Chapter Three

Domestic Discretionary Spending

Domestic discretionary programs include all federal programs controlled through annual appropriations except those covering defense or international affairs. Appropriations for domestic discretionary programs fund such areas as science and space, transportation, energy, agriculture, environmental protection, housing, education and training, community development, medical research, and law enforcement. In all, spending for domestic discretionary programs is spread over 15 functional areas of the budget (see Box 3-1).

The diversity of the category is further illustrated by the distribution of spending for discretionary programs between different (and overlapping) types of activities. About a third of domestic discretionary spending is devoted to investments in research and development (R&D) and physical infrastructure. About a quarter funds compensation for federal employees. Another third is directed to state and local governments in the form of grants. Funds from the domestic discretionary pool constitute the bulk of the money spent by the Departments of Justice, Treasury, and the Interior (among others), as well as by independent agencies such as the National Aeronautics and Space Administration, the Environmental Protection Agency, and the National Science Foundation. Annual appropriations for many domestic programs fund highly visible parts of the government that have direct contact with the public--from ranger stations in the national parks to Social Security, passport, and Internal Revenue Service offices, to name a few. Because those activities are not likely to be discontinued, the term "discretionary" applies to them in only a limited sense.

Recent Developments and Trends

Outlays for domestic discretionary programs are estimated to total $261 billion in 1997, a $13 billion increase from the previous year. That level of spending accounts for about 16 percent of federal outlays and just under 48 percent of total discretionary spending. Outlays in each of three budget functions--transportation (400); education, training, employment, and social services (500); and income security (600)--will exceed $35 billion in 1997. Taken together, they account for about 45 percent of total spending for domestic discretionary programs (see Table 3-1). The 1997 level of domestic discretionary spending represents about 3.3 percent of gross domestic product, virtually unchanged from the 1996 percentage (see Figure 3-1).

Since 1991, the caps created by the Budget Enforcement Act of 1990 have imposed a near freeze on total discretionary outlays.[1] However, that freeze has been unevenly applied among the three categories of discretionary outlays (defense, international, and domestic). Outlays for domestic programs increased from $213 billion in 1992 to $261 billion 1997, while outlays for defense and international programs fell from $322 billion to $286 billion. Over that period, defense spending dropped by roughly one-third in real (inflation-adjusted) terms, mainly because of major re-

1. The discretionary spending limits for the Violent Crime Reduction Trust Fund are included in the domestic discretionary total for the purposes of this discussion.

Box 3-1.
Categories of Domestic Discretionary Spending

250 General Science, Space, and Technology--Research supported by the National Science Foundation, the bulk of the spending by the National Aeronautics and Space Administration (NASA), and the general science research supported by the Department of Energy.

270 Energy--Domestic energy programs of the Department of Energy and activities of the Rural Utilities Service and the Nuclear Regulatory Commission, including programs to increase the supply of energy, encourage energy conservation, provide an emergency stockpile of energy, and regulate energy production.

300 Natural Resources and Environment--Programs administered by the Army Corps of Engineers, the Department of Agriculture, the Department of the Interior, the Environmental Protection Agency, and the Department of Commerce's National Oceanic and Atmospheric Administration, among others, for water resources, conservation and land management, pollution control, and other natural resources programs.

350 Agriculture--Programs administered by the Department of Agriculture to promote economic stability in agriculture and increase agricultural output. Farm income stabilization--loans, subsidies, and other payments to farmers--and agricultural research are funded under this budget function.

370 Commerce and Housing Credit--Funding for the regulation and promotion of commerce and the housing credit and deposit insurance industries. Also included in this category are subsidies to the Postal Service, programs providing loans and other aid to small businesses, and support for the government's efforts to gather and disseminate economic and demographic data.

400 Transportation--Most of the Department of Transportation's programs and NASA's support for aeronautical research, including funding to aid and regulate ground, air, and water transportation. Among the prominent programs supported under this function are grants to states for highways and airports and federal subsidies to Amtrak.

450 Community and Regional Development--Programs that support the development of physical and financial infrastructure intended to promote viable community economies, including activities of the Department of Commerce and the Department of Housing and Urban Development. This function also includes expenditures to help communities and families recover from natural disasters and spending for the rural development activities of the Department of Agriculture, the Bureau of Indian Affairs, and other agencies.

500 Education, Training, Employment, and Social Services--Funding for a diverse group of education and training programs extending from the preschool level (such as the Head Start program) to elementary and secondary education (such as grants to states) to postsecondary education and vocational training. Most of the programs included in this category are administered by the Departments of Labor and Education.

550 Health--Research (in the form of grants, largely to universities) supported by the Department of Health and Human Services through the National Institutes of Health, and programs funded by several different federal agencies to promote food and drug safety, consumer product safety, and occupational safety.

570 Medicare--The administrative expenses of the program, which are classified as discretionary. (Medicare provides health care services to people age 65 and older and to disabled beneficiaries.)

600 Income Security--Housing assistance administered by the Department of Housing and Urban Development and other major discretionary programs, including assistance to needy individuals for food and energy.

650 Social Security--Funding for the cost of administering the federal Old-Age, Survivors, and Disability Insurance Trust Funds.

700 Veterans Benefits and Services--Funding for veterans' hospitals and for building veterans' health care facilities.

750 Administration of Justice--Programs that provide judicial services, law enforcement, and prison operation. The Federal Bureau of Investigation, the Customs Service, the Drug Enforcement Administration, and the federal court system are all supported under this function.

800 General Government--Funding for the central management and policy responsibilities of both the legislative and executive branches of the federal government. The bulk of the expenditures in this category cover legislative functions and central fiscal operations, including those of the General Services Administration and the Internal Revenue Service.

SOURCE: General Accounting Office, *A Glossary of Terms Used in the Federal Budget Process,* GAO/AFMD-2.1.1 (January 1993), pp. 103-126.

ductions inthe number of people in the armed forces--from about 2 million in the early 1990s to 1.5 million in 1996--and the postponement of new weapons purchases. The size of those reductions could make further cuts in defense spending difficult. Consequently, the domestic side of the budget may have to bear more of the burden if discretionary spending is reduced in the future.

To measure the size of potential cuts, lawmakers need to know the level of projected spending without cuts. But the basis for projecting discretionary spending is ambiguous. With revenues and mandatory spending, which are generally governed by permanent laws, the Congressional Budget Office's baseline projections simply assume that current law continues without change. However, because discretionary spending is governed by annual appropriation acts, the current-law concept does not provide a clear basis for projecting future spending. As a result, CBO prepares two sets of projections of discretionary spending. For this year, both sets begin with the level of discretionary spending in 1998 set by statutory caps. In the first set of projections, CBO assumes that appropriations will be adjusted each year after 1998 to account for inflation. In the second set, CBO assumes that spending will be frozen in dollar terms at the 1998 level throughout the projection period.

Either set of projections can be used as a starting point to craft a deficit reduction plan. Using an inflation-adjusted starting point means that more savings will be needed to reach budgetary balance by 2002. Starting from a frozen level of discretionary spending, by contrast, means assuming a steady decline in the real resources devoted to discretionary programs. Under current projections, that decline would amount to 14 percent by 2002.

With any level of discretionary spending, priorities have to be assigned not only between defense and nondefense spending but also within the domestic discretionary category. Spending cuts in one area may be needed to allow increases in another area. The options

Table 3-1.
Budget Authority and Outlays for Domestic Discretionary Programs, by Budget Function, Fiscal Year 1997
(In billions of dollars)

Budget Function	Budget Authority	Outlays
General Science, Space, and Technology (250)	16.6	16.7
Energy (270)	4.3	4.9
Natural Resources and Environment (300)	21.6	21.9
Agriculture (350)	4.0	4.0
Commerce and Housing Credit (370)	3.0	3.1
Transportation (400)	14.4	36.9
Community and Regional Development (450)	9.4	11.0
Education, Training, Employment, and Social Services (500)	42.4	39.7
Health (550)	25.0	23.8
Medicare (570)	3.0	3.2
Income Security (600)	26.1	40.7
Social Security (650)	0	3.5
Veterans Benefits and Services (700)	19.0	20.3
Administration of Justice (750)	22.8	19.6
General Government (800)	11.8	11.7
Total	223.3	261.1

SOURCE: Congressional Budget Office.

to reduce domestic discretionary spending presented in this chapter focus primarily on the program level. They can be used to provide the necessary detail to hold total domestic discretionary spending to the levels specified in plans to balance the budget by 2002 while allowing for related program increases. In keeping with its mandate to provide objective, impartial analysis, CBO does not recommend or endorse any of these specific options to reduce domestic discretionary spending.

