Index	-211	-529	-916	-1,350	-1,925	-4,931
Limiting Increase to 85 Percent of CPI	-105	-410	-934	-1,739	-2,893	-6,081
Shifting to the PCE	-73	-187	-314	-503	-733	-1,810
Changes in Civil Service and Military Retirement Benefits	46	416	399	385	429	1,675
Elimination of National Trigger for Unemployment Insurance Extended Benefits	0	0	0	0	0	0
Change in Computing Insured Unemployment Rates	0	0	0	0	0	0
Modification in Trade Adjustment Assistance	1,275	500	450	450	450	3,125
Reduced Funding for Lower-Income Rental Assistance						
Making Fewer Commitments	9,986	11,070	12,177	13,311	14,505	61,049
Raising Tenant Rents	38	123	212	315	418	1,106
Increasing Use of Existing Housing	2,651	3,028	3,404	3,773	4,174	17,030
Limitation on Federal Disability Benefits						
All Awards	190	170	150	140	120	770
New Awards	12	30	45	55	60	202
Funding for AFDC and Medicaid with a Block Grant	550	600	670	740	800	3,360
Reduced Funding for Child Nutrition Programs	0	0	0	0	0	0
Funding of Child Nutrition Programs with a Block Grant	0	1,600	1,770	1,950	2,125	7,445

(Continued)

TABLE A-3. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Changes in Food Stamp Program						
Shifting Base Period	0	0	0	0	0	0
Increasing Marginal Reduction Rate	675	725	760	830	900	3,890
Reducing Gross Income Limit	1,285	1,380	1,450	1,580	1,725	7,420
Recoupment of Food Stamp Benefits	-10	-10	120	130	140	370
Change in the Low-Income Energy Assistance Program	463	463	463	463	463	2,315
Administrative Improvements in AFDC	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Standardizing of the AFDC Work Expense Disregard	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
700 Veterans Benefits						
Changes in VA Pension Benefits for Surviving Spouses	11	7	124	128	159	429
Limitation of VA Burial Benefits	160	169	178	188	205	900
Elimination of Dual Living Expenses Paid by Unemployment Insurance and GI Bill Benefits	39	35	33	30	26	163

NOTE: Preliminary estimates, subject to change.

TABLE A-4. ILLUSTRATIVE SAVINGS IN OUTLAYS FROM CARTER BUDGET PROJECTIONS, BY BUDGET FUNCTION, FISCAL YEARS 1982-1986 (In millions of dollars)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
050 National Defense						
Continued Restructuring of Military Bases	0	32	118	144	161	455
Increase in Joint Service Advertising	15	20	23	26	29	113
Streamlining of Military Recruiting						
Support Operations	59	71	79	87	95	391
Ending of Certain Social Security Credits for Military Personnel	0	0	0	0	0	0
Continued Restructuring of Active-Duty Military Retirement	0	0	0	0	0	0
Restructuring of Reserve Retirement Pay	0	0	0	0	0	0
Increase in the States' Share of Army National Guard Costs	210	230	250	270	300	1,260
Substitution of KC-10 Procurement for KC-135 Re-engineing	0	N.A.	N.A.	N.A.	N.A.	N.A.
Termination of E-4B Aircraft Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Accelerated Buyout of Aircraft	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Limiting of Defense Investment Increases to 3 Percent Real Growth	900	N.A.	N.A.	N.A.	N.A.	N.A.
Increased Efficiency in Defense Procurement	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reform of Federal Wage-Setting Provisions	0	0	0	0	0	0
Elimination of Dual Pay for Reservists Who Are Federal Employees	22	28	33	39	46	168
Sale of Surplus Silver	0	0	0	0	0	0

(Continued)

TABLE A-4. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
150 International Affairs						
Reduction of P.L. 480 Title I Sales	53	102	260	373	433	1,221
Increased Interest Charges on Development Loans	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
250 General Science, Space and Technology						
Elimination of One Space Shuttle Orbiter	147	240	157	36	3	583
270 Energy						
Elimination of DOE Funding for Synthetic Fuel Development	697	1,085	1,074	546	371	3,773
Termination of the Clinch River Breeder Reactor Project	0	0	0	0	0	0
Private Financing of the Strategic Petroleum Reserve	3,660	4,050	2,703	2,425	4,491	17,329
Reduced Funding for the Economic Regulatory Administration	53	27	18	12	12	122
300 Natural Resources and Environment						
Elimination of the States' Share of Land and Water Conservation Fund	85	125	170	220	240	840
Elimination of Urban Park Grants	5	25	45	60	65	200
Reduced Funding for EPA Construction Grants	70	250	590	1,010	1,320	3,240
350 Agriculture						
Elimination of Farm Deficiency Payments	90	131	187	117	122	647
Reduction in Dairy Price Support Levels	0	0	0	0	0	0