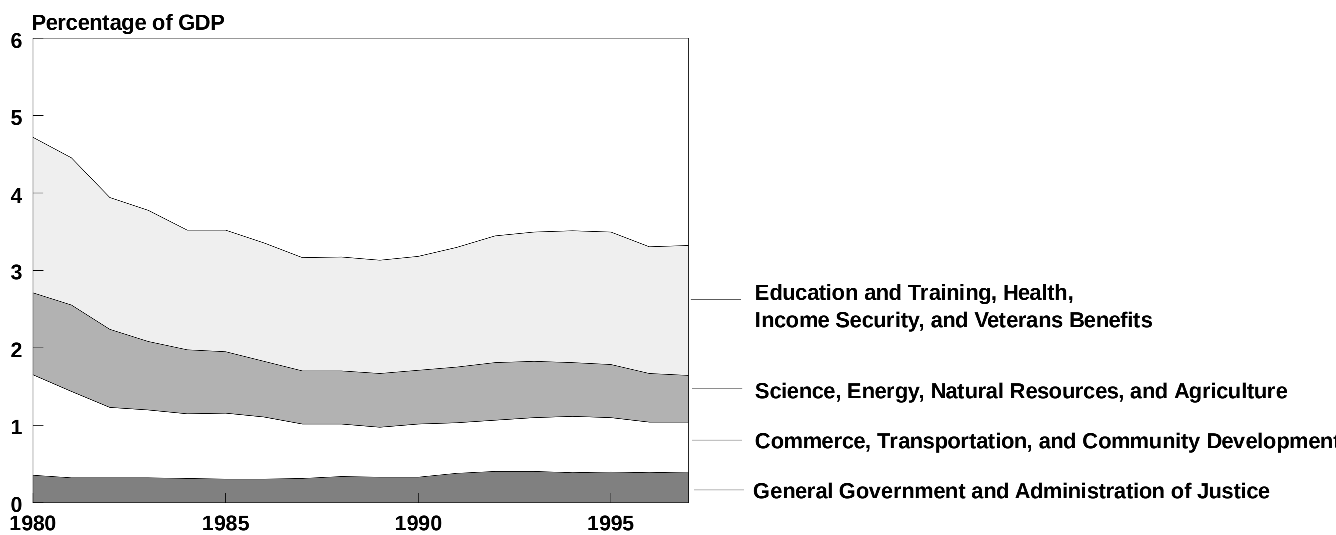
Rationales For and Against Spending Reductions

Attempts to balance the budget by 2002 will most likely increase the vulnerability of domestic discretionary programs to budget cuts. But the criteria for evaluating domestic discretionary spending, and the arguments for and against maintaining current programs and spending, have not changed.

Three general rationales for cutting federal spending are frequently cited in the domestic discretionary options presented here. The first is that federal outlays could be reduced when programs are found to be ineffective or inefficient in meeting their objectives. For instance, the argument that past spending has not been effective in achieving program goals is offered to support DOM-39, an option that would eliminate or reduce expenditures on education for disadvantaged students. Second, federal spending could be scaled back for programs that have accomplished their original mission, a point made in the case for eliminating the credit subsidies provided by the Rural Utilities Service (see DOM-09). Third, federal spending could be pared down by eliminating programs that benefit localities but do not deliver benefits to the wider public. As an example, the argument for DOM-29, an option to end the Essential Air Service program, asserts that programs that generate primarily local benefits ought to be funded locally.

In considering domestic discretionary programs, it is reasonable to ask, "Is this an appropriate activity for the federal government?" If the answer is no, the activity should be eliminated or scaled back. In that context, ideas about reinventing or privatizing the activities of federal programs clearly apply in reexamining domestic discretionary spending. Federal funding of programs

Figure 3-1.
Domestic Discretionary Spending as a Share of GDP



SOURCE: Congressional Budget Office.

and activities that produce benefits that could be secured by private investors should also be carefully scrutinized. DOM-30, an option to eliminate applied R&D support for the producers of commercial aircraft, illustrates the case to be made for cutting a program when the federal government pays for research that produces benefits that could, for the most part, be captured by directly affected private businesses making comparable investments.

The arguments for specific spending cuts are frequently countered by various defenses of current programs and expenditures. The supporters of activities that are criticized as outmoded, ineffective, or unlikely to produce benefits large enough to justify their costs sometimes simply reject those characterizations. (For example, advocates of continued spending for the international space station, which is discussed in DOM-01, argue that the benefits from the facility far exceed its costs.)

In other cases, advocates of spending that directly benefits a specific area, group, or industry contend that the benefits also accrue indirectly to the nation at large. According to those proponents, spending that supports a specific industry--such as the R&D spending questioned in DOM-05 and DOM-07--may, from society's point of view, compensate for inadequate market signals that would lead private investors to spend too little on such activities. Similarly, supporters of programs that raise health, education, or housing standards for a particular locality or group frequently claim that the benefits reach more people than just the direct recipients of funds. However, cuts in those programs might fall most heavily on recipients who have limited ability to adjust--such as poor, elderly, or disabled people. In those cases, the appropriateness of the federal government's role is as likely to be offered as an argument for an expenditure as against it.

Discussions between the advocates and opponents of an option to reduce the deficit are frequently conducted in the language of cost-benefit analysis. Yet the outcome of such analysis is unlikely to point definitively to one position or the other. The reason is that the benefits associated with government investments are sometimes uncertain and, more often, difficult to measure. Likewise, the cost of some government activities is hard to estimate. Those uncertainties give latitude to both advocates and opponents of particular options.

Process and Presentation

Because all of the options in this chapter would affect discretionary spending, achieving the budgetary savings they offer would require legislation in the form of appropriation acts. In some cases, however, the options involve changing the laws that authorize programs as well as cutting the amounts appropriated for them. Options that propose changes in authorizing legislation would alter the goals of a program or the methods of achieving them. One example is DOM-14, which would eliminate the Superfund program. The effect of the program change combined with reduced appropriations would be different from the effect of reduced appropriations alone.

The text accompanying each option describes its programmatic changes and their effects, as well as arguments for and against the changes. For most of the options in this chapter, the estimated savings are presented as reductions from both the 1997 funding level held constant through 2002 and the 1997 funding level adjusted for inflation over that period. An exception is DOM-63, an option to reduce the number of political appointees, in which spending cuts are calculated from CBO projections that include assumptions about expected employment levels and scheduled adjustments for inflation. Other exceptions are noted in the individual options as necessary.

When constructing a deficit reduction plan, care should be taken to match estimates of savings with the correct corresponding overall budget projection--that is, the total projection for all spending figured from either the adjusted or unadjusted 1997 level. For example, subtracting savings calculated against an inflation-adjusted baseline from a projection of overall spending that freezes discretionary spending at the 1997 level would overstate those savings, because the frozen level has not taken inflation into account to begin with.

DOM-01 CANCEL THE INTERNATIONAL SPACE STATION PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	1,449	2,149	2,149	2,149	2,149	10,045
Outlays	947	1,884	2,136	2,148	2,149	9,264
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	1,503	2,263	2,323	2,385	2,450	10,924
Outlays	982	1,976	2,289	2,362	2,426	10,035

Canceling the international space station program would reduce outlays by $947 million in 1998 and by $9.3 billion over the 1998-2002 period measured against the 1997 funding level. Measured against the 1997 funding level adjusted for inflation, savings would be $982 million in 1998 and $10.0 billion from 1998 through 2002. Both sets of estimates assume termination costs of about $700 million in 1998.

The international space station program continues to make progress toward a 1998 launch of the first piece of hardware necessary to build the station. But over the past year, questions about the program's ultimate content, cost, and schedule that seemed answered by a 1993 overhaul have reemerged. Problems in the foreign part of the program have caused the National Aeronautics and Space Administration (NASA) to push back the expected completion date of the space station from June 2002 to late that year or early in 2003.

In addition, fears that Russia would not fulfill its commitments under the current plan appear to have been justified. Russian contractors will apparently produce pieces of the space station that are paid for by NASA or U.S. contractors. But the Russian government has so far failed to meet its commitment to finance and build a major part of the station called the service module, which would control the facility in orbit and provide crew quarters and life-support systems during the several years the station was being assembled in space. Other components of the space station that the Russian government is supposed to fund under the current plan will be late or may not be produced at all. Because the service module in particular is so essential, NASA will be forced to accept costly delays, provide an interim substitute, and find and pay for a long-term solution.

Despite those drawbacks, significant progress toward the launch, deployment, and operation of the space station weakens the case for canceling it on the basis of the uncertainty and unpredictability that have at times characterized the effort. But fundamental arguments against retaining the program are unchanged. NASA's progress toward completion and its sunk costs of $17.0 billion notwithstanding, the opponents of continuing the program question whether its future benefits are sufficiently large to justify the costs of completing and operating the facility. By the most optimistic reckoning, the international space station program will require an additional $9 billion through its development phase, which ends in 2002 or 2003, and another $13 billion for operating costs through 2012.

In support of their position, critics cite the general lack of enthusiasm for the space station among individual scientists and scientific societies. The program's opponents also note that the costs of the program have continually increased, although its capabilities and scope of activities have decreased. Moreover, opponents hold that under current budgetary conditions, any overruns that occurred would be paid for through additional cuts in NASA's science, technology, and aeronautical activities--areas already projected to receive less funding through 2002. Finally, critics point to the uncertainty surrounding the costs of operating and supporting the facility once it has been developed and launched. On that score, opponents are skeptical of NASA's assurance that the station's operating costs will be low, noting that the agency made similar claims about the space shuttle that proved overly optimistic.

Advocates of continued spending for the space station program emphasize its positive effects on employment in the aerospace industry. Supporters also argue that Russia's participation has strengthened the foreign policy reason for continuing the program. They assert that drawing Russia, and particularly its aerospace industry, into a cooperative venture will help to stabilize the Russian economy and provide incentives for Russia to adhere to international agreements concerning the spread of missile technology. Supporters of the space station further note the long-standing arguments about the value of the project as a laboratory in orbit with unknown but positive scientific potential and as a test bed to learn how people in space live and work, in anticipation of future piloted exploration of the solar system. Advocates point out as well that the project's cancellation would force the United States to renege on agreements signed with European nations, Japan, and Canada. That withdrawal could hurt the prospects for future international cooperative agreements on space, science, and other areas of mutual interest.

DOM-02 CANCEL NASA'S EARTH OBSERVATION SYSTEM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	0	51	103	411	565	1,130
Outlays	0	21	67	220	441	749
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	26	106	187	525	711	1,555
Outlays	10	56	130	313	564	1,073

The Earth Observing System (EOS) is the most significant part of the National Aeronautics and Space Administration's (NASA's) Mission to Planet Earth program. The current plan for EOS envisions a series of satellites that would observe Earth over 15 or 20 years and a massive data information system that would make the data those satellites gather available to the scientific community on an integrated and sustainable basis. Funding only the satellites slated for launch by 2000 would reduce spending for the program by $749 million from 1999 through 2002 compared with the 1997 funding level. Compared with the 1997 level adjusted for inflation, savings would total $10 million in 1998 and $1.1 billion through 2002. Those estimates assume that NASA will launch and operate those satellites that are fully or substantially complete and will gather and analyze the data they provide.

EOS is part of a broader national initiative: the Global Change Research Program. It represents the United States' contribution to an international effort to improve knowledge about the natural and anthropogenic processes and forces that influence global climate over the long term. Specifically, the research program focuses on global warming, ozone depletion, changes in biodiversity, forest distribution, and desertification. Its objectives also include improving the accuracy of long-term weather forecasts and the ability to anticipate natural disasters such as floods. EOS will be the primary eyes, ears, and nervous system of the program's 15-year effort, gathering data by satellite and making it available to researchers through a sophisticated information storage and retrieval system.

The EOS program has gone through several planning exercises that have reduced its scope and cost. When the program began in 1989, its design consisted primarily of two large spacecraft in polar orbit carrying 30 instruments at a projected cost of $17 billion through 2000. A 1992 restructuring plan reduced the cost to about $11 billion by breaking up the large spacecraft, cutting the number of instruments, and stretching out the program's life. Another restructuring in 1993 further reduced the cost of the program to $8 billion for the 1990s. Marginal adjustments in 1994, known as a "rebaselining," lowered estimated costs to $7.2 billion. Additional adjustments in 1995 have shaved another $400 million from the plan, decreasing the estimated cost of the program through 2000 to $6.8 billion. A considerable part of the cost savings since 1993 were accomplished by increasing the role of other countries in the program.

This option would go farther than previous reductions in the scope and cost of the EOS plan. It would terminate the program as now planned but try to capitalize on the investments NASA has made in those satellites and data systems that would be operational in the next few years under the current plan. Thus, the estimated savings would still allow for the launch, operation, and associated research and data systems for the first satellites in the "AM" and "PM" series, as well as for several smaller satellites being launched by 2000. This option would have the effect of shortening the period of observations from those systems from 15 years to five years. If adopted, it would also involve forgoing the data that would be generated by the "Chemistry" series and other later projects. The estimate allows for continued funding of Landsat 7 and the development of its replacement later in the next century.

The primary argument for canceling all but those parts of EOS holds that the expected return from the project is not large enough to justify its costs. Likewise, some supporters of cancellation would argue that even though EOS may make a positive scientific contribution, alternative investments (such as the space station or research by the Department of Energy) or spending for activities that provide current benefits would produce a greater return. The prospect of a flat budget for NASA and for domestic discretionary programs as a whole will force lawmakers to choose between efforts that are likely to produce benefits but that cannot all be afforded within planned budgets. Another argument for canceling EOS now is that improved satellite technology will decrease the cost of meeting the program's goals in the future, so the effort should be set aside until those technologies are developed. However, the EOS program is itself one of the factors driving lower-cost satellite technology.

Opponents of cancellation reject the notion that EOS will not produce a sufficient return to justify its cost, budgetary limitations notwithstanding. They note that the scientific community is largely supportive of the program and that it will ultimately provide information that policymakers will need to assess the prospects for global climate change and respond appropriately. Although operating many of the EOS satellites for five years could advance knowledge of Earth systems, the observations might not be long enough to validate trends for scientific or public policy purposes. In addition, because EOS is integrated with the global change research programs of other nations, adopting this option (or virtually any other that would noticeably decrease spending) could well force the United States to renegotiate and might call into question its reliability as a partner in large-scale scientific ventures.

DOM-03 ELIMINATE THE EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	81	81	81	81	81	405
Outlays	16	53	73	78	81	301
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	83	86	88	91	93	441
Outlays	17	55	77	84	90	323

The Experimental Program to Stimulate Competitive Research (EPSCoR) is a partnership between states and several research-oriented federal agencies, primarily the National Science Foundation (NSF) but also the Department of Defense, Department of Agriculture, Department of Energy, National Aeronautics and Space Administration, and others. Currently, those agencies spend more than $80 million on the federal portion of EPSCoR. Ending that federal contribution would save $16 million in 1998 and $301 million over the 1998-2002 period relative to the 1997 spending level. Relative to the 1997 level adjusted for inflation, the option would save $17 million in 1998 and $323 million through 2002.

EPSCoR was created in response to a concentrated distribution among the states of federal research and development (R&D) funding--a large number of states receive very little of the funding. EPSCoR was designed to encourage more investment by states in science and technology. The joint federal/state program helps the research enterprise in participating states grow in three ways: it increases the competitiveness of local research institutions in attracting external research support; it fosters the transfer of knowledge; and it improves the skills and effectiveness of scientists and engineers in those states.

Eighteen states and the Commonwealth of Puerto Rico currently take part in EPSCoR. Between 1980 and 1994, the NSF provided roughly $120 million to more than 60 colleges, universities, and laboratories that had not received significant federal R&D funding in the past. State governments, local industry, and other nonfederal sources provided an additional $300 million to those institutions. The entire effort has supported 2,000 scientists and engineers.

Opponents of EPSCoR contend that the nation must make optimal use of its limited research dollars. That principle would argue for supporting researchers whose proposals are judged superior through a process of peer review, without regard to geographical distribution. Furthermore, critics doubt whether newcomers to the research enterprise can sustain a top-level effort, which requires substantial ongoing investments by the states and regional institutions. Even with matching funds from the states and other nonfederal organizations, novice research institutions might find it difficult to succeed.

Critics also argue that EPSCoR was supposed to be an experimental program, not a permanent source of R&D support for selected states. They note that after nearly 15 years of EPSCoR support, the program's recipients continue to attract only about 7 percent of the federal funding for academic R&D. Opponents point to the corresponding lack of improvement in state shares of such funding: participating states that began the 1980s in the bottom half of the national rankings were still in the bottom half in 1993.