(Continued)

TABLE A-4. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
370 Commerce and Housing Credit						
Increased Interest Rate on Rural Housing Loans	30	85	145	210	285	755
Discontinuance of Postal Service Subsidies	1,050	800	738	726	758	4,072
Change in Timing of Payments to the Postal Service	50	40	38	32	35	195
400 Transportation						
Reduced Funding for Amtrak	120	270	335	370	480	1,575
Phasing Out of Conrail Funding	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reduction in New Subway Commitments	20	130	340	580	880	1,950
Reduced Spending on Highways	90	490	900	1,090	1,220	3,790
Repeal of Davis-Bacon Requirements	125	147	168	180	199	819
Shifting Certain Airways Costs						
Ending Grants-in-Aid	50	170	230	260	290	1,000
Elimination of Maritime Industry Subsidies	29	77	143	223	292	764
450 Community and Regional Development						
Reduced Funding for Urban Development Action Grants	15	50	115	135	135	450
Elimination of Energy Impact Assistance	31	50	50	50	50	231
Increased Interest Rates on Disaster Loans	25	75	150	200	250	700

(Continued)

TABLE A-4. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
500 Education, Training, Employment, and Social Services						
Reduced Funding for Vocational Education	180	334	290	303	294	1,401
Reduced Funding for Impact Aid	-44	-39	-57	-80	-108	-328
Reduced Funding for Emergency School Aid	5	36	34	26	20	121
Reduced Student Loan Subsidies	-66	N.A.	N.A.	N.A.	N.A.	N.A.
Elimination of Two Youth Employment and Conservation Programs	79	60	60	60	60	319
Phasing Out of CETA Title VI	980	1,180	1,280	1,380	1,490	6,310
550 Health						
Lowering of the Federal Share for State Medicaid and AFDC Programs	1,100	1,400	1,800	2,200	2,800	9,300
Added State Flexibility in Setting Medicaid Reimbursement Rates	250	280	320	350	390	1,590
Incentives to States for Hospital Cost Containment	0	100	400	800	1,100	2,400
Elimination of Merchant Seaman Health Care Entitlement	60	N.A.	N.A.	N.A.	N.A.	N.A.
Termination of Some Federal Medicaid Funding	320	350	390	440	490	1,990
600 Income Security						
Termination of Certain Social Security Benefits						
Phasing Out Postsecondary Student Benefits	650	1,235	1,820	2,480	2,710	8,895
Phasing Out the Parent's Survivor Benefit	25	90	500	525	535	1,675
Phasing Out the Minimum Benefit	65	135	160	205	225	790
Phasing Out the Death Benefit	400	410	420	435	450	2,115

(Continued)

TABLE A-4. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Delay in Social Security Cost-of-Living Adjustment	3,608	4,277	4,735	5,261	5,701	23,582
Changes in Social Security Indexing						
Using Lower of Wage or Price Index	3,815	4,355	5,053	5,643	6,325	25,191
Limiting Increase to 85 Percent of CPI	2,848	5,178	8,158	11,745	15,959	43,888
Shifting to the PCE	1,863	1,185	1,953	2,442	2,791	10,234
Changes in Civil Service and Military Retirement Benefits	900	1,412	1,468	1,546	1,587	6,913
Elimination of National Trigger for Unemployment Insurance Extended Benefits	0	0	0	0	0	0
Change in Computing Insured Unemployment Rates	0	0	0	0	0	0
Modification in Trade Adjustment Assistance	1,275	500	450	450	450	3,125
Reduced Funding for Lower-Income Rental Assistance ^a						
Making Fewer Commitments	5	117	274	628	1,128	2,152
Raising Tenant Rents	69	277	530	795	1,132	2,803
Increasing Use of Existing Housing	-2	-60	-110	-72	28	-216
Limitation on Federal Disability Benefits						
All Awards	365	375	380	382	386	1,888
New Awards	25	65	100	130	160	480
Funding for AFDC and Medicaid with a Block Grant	550	600	670	740	800	3,360
Reduced Funding for Child Nutrition Programs	0	0	0	0	0	0
Funding of Child Nutrition Programs with a Block Grant	0	1,600	1,770	1,950	2,125	7,445

(Continued)

TABLE A-4. (Continued)

Budget Function/Savings Example	1982	1983	1984	1985	1986	Cumulative Five-Year Savings
600 (Continued)						
Changes in Food Stamp Program						
Shifting Base Period	0	0	0	0	0	0
Increasing Marginal Reduction Rate	675	725	760	830	900	3,890
Reducing Gross Income Limit	1,285	1,380	1,450	1,580	1,725	7,420
Recoupment of Food Stamp Benefits	-10	-10	120	130	140	370
Change in the Low-Income Energy Assistance Program	463	463	463	463	463	2,315
Administrative Improvements in AFDC	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Standardizing of the AFDC Work Expense Disregard	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
700 Veterans Benefits						
Changes in VA Pension Benefits for Surviving Spouses	10	7	114	127	156	414
Limitation of VA Burial Benefits	147	168	177	187	204	883
Elimination of Dual Living Expenses Paid by Unemployment Insurance and GI Bill Benefits	39	35	33	30	26	163

NOTE: Preliminary estimates, subject to change.