Advocates maintain that EPSCoR promotes a more equitable geographic distribution of the nation's science and technology base. They assert that state policymakers invest more in R&D than they would without

EPSCoR's incentives, and those investments promote equity in higher education by giving students in those states the research experience and training necessary for careers in scientific fields. Proponents also contend that the program fosters technology-related industries in the states by involving local firms in the selection of research topics. Supporters note that 15 of the EPSCoR states experienced above-average growth in federal funding for academic R&D over the 1980-1993 period. They claim that the EPSCoR states have improved their rankings in their chosen "niche" fields, even if such changes are not apparent in the overall statistics. They argue as well that the quality of EPSCoR-funded research is on a par with other federally funded R&D because awards are based on merit reviews.

DOM-04 REDUCE THE DEPARTMENT OF ENERGY'S BASIC RESEARCH PROGRAMS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	608	608	608	608	608	3,040
Outlays	299	536	608	608	608	2,659
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	670	738	807	878	951	4,044
Outlays	329	624	764	833	905	3,455

For 1997, the Congress has provided the Department of Energy (DOE) with $2.4 billion for basic research in various fields. Four program areas account for the bulk of that funding: general science ($996 million), fusion ($226 million), basic energy science ($631 million), and biological and environmental research ($378 million). The studies that those programs fund are directed toward fundamental understanding of matter and energy and their use--or, in the case of fusion, the development of an alternative source of energy. Spending in those areas supports the construction and operation of large, unique scientific instruments such as nuclear accelerators and research reactors, which are used by scientists in many different fields.

Reducing that research by 25 percent and then freezing it at that level would save $299 million in 1998 and $2.7 billion over the 1998-2002 period relative to the 1997 spending level. Relative to the 1997 level adjusted for inflation, those cuts would save $329 million in 1998 and $3.5 billion through 2002.

Throughout the postwar era, U.S. policymakers have agreed that supporting basic research is an important function of government in modern industrialized economies. No individual firm can capture all or even most of the benefits of basic research; consequently, the market, left to its own devices, would probably invest less in basic research than is best for society. Those premises have led to general agreement that the federal government should provide support for basic research. However, that principle does not tell policymakers how much support basic research should receive. Moreover, when budget reductions become necessary, even functions of government that are generally conceded to be worth supporting may have to be cut.

Proponents of cuts in DOE's programs of basic research argue that administrative efficiencies could be exploited to reduce costs without substantially lessening the amount of research being done. The final report in June 1995 of the Task Force on Strategic Energy Research and Development of the Secretary of Energy's Advisory Board found that "significant reductions in energy R&D costs can be achieved--without reducing the commitment to research--through streamlining administration." On that basis alone, the task force recommended a 15 percent cut in energy R&D costs as an appropriate target.

Other proponents of cuts point to the findings of a 1995 National Academy of Sciences panel. The panel recommended cutting back research performed at DOE (and other national) laboratories, arguing that the mechanisms by which knowledge moves out of the labs and into the commercial world are less reliable than those in academia. Specifically, research at universities is embodied in its graduating students, many of whom find jobs in industry or other nonacademic settings and thus disseminate knowledge rapidly through the economy. By contrast, the movement of personnel (and knowledge) out of DOE laboratories is much less predictable.

Defenders of DOE's basic science programs argue that, contrary to the assertions of critics, the scientific merit of the programs is great. Scientific peers apparently rate the quality of the programs' research as equivalent to that of the most research-intensive universities in the country. One survey of scientific citations of articles written by staff at DOE's multipurpose labs revealed that research scientists referred to the studies conducted there 20 percent more often than they referred to those coming out of research-intensive universities. The highest rates of citation were reserved for collaborations between university and DOE researchers. (Because new science is usually built on older findings, citation rates can measure the influence of particular findings and their usefulness to other scientists.)

Defenders also note that the scientific infrastructure that these programs provide has allowed scientists at universities and in industry to make advances in knowledge that have already proved useful. For example, much of the research into modern magnetic materials, which has enabled dramatic improvements in computer disks and other electronic devices, was conducted using DOE's neutron sources, which are funded through these programs.

Fusion R&D differs from the rest of the programs in basic research, and as a result, both the criticisms and defense of it differ as well. Like the basic research programs, its results are decades away from commercial application, but unlike them, it is directed at a specific application: producing electrical energy through nuclear fusion. Critics argue that the funding level for this one research area is high considering that, even under the most optimistic scenarios, nuclear fusion will not be producing power for several decades. They also contend that the program has prematurely focused on one technology and ignored the broader field. In response to those criticisms and to recent funding cuts, DOE is redesigning the fusion program to emphasize basic understanding of the scientific phenomenon, but the bulk of its funding will still go to a limited range of alternatives. Defenders argue that the fusion program was cut back so severely in 1995 that further cuts could jeopardize progress in that field.

DOM-05 ELIMINATE THE DEPARTMENT OF ENERGY'S APPLIED RESEARCH PROGRAMS FOR NUCLEAR POWER AND FOSSIL FUELS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	143	287	460	460	460	1,810
Outlays	59	174	329	425	460	1,447
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	156	313	500	514	530	2,013
Outlays	64	189	359	468	518	1,598

Two of the principal categories of applied energy research that the Department of Energy (DOE) pursues are developing nuclear power technology and designing more efficient and environmentally benign ways to use fossil fuels. In 1997, DOE expects to spend $478 million on research and development (R&D) in those two areas. Phasing out that R&D over the next three years would save $59 million in 1998 and $1.4 billion over the 1998-2002 period relative to the 1997 spending level. Relative to the 1997 level adjusted for inflation, this option would save $64 million in 1998 and $1.6 billion over the 1998-2002 period. (Those estimates allow for continued funding that would be required by law for some terminated programs.)

In the case of both fossil fuel and nuclear power R&D, critics of those programs maintain that development of applied energy technologies is better left to the private sector. They argue that companies in industries that are most likely to use the technology developed in such programs--often electric utilities--and their equipment suppliers may be better able than DOE researchers to understand the commercial value of technology development. (Federal agencies typically lack market feedback for determining when a new technology is too expensive--or esoteric--for commercial purposes.)

Critics of the programs further argue that DOE should concentrate on basic energy research and reduce its involvement in applied technology development. They contend that the federal government has a comparative advantage in developing the basic science around a new energy source but is at a comparative disadvantage in the costly technology development and demonstration phases. The Congress, in general agreement over the benefits of basic energy research, appropriated $2.4 billion for civilian basic research programs in DOE in 1997. (See DOM-04 for budget reduction options in those programs.)

The wisdom of pursuing new technologies in the field of nuclear energy R&D is questionable as long as electric utilities, the intended recipients, have no interest in building new nuclear power plants. (Part of the reason may be that national policy for addressing nuclear wastes remains undeveloped.) Since 1978, DOE has spent $9 billion on nuclear fission R&D, and during that period, not a single new nuclear plant was initiated.

Moreover, dramatic changes in the wholesale electricity market raise another concern. Policymakers recently began to open the electricity transmission market, enabling utilities to buy electricity from any group of suppliers rather than have to rely on captive sources. It may thus be time to let the newly opened market encourage the private sector to develop its own technology.

Defenders of DOE's programs argue that federally supported R&D in these areas helps offset several existing failures in the energy market and consequently represents a sound investment for the nation. Current energy prices, they point out, do not reflect the environmental damage done by excess reliance on fossil fuels, including the potential for global warming. In addition, prices do not reflect the military and economic risks posed by reliance on foreign oil. Although DOE's R&D programs cannot correct those market failures in the short run, they may moderate their consequences over the long term.

With regard to nuclear energy R&D, defenders of that program contend that its research will keep the nuclear option open for the nation in the years to come. The need for energy sources that do not emit greenhouse gases may intensify as developing nations raise their level of energy consumption to match increases in industrialization. In addition, some of DOE's research may develop ways to consume nuclear wastes in the process of producing nuclear power. More generally, proponents argue that several technological advances have come from these efforts. For example, DOE claims that a partnership it established with industry developed a method of increasing the amount of energy extracted from each unit of nuclear fuel by 50 percent, thus reducing nuclear waste and lowering costs. Moreover, despite partial deregulation, proponents posit that electricity markets are still far from perfect and that, consequently, federal intervention is justified.

Advocates also note that these programs have already experienced a steady reduction in size over the past decade and a half, especially in the technology demonstration area. Spending has fallen by well over 90 percent in inflation-adjusted terms since the late 1970s, when all parties agreed that DOE was generally too involved in expensive technology demonstration projects. In 1996 and 1997 combined, the Congress further reduced appropriations by 25 percent from the 1995 level. (The major exception to the elimination of technology demonstration programs is the Clean Coal Technology Program, which is discussed in DOM-07.)

DOE notes that energy R&D is below the national average for all industries and that, more narrowly, private R&D in the energy area is stagnant or declining. Consequently, it avers, federal efforts are needed to compensate. All energy R&D, both federal and private, is equal to 1.1 percent of total spending on energy. By contrast, all R&D, again both federal and private, is equal to roughly 1.8 percent of the economy as a whole. Moreover, in the energy area, many of the largest corporate contributors to industrial R&D are reducing their spending because of corporate restructuring and the changing nature of competition in those markets.

DOM-06 ELIMINATE THE DEPARTMENT OF ENERGY'S APPLIED RESEARCH PROGRAMS FOR ENERGY CONSERVATION AND FOR SOLAR AND OTHER RENEWABLE ENERGY RESOURCES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	198	397	661	661	661	2,578
Outlays	65	224	438	602	653	1,982
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	215	432	715	735	755	2,852
Outlays	71	244	476	659	729	2,179

In 1997, the Department of Energy (DOE) will spend $661 million for research and development (R&D) projects to develop new technologies for energy conservation and solar and other renewable energy resources. Phasing out that R&D over the next three years would save $65 million in 1998 and $2.0 billion over the 1998-2002 period relative to the 1997 spending level. Relative to the 1997 level adjusted for inflation, eliminating that R&D would save $71 million in 1998 and $2.2 billion over the 1998-2002 period. (Funds for energy conservation R&D are distinct from technical and financial assistance programs, which would not be included in this option.)

Opponents of these programs make several arguments. Generally, they contend that the federal government should stop working to develop applied energy technologies and instead concentrate on basic research in the sciences that underlie them. Specifically, they note that many of the projects funded through these programs are small and discrete enough--and, in many cases, have a clear enough market--to warrant private investment. In such instances, DOE may be crowding out or preempting private-sector firms. In other instances, the programs conduct R&D that the intended recipients are likely to ignore--in many cases because it is too expensive or esoteric to implement.

Opponents of these programs also note that spending for energy conservation and solar and other renewable energy R&D is double its 1990 level, despite cuts in 1996 and 1997. In inflation-adjusted terms, spending for energy conservation R&D is still at the levels of the late 1970s, when all parties agreed that DOE was overly committed to expensive technology demonstration projects. By contrast, spending for DOE's solar and other renewable energy programs is only one-sixth of the peak levels in inflation-adjusted terms. (As a whole, applied energy R&D at DOE has fallen by roughly 85 percent since its peak.)

Critics of these programs also contend that the federal government supports the introduction of some of these technologies in other ways. Federal regulations require utilities to buy electricity produced by solar and alternative technologies, often at premium rates. Utilities are also encouraged to subsidize the purchase of conservation technologies by consumers. The tax code favors investments in conservation and solar energy technology and also provides incentives for the development of liquid fuels technologies derived from renewable resources (such as biomass). Ethanol fuels receive special treatment under the federal highway tax (see REV-33). In addition, federal regulations authorized by many different statutes favor alcohol fuels.

DOE's largest single solar energy program--photovoltaics--can claim to have achieved substantial success, and opponents might argue that an orderly withdrawal of support by federal agencies is now appropriate. For one thing, several large factories for producing photovoltaic cells are either in operation or under construction, mainly for the export market. Moreover, critics point out that foreign firms are likely to dominate the photovoltaics market because of their higher domestic energy prices and hence their higher likely demand for alternative sources of energy. U.S. consumers can let those foreign companies and governments bear the costs of developing the energy sources and then buy the technologies later, when they are cheaper and have been perfected.

Defenders of these programs argue that major market failures continue to exist in energy markets, and thus federal R&D is needed to mitigate the long-term consequences of those failures. Energy consumers do not see the environmental damage done by excess reliance on fossil fuels, including the potential for global warming, in the energy prices they confront in the marketplace. Nor do those prices reflect the military and economic risks posed by reliance on foreign oil. Advocates admit that DOE's R&D programs cannot correct those market failures in the short term, but they argue that over the long term, such programs can help.

Funding for energy R&D is below the national average for all industries; specifically, energy-related R&D funded by private parties is stagnant or declining, despite the risks posed by the market failures discussed above. Most notably, electric utilities and other large corporate performers of and investors in energy R&D are cutting down such investments. (The usual explanations for that decline are corporate restructuring and the changing nature of competition in those markets.) R&D spending, both federal and private, is equal to roughly 1.8 percent of the economy as a whole. By contrast, all spending on energy R&D, again both federal and private, is equal to 1.1 percent of total spending on energy.

Advocates of continued federal spending for this R&D note that energy conservation and solar and other renewable energy technologies developed at DOE laboratories have moved successfully into commercial markets. The R&D programs for solar and other renewable resources have also had a history of requiring private financial participation in development projects to reduce the risk of sponsoring irrelevant research. Furthermore, advocates contend, even in instances in which the technologies have not yet been brought to market, applied federal research has brought down their costs substantially. That situation, they maintain, is different from R&D sponsored by DOE in the late 1970s, when the technology development that resulted would have been economic only if the price of oil was at a very high level.

One advantage these programs have over other R&D efforts in the energy technology area is that many of them are quite small. The small scale of the projects gives the Congress great flexibility in tailoring these programs to the size it wants without fear of losing all of their benefits, as is often the case with reductions in "big science" R&D programs. Over the years, many of the best outcomes of these research efforts have come from very small investments. Those successes include the development of films that make windows more energy efficient, which are now found on roughly a third of new and replacement windows. More recently, R&D sponsored by DOE helped develop a sulfur lamp, which promises to provide an efficient alternative to the mercury vapor lamp.

DOM-07 ELIMINATE FURTHER FUNDING FOR THE CLEAN COAL TECHNOLOGY PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	15	15	15	15	15	75
Outlays	0	0	2	3	6	11
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	15	15	16	16	17	79
Outlays	0	0	2	3	6	11

The Clean Coal Technology Program (CCTP) was created in 1984 to assist private industry in developing commercial technologies that would use coal in environmentally sound ways. After five rounds of bid solicitations, the Department of Energy (DOE) will spend about $2.4 billion to fund and administer selected CCTP projects. The government's spending on those demonstration projects is limited to 50 percent of total costs. This option would complete projects already selected in rounds one through five of CCTP bid solicitations but eliminate any future funding for new projects. Savings would total about $11 million in projected outlays over the 1998-2002 period measured from both the 1997 funding level and the 1997 level adjusted for inflation.

An initial goal of the CCTP was to reduce acid rain by supporting technologies that could lower the emissions of sulfur dioxide (SO_2) and nitrogen oxides (NO_x) that result from coal combustion. President Reagan declared that his Administration would honor an agreement with Canada to spend $2.5 billion on clean coal technologies aimed at helping to curb acid rain in Canada. Other important goals of the program have been to promote the use of coal to replace imports of crude oil and to bolster the economies of coal-producing regions. Concerns about global warming and emissions of carbon dioxide have recently whetted policymakers' interest in increasing the efficiency of coal use.

Current practices that reduce SO_2 and NO_x emissions include cleaning the coal before burning it, scrubbing combustion gases to remove sulfur, switching to types of coal with a lower sulfur content, and switching to other fuels altogether. The new technologies that the CCTP supports fall into three general categories:

- o Retrofit technologies that lower harmful emissions from existing coal-fired plants by cleaning the coal before combustion, reducing the level of gases emitted during combustion, or scrubbing the gases emitted during combustion;

- o Repowering technologies that replace all or part of existing boilers with advanced combustion systems that both reduce emissions and increase power output; and

- o Conversion technologies that change coal into a liquid or gas.

Most of the projects funded by the CCTP will demonstrate technologies to retrofit or repower electricity-generating plants that burn coal.

Federal support for new clean coal technologies may no longer be necessary. In the past, supporters of the CCTP viewed it as an alternative to legislation for controlling acid rain: the enactment of ill-timed controls could force industry to invest in current, high-cost abatement technologies when new, low-cost ones might be just around the corner. Since the passage of the Clean Air Act Amendments of 1990, however, the private sector has faced a clear legislative mandate to lower coal-related emissions. Electric utilities and large industrial users of coal now have a clear economic motive for selecting the lowest-cost options for reducing emissions from among current practices and new technologies. DOE's efforts may also be redundant in the light of independent research efforts by utilities themselves and by states that produce high-sulfur coal and want to maintain the product's sales. Moreover, the energy-security benefit of increased coal use would be negligible, because coal today substitutes for oil in very few applications.