TABLE A-5. ILLUSTRATIVE REVENUE INCREASES FROM CBO BASELINE PROJECTIONS, BY BUDGET FUNCTION, FISCAL YEARS 1982-1986 (In billions of dollars)

Budget Function/Revenue Increase Example	1982	1983	1984	1985	1986	Cumulative Five-Year Increase
150 International Affairs						
<u>Phasing Out of DISCs</u>	0.2	0.8	1.7	2.4	3.0	8.1
300 Natural Resources and Environment						
<u>Increased Waterway User Charges</u>						
No subsidy	1.2	1.3	1.4	1.5	1.7	7.0
50 percent subsidy	0.6	0.6	0.7	0.7	0.8	3.3
Increased Charges for Outdoor Recreation and Topographic Maps						
Recreation fees	a	0.1	0.1	0.1	0.1	0.3
Map charges	a	a	a	a	a	0.1
Elimination of Tax Exemption for Pollution Control Bonds	0.1	0.2	0.3	0.4	0.5	1.5
370 Commerce and Housing Credit						
<u>Elimination of Tax Exemption on Small-Issue IDBs</u>	0.3	0.6	1.0	1.5	2.0	5.4
Limiting of Home Mortgage Interest Deduction						
Increase from \$5,000 cap	4.3	5.4	6.8	8.5	10.6	35.6
Increase from \$10,000 cap	0.8	1.0	1.2	1.6	1.9	6.5
Reduction of Capital Gains Exclusion on Home Sales	a	0.1	0.2	0.2	0.2	0.7
Repeal of Consumer Interest Deduction	6.0	6.8	7.8	8.9	10.1	39.6
400 Transportation						
<u>Shifting Certain Airways Costs</u>						
Increasing User Fees	0.8	0.9	1.0	1.1	1.2	5.0
User Charges for Certain Coast Guard Activities	0.7	0.7	0.8	0.8	0.9	3.9
User Charges for Deep-Draft Navigation	0.5	0.6	0.7	0.7	0.8	3.3

(Continued)

TABLE A-5. (Continued)

Budget Function/Revenue Increase Example	1982	1983	1984	1985	1986	Cumulative Five-Year Increase
<u>500 Education, Training, Employment, and Social Services</u>						
Limit on Parental Personal Exemption for Students	1.1	1.1	1.1	1.1	1.1	5.5
Limiting of Eligibility for Targeted Jobs Tax Credit	a	0.1	0.2	0.2	0.2	0.7
<u>550 Health</u>						
Tightening of the Medical Expense Deduction						
Increase from eliminating health insurance deduction	0.4	0.4	0.5	0.6	0.7	2.6
Increase from raising floor for deductible expenses to 10 percent of AGI	2.2	2.5	2.8	3.2	3.7	14.3
Taxation of Some Employer-Paid Health Insurance	1.9	2.5	3.3	4.4	5.9	17.9
Limiting of Hospital Bond Tax Exemption	0.1	0.2	0.3	0.5	0.6	1.8
<u>600 Income Security</u>						
Repeal of Extra Personal Exemption for the Elderly	2.5	2.8	3.1	3.4	3.8	15.6
Elimination of Earnings Test and Taxation of Benefits for Some Social Security Recipients	0	0.4	0.7	1.4	2.4	4.9
Taxation of All Unemployment Benefits	0	3.9	4.2	4.6	5.1	17.8
Charging of Interest on Loans to States for Unemployment Compensation	0.2	0.7	0.9	1.0	1.1	3.8
Repeal of the Casualty Loss Deduction	0.4	1.0	1.1	1.3	1.4	5.2

(Continued)

TABLE A-5. (Continued)

Budget Function/Revenue Increase Example	1982	1983	1984	1985	1986	Cumulative Five-Year Increase
<u>800 General Government</u>						
<u>Increase in IRS Resources</u>	0.3	0.3	0.3	0.3	0.3	1.5
Strengthening of Agency Debt Collection Activities	1.6	2.3	1.8	1.5	1.2	8.4
<u>850 General Purpose Fiscal Assistance</u>						
<u>Repeal of Tax Credit for "Possessions Corporations"</u>	0.4	1.1	1.3	1.5	1.7	6.0

NOTES: Preliminary estimates, subject to change. Details may not add to totals because of rounding.

a. Less than \$50 million.