Alternatively, continued CCTP funding could hasten deployment of control and abatement technologies that would provide social benefits beyond what electric utilities would be willing to pay for under the Clean Air Act Amendments. Those benefits could come in the form of cleaner air and economic support for electricity consumers in general and for coal-producing regions in particular.

DOM-08 ELIMINATE ENERGY CONSERVATION GRANT PROGRAMS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	151	151	151	151	151	755
Outlays	38	121	144	151	151	605
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	155	160	164	169	173	821
Outlays	39	125	152	164	169	649

This option would halt new appropriations for three block grant programs that support energy conservation activities by the states. In 1997, the biggest of those appropriations is for weatherization assistance ($121 million), followed by institutional conservation and state energy conservation ($30 million). Halting new appropriations for those grant programs would save $38 million in 1998 outlays and $605 million in outlays from 1998 through 2002 measured against the 1997 funding level. Measured against the 1997 level adjusted for inflation, this option would save $39 million in 1998 outlays and $649 million in outlays through 2002.

Weatherization assistance grants supported by the Department of Energy's (DOE's) State and Local Partnership Program help low-income households reduce their energy bills by funding such activities as installing weather stripping, storm windows, and insulation. The states have reported to DOE that about 4 million homes have been weatherized since 1977, when the program began. Institutional conservation grants supported by DOE's State Energy Program help reduce the use of energy in educational and health care facilities by adding federal funds to private and local public spending to encourage local investment in building improvements. The State Energy Program also supports energy conservation programs of states and municipal governments that, for example, establish energy-efficiency standards for buildings and promote public transportation and carpooling. The DOE programs are independent of a similar block grant activity, the Low Income Home Energy Assistance Program, administered by the Department of Housing and Urban Development.

Federal grants to promote less consumption of energy are in many respects an artifact of the mid-1970s and the widespread concerns about energy security--for all sources, including oil, natural gas, and coal--prevalent at that time. Today, those concerns are more correctly focused on imported oil supplies. Little benefit to the cause of oil-supply security can come from state grant programs that help reduce residential and institutional demand for natural gas and coal-generated electricity. And although the government has attached some urgency to the need to reduce energy use for environmental reasons, federal support for reducing the use of gas and coal through conservation grants for security or environmental needs is clearly at odds with other federal policies that simultaneously promote the production and use of those fuels.

In any case, the large savings of energy that states claim for these conservation programs may be overstated. Those claims have never been subjected to critical analysis by DOE or by any of the Congressional support agencies. According to DOE, total annual savings are on the order of 4.7 quadrillion Btus (British thermal units), a questionable result given that the figure represents over 15 percent of current energy use in the residential and commercial sectors. In contrast, the 4 million homes that DOE reports have benefited from energy conservation grants constitute less than 5 percent of the total households in the United States.

Discontinuing the grant programs could impose hardships on states that wish to continue their energy conservation efforts but are experiencing financial distress. Many states still rely heavily on such grants to assist low-income households and public institutions. Also, the voluntary energy savings those programs make possible are an important part of the President's Climate Change Action Plan to reduce greenhouse gas emissions. Such considerations may compel continued federal support in the area of energy conservation.

This option would not affect spending for the three DOE grant programs that are funded by offsetting collections (money that the Department of Energy receives in court settlements resulting from current prosecutions of violations of federal laws regulating petroleum prices in the 1970s). Those collections total $30 million in 1997, with additional amounts estimated to total about $20 million over the 1998-2002 period.

DOM-09 ELIMINATE ELECTRIFICATION AND TELEPHONE CREDIT SUBSIDIES PROVIDED BY THE RURAL UTILITIES SERVICE

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	38	38	38	38	38	190
Outlays	4	11	21	30	36	102
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	39	40	41	42	43	205
Outlays	4	12	22	32	39	109

The Rural Utilities Service (RUS) is an agency within the Department of Agriculture that, among other activities, offers financial assistance in the form of subsidized loans and grants to electric and telephone companies serving primarily rural areas. This option addresses only the credit subsidies provided through loans for electrification and telephone service that were previously administered by the Rural Electrification Administration (REA). The former REA programs were combined with other loan and grant programs in 1994 to form the RUS. (Additional potential savings from cutting other RUS programs are described in DOM-32.)

For 1997, RUS subsidies to electric and telephone companies total about $38 million. In addition, the agency spends nearly $35 million per year administering those programs. Eliminating the credit subsidies for loans made or guaranteed by the RUS would reduce outlays by an estimated $4 million in 1998 and $102 million between 1998 and 2002 measured from the 1997 funding level. Total savings over that period from the 1997 funding level adjusted for inflation would be $109 million.

Most of the borrowing that the REA subsidized was established in the 1930s, 1940s, or 1950s. Many communities served by those borrowers are now much larger than the original service-area requirement of no more than 1,500 inhabitants. In total, the agency's borrowers serve about 10 percent of U.S. electricity consumers and about 4 percent of telephone customers.

Credit subsidies for loans to rural electric and telephone companies were reduced by more than one-half from 1993 to 1994, reflecting the significant changes in the program enacted in the Rural Electrification Loan Restructuring Act of 1993. Moreover, because the cost of federal borrowing declined significantly in 1992 and 1993, the average subsidy provided for the RUS's low-interest (5 percent) loans also decreased. Before passage of the 1993 act, most RUS borrowers were eligible for 5 percent loans. Under the restructured program, some borrowers are still eligible for the 5 percent loans; others may borrow from the agency at slightly higher (although still subsidized) rates; and still others may borrow either at the rate that the Treasury pays to borrow or 7 percent, whichever is less. Although the appropriation for the cost of subsidies for all lending related to rural electrification and telephone service declined from about $200 million in 1993 to about $38 million in 1997, the agency may still make new loans totaling about $1 billion this year.

The savings shown in the table could result from either of two scenarios: discontinue lending and require RUS borrowers to use private sources of capital for all of their loan needs, or continue a federal loan program but eliminate subsidies. A loan program with no subsidy costs would require raising the interest rates on loans to rural electric and telephone companies to the level of the Treasury's cost of borrowing; it would also mean charging small loan origination fees to cover the cost of defaults for certain classes of loans. In addition to savings in subsidy costs, some savings in administrative costs could result if all such lending was discontinued. Some of the nearly $35 million per year in current salaries and expenses would be required to administer existing loans, but those costs could be gradually reduced under a no-new-lending option. Potential administrative savings of more than $25 million over the 1998-2002 period could be achieved by eliminating the program, but those additional savings are not counted in this option.

The loan program for rural electrification and telephone service has largely fulfilled its original goal of making those services available in rural communities. Yet many borrowers still depend on federal loans to maintain and expand those utilities. Increasing the interest rates or charging origination fees on some loans would raise the rates such borrowers charged their customers, especially in the rural regions that are most affected. Borrowers argue that they need some level of subsidization to keep their service and utility rates comparable with those in urban areas. Most RUS borrowers already use some private financing, however. Because the cost of interest accounts for only a small percentage of the typical customer's bill, eliminating the remaining federal subsidy would have little effect on the utility rates that most borrowers charge their customers.

DOM-10 INCREASE NET RECEIPTS FROM NATIONAL FOREST TIMBER SALES

	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
	From the 1997 Funding Level					
Budget Authority	25	35	40	50	60	210
Outlays	20	30	35	45	55	185
	From the 1997 Funding Level Adjusted for Inflation					
Budget Authority	25	35	40	50	60	210
Outlays	20	30	35	45	55	185

The Forest Service (FS) manages federal timber sales from 119 national forests in the national system. In 1996, the FS sold roughly 3.4 billion board feet of public timber under contract to private lumber companies. Those companies may harvest the timber over several years; they make payments to the FS only upon harvest. The total 1996 harvest, approximately 3.7 billion board feet, represented a continuing decline in volume from previous years. It brought in about $544 million in federal timber receipts, but during 1996, the FS spent over $850 million on timber management, reforestation, construction of logging roads, payments to states, and other timber program costs. Thus, the FS spent more on the timber program than it collected in receipts for timber harvesting.

The FS does not maintain the data needed to estimate annual timber receipts and the expenditures associated with each individual timber sale. Therefore, it is hard to determine precisely the budgetary savings that could be achieved by phasing out all timber sales in the National Forest System for which expenditures were likely to exceed receipts. As an illustration of the potential savings, however, eliminating all future timber sales from three National Forest System regions in which past imbalances between cash receipts and expenditures have been prominent would reduce net outlays in the federal budget by about $185 million through 2002.

In seven of the nine National Forest System regions, annual cash receipts from federal timber harvests have failed to cover the FS's annual cash expenditures. In the Rocky Mountain, Northern, and Intermountain regions, for example, cash expenditures have consistently exceeded cash receipts over the past decade. Annual costs of the timber program in those three regions still exceed annual timber receipts if FS expenditures for road construction are excluded. Eliminating all future timber sales from those regions would reduce FS outlays over the 1998-2002 period by about $440 million; at the same time, timber receipts would fall by about $255 million after subtracting payments to states, producing net savings of $185 million. (Hence, the estimates shown above are the net effect of changes in both discretionary and mandatory budgets.)

Timber sales for which spending exceeds receipts have several potential disadvantages. They may lead to increases in the federal deficit, excessive depletion of federal timber resources, and destruction of roadless forests that are valued by many recreational visitors.

Potential advantages of the sales include community stability in areas dependent on federal timber for logging and other related jobs. Timber sales also improve access to the land--as a result of road construction--for fire protection and recreation.

DOM-11 IMPOSE A FIVE-YEAR MORATORIUM ON LAND PURCHASES BY THE DEPARTMENTS OF AGRICULTURE AND THE INTERIOR

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	139	139	139	139	139	695
Outlays	45	97	129	139	139	549
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	142	147	152	156	162	759
Outlays	46	100	137	152	157	592

In 1997, the Departments of Agriculture and the Interior will receive appropriations of about $140 million to buy land that is generally used to create or expand designated recreation and conservation areas, including national parks, national forests, wilderness areas, and national wildlife refuges. Placing a five-year moratorium on future appropriations for land acquisition by those departments would save $45 million in 1998 and $549 million between 1998 and 2002 measured against the 1997 funding level, or $46 million in 1998 and $592 million between 1998 and 2002 measured against the 1997 level adjusted for inflation. The option would provide for a small annual appropriation ($10 million) to cover emergency acquisition of important tracts that became available on short notice, compensation to "inholders" (landholders whose property lies wholly within the boundaries of an area set aside for public purposes, such as a national park), and ongoing administrative expenses.

Proponents of this option argue that land management agencies should improve their stewardship of the lands they already own before taking on additional management responsibilities. In many instances, the National Park Service, the Forest Service, and the Bureau of Land Management find it difficult to maintain and finance operations on their existing landholdings. Further, given the limited operating funds of those agencies, environmental objectives such as habitat protection and access to recreation might be best met by improving management in currently held areas rather than providing minimal management over a larger domain. Another argument made in favor of this option is that the federal government already owns enough land. Currently, more than 650 million acres--approximately 30 percent of the United States' land mass--belong to the government. The sentiment that this amount is sufficient is particularly strong in the western United States, where nearly half of the land area of 11 states is under federal ownership.

Opponents argue that future land purchases are necessary to achieve ecosystem management objectives and fulfill existing obligations for national parks. Much of the land targeted by the Congress for new and expanded federal reserves is privately held, and acquiring it will require purchases. Furthermore, encroaching urban development and related activities outside the boundaries of national parks and other federal landholdings may be damaging resources inside the parks. Land acquisition is an important tool for mitigating that problem. Acquisitions that consolidate landholdings may also help to improve the efficiency of public land management.

DOM-12 ELIMINATE FEDERAL GRANTS FOR WATER INFRASTRUCTURE

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
From the 1997 Funding Level						
Budget Authority	2,236	2,236	2,236	2,236	2,236	11,180
Outlays	137	705	1,496	1,927	2,135	6,400
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	2,292	2,355	2,417	2,482	2,550	12,096
Outlays	140	726	1,557	2,040	2,308	6,771

The Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA) require municipal wastewater and drinking water systems to meet certain performance standards in order to protect the quality of the nation's waters and the safety of its drinking water supply. The Clean Water Act provides financial assistance so communities can construct wastewater treatment plants that comply with the act's provisions. (The CWA requires secondary treatment of wastewater to remove at least 85 percent of raw pollutants.) The 1996 amendments to the Safe Drinking Water Act authorized a state revolving loan program for drinking water infrastructure. For 1997, the Congress appropriated about $2.2 billion for water infrastructure programs, including funds for wastewater programs and the new program for drinking water facilities.

This option would end all funding of new water infrastructure projects after 1997, saving $137 million in 1998 and $6.4 billion through 2002 compared with extending the 1997 funding level. Compared with the 1997 level adjusted for inflation, savings would total $140 million in 1998 and $6.8 billion over five years.

The first federal construction grants for water infrastructure were provided by the Federal Water Pollution Control Act Amendments of 1956. Construction grants for wastewater treatment plants were reauthorized and significantly increased in 1972 under the Title II categorical grant program of the Clean Water Act. The Environmental Protection Agency (EPA) administered the construction grant program by providing grant assistance directly to municipalities for wastewater treatment projects. (Federal funds for the program were and still are channeled through EPA's annual appropriations.)

As amended in 1987, the Clean Water Act phased out Title II grants and authorized a new grant program under Title VI to support state revolving funds (SRFs) for water pollution control. Under the new system, states continue to receive federal grants, but now they are responsible for developing and operating their own programs. For each dollar of Title VI grant money a state receives, it must contribute 20 cents to its SRF. States use the combined funds to make low-interest loans to communities for building or upgrading municipal wastewater treatment facilities. Local agencies that borrow funds from the SRF for construction must repay them, thus creating a revolving source of capital for other local communities.

Although authorization for the SRF program under the Clean Water Act has expired, the Congress continues to provide annual grant appropriations. On average, the Congress has appropriated $1.7 billion annually for the program in recent years. Since 1972, it has provided a total of around $67 billion in Title II and Title VI grants to assist localities in complying with the CWA.

In addition to the wastewater SRF program, since 1992 the Congress has earmarked funds in annual appropriation bills for grants to a selected group of wastewater projects. The grant funds are generally made available to special construction projects for wastewater infrastructure and other projects designed to improve water quality in individual cities. The EPA administers funds for those projects through its General Grant Regulation program. Since 1995, the Congress has appropriated over $1.5 billion for direct grants to about 90 water infrastructure and water quality projects.

As amended in 1996, the SDWA authorizes the EPA to make grants to states for capitalizing drinking water revolving loan funds. As with the wastewater SRF program under the Clean Water Act, states may use those funds to make low-cost financing available to public water systems for constructing facilities (in this case, to treat drinking water). In 1997, the Congress appropriated $1.3 billion for capitalization grants for drinking water SRFs.

Proponents of eliminating federal grants to water-related SRFs say such grants may encourage inefficient water treatment decisions by allowing states to loan money at below-market interest rates. Below-market rates could reduce incentives for local governments to find less capital-intensive and less costly alternatives for controlling water pollution and treating drinking water. In addition, federal contributions to wastewater SRFs were intended to help in the transition to full state and local financing of the funds by 1995. Thus, proponents of ending federal grants to those SRFs argue that the program was intended to be temporary and may have replaced, rather than supplemented, state and local spending.

Opponents of such cuts argue that states and localities could have trouble meeting the federal treatment deadlines without continued federal grants--both because repayments to the SRFs would be too small to fund new projects, and because states would be unable to shoulder the additional cost of offsetting decreased federal contributions. (EPA estimates that $127 billion in additional treatment facilities and upgrades would have to be built over the next two decades for states to meet the Clean Water Act's current goals.) Also of concern is how to assist small and economically disadvantaged communities that have had the most difficulty complying with CWA and SDWA requirements. Some people who oppose eliminating the federal grants maintain that doing so would increase the burden of unfunded federal mandates on state and local governments.

DOM-13 CANCEL UNECONOMIC WATER PROJECTS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	170	170	170	170	170	850
Outlays	108	160	170	170	170	778
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	175	180	185	191	197	928
Outlays	112	168	183	189	194	846

The federal government has spent billions of dollars developing multipurpose water resource projects in the United States through the Bureau of Reclamation and the Army Corps of Engineers. In 1996, those two agencies spent more than $1.7 billion constructing water projects; they are expected to spend about the same amount this year. Canceling construction on projects whose costs are likely to exceed their economic benefits would save at least $108 million in 1998 and $778 million over the 1998-2002 period compared with the 1997 funding level. Savings from the 1997 funding level adjusted for inflation would be at least $112 million in 1998 and $846 million through 2002.

Over the past century, reclamation projects have brought water and power to cities and agriculture in the western United States, contributing to the economic growth of that region. Other projects have provided important navigation and flood-control benefits throughout the country. Over time, however, the number of projects in which the potential benefits exceed costs has decreased. In some cases, the federal government is investing in projects that are projected to produce low or even negative economic returns. For example, the Animas-La Plata project, with an estimated federal cost of $450 million, is expected to produce only 36 cents of benefits for each dollar spent to build it, according to the Bureau of Reclamation's analysis. Another example is the Levisa and Tug Forks project, with an estimated federal cost of over $1.5 billion. An analysis by the Army Corps of Engineers concluded that costs for every part of the project exceed benefits. Many other projects have not been analyzed but would most likely have low or negative economic returns.

The savings estimated for this option are illustrative; they do not assume cancellation of any specific project. To carry out this option fully, further analysis would be needed to identify which projects could be eliminated. Existing analyses of costs and benefits would need to be updated--for example, by using a current discount rate instead of the one applied when the project was authorized. Projects for which benefits and costs were never analyzed would need evaluation. The Congressional Budget Office believes that further analysis will probably show that at least 10 percent of current construction spending by the Bureau of Reclamation and the Army Corps of Engineers is for water projects whose costs are likely to outstrip their economic benefits.

Proponents of canceling projects with greater costs than benefits assert that the government should not spend scarce resources on investments with low returns. Many proponents would argue that even when benefits seem to exceed costs, they in fact do not. For example, the costs of environmental damage caused by some projects either are not included or, some would argue, are severely understated. Given that bias toward underreporting costs, proponents contend, if benefits are less than costs for a particular project, it is certainly a bad investment. Supporters of cancellation also assert that the benefits of water projects accrue mostly to a few individuals, whereas the costs are spread among all taxpayers.

Opponents of canceling projects whose costs exceed economic benefits assert that those calculations often exclude important benefits that cannot or should not be converted to dollars and cents. For instance, several important projects, such as Animas-La Plata, are needed to settle outstanding water-rights claims with Native American tribes. The cost of finding alternative means to settle such claims could offset some of the savings from canceling those projects. In cases where the beneficiaries of a project are relatively poor, some benefits--such as flood protection--are underestimated because of the low economic value of the protected communities. Opponents of cancellation also claim that the government should honor prior commitments made with the communities that would benefit from the authorized projects.

DOM-14 ELIMINATE THE SUPERFUND PROGRAM OR REVISE ITS CLEANUP CRITERIA

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Eliminate the Program						
From the 1997 Funding Level						
Budget authority	815	1,359	1,359	1,359	1,359	6,251
Outlays	203	625	978	1,169	1,264	4,239
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	838	1,437	1,478	1,521	1,565	6,839
Outlays	210	653	1,040	1,269	1,405	4,577
Revise the Cleanup Criteria						
From the 1997 Funding Level						
Budget authority	150	150	150	150	150	750
Outlays	38	90	120	135	143	526
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	154	159	163	168	173	817
Outlays	39	94	128	146	159	566

The Superfund program has been in existence since 1981 but is far from completing its mission of cleaning up the nation's worst hazardous waste sites. The Environmental Protection Agency (EPA), which administers the program, has placed 1,387 sites on the National Priorities List (NPL) as of the end of 1996. EPA's most recent estimate of the total costs of the program is $31 billion, including $16 billion in 1996 and beyond, but those costs will probably rise as additional sites are added to the NPL. They only include sites not owned by the federal government; substantial related expenditures will be required by the Energy and Defense Departments and by other agencies responsible for federally owned NPL and non-NPL sites.

Superfund's critics argue that the program takes too long to clean up sites, creates excessive litigation in the private sector, and addresses a problem that poses too little risk to health and the environment to justify its costs. The program's supporters argue that the pace of Superfund cleanups has increased in recent years: at the end of 1996, 410 NPL sites were either cleaned up or in the final phase (operations and maintenance), compared with 61 sites in that condition at the end of 1991. Supporters also contend that litigation costs can be reduced through reforms that do not abandon the basic nature of the program and that cleaning up contaminated sites significantly reduces health risks and is a high priority with the American public.

Eliminate the Program. One approach the Congress could take to reduce federal spending for Superfund would be to terminate the program. That approach would retain regulations regarding cleanup at federally owned sites and "treatment, storage, and disposal" facilities covered by the Resource Conservation and Recovery Act, but it would eliminate Superfund's cleanup requirements and liability system for abandoned, nonfederal waste sites. After taking into account various shutdown costs, that option would save $203 million in 1998 and $4.2 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, it would save $210 million in 1998 and $4.6 billion over five years.

The two main arguments for eliminating the Superfund program are that hazardous waste sites pose relatively low risks to the public and that such sites are local concerns that should be handled, to the extent that they are handled at all, at the state or local level. In a 1987 report, EPA experts ranked the cancer risks of inactive hazardous waste sites as the eighth highest of 29 environmental problems studied (below worker and consumer exposure to chemicals, radon and other indoor air pollutants, pesticide residues on food, outdoor air pollution, and ozone depletion) and judged the noncancer health risks to be in the lowest of three risk groups.[1] Moreover, unlike problems of air and water pollution, problems associated with hazardous wastes generally do not extend beyond the vicinity of the waste sites themselves. (Sites that contaminate large rivers or underground aquifers are the main exception to that rule, but even those sites typically affect areas within only one or two states.) Indeed, the large majority of states have already established their own cleanup programs for sites not addressed under the federal law.

The case for continuing the federal Superfund program begins with the argument that cleaning up hazardous waste sites is worthwhile. EPA cites what it calls a growing body of evidence that people living near Superfund sites have more health problems than the general public, including birth defects, leukemia, cardiovascular abnormalities, respiratory illness, and immune disorders. Many sites have exposed people to such hazards as lead, trichloroethylene, chromium, benzene, and arsenic.

One argument for continuing to run the cleanup program at the federal level is that doing so yields economies of scale: dealing with a large number of sites allows EPA to learn from experience, and centralization aids the coordination and dissemination of research on improved cleanup technologies. A second argument is that some states that wished to continue cleanups at Superfund sites within their borders would have difficulty replacing the federal dollars. Superfund's excise taxes on petroleum and chemicals would yield little or no revenue in some states and might be unworkable (because of business mobility) in others, so many states would have to use more broadly based taxes on personal or business income or property, or cut other forms of spending. Although current Superfund spending is on the order of 0.1 percent of the budgets of state and local governments nationwide, states with small tax bases and large cleanup problems could face difficult trade-offs.

Revise the Cleanup Criteria. Another option would be to change the standards and methods used to protect health and the environment at Superfund sites. Less stringent cleanup standards could be chosen when they were consistent with the expected use of the land in the future. And the statutory preference for permanent treatment technologies could be relaxed to allow more use of containment methods, such as caps, slurry walls, and surface water diversion. An unpublished EPA analysis estimated that a set of such changes proposed by the Administration in 1994 would reduce annual cleanup costs in the Superfund budget by $156 million, or 19 percent. That figure is consistent with a range of savings of $101 million to $162 million calculated independently by the Office of Management and Budget. In 1995, studies by researchers at Brattle/IRI and at the University of Tennessee estimated that average cleanup costs could be reduced, respectively, by 35 percent to 38 percent or by 21 percent by eliminating the statutory criteria of permanence, treatment, and "applicable or relevant and appropriate requirements" and instead focusing on protecting health and the environment at the lowest cost. The Brattle/IRI study analyzed 50 EPA cleanup decisions, and the Tennessee researchers examined 514 decisions. The Tennessee study also estimated that cleanup costs could be cut by 34 percent through a 50 percent reduction in the use of treatment technologies.

The potential savings from this option would depend on the specific legislative language used to change the program. As an illustration, the Congressional Budget Office has estimated the effects of a 30 percent reduction in cleanup costs. Such a change would reduce outlays for Superfund cleanups by $526 million over the 1998-2002 period measured from the 1997 funding level or by $566 million measured from the 1997 level adjusted for inflation. To realize those savings, budget authority for the Superfund program would have to be cut in the annual appropriation process. (Total savings could be somewhat greater if the Congress also cut budget authority for Superfund's enforcement activities, on the grounds that the private parties legally responsi-

1. Environmental Protection Agency, Office of Policy, Planning, and Evaluation, *Unfinished Business: A Comparative Assessment of Environmental Problems* (February 1987).

ble for cleanup would have less incentive to contest their liabilities. Potentially large additional savings could result from cutting appropriations for related cleanup programs of the Departments of Energy and Defense.) Alternatively, the Congress could choose to maintain appropriations at the 1997 or 1997-plus-inflation level to increase the number of sites undergoing cleanup at one time (which would push the deficit savings into the future).

Proponents of this option argue that it is wasteful to spend more on Superfund cleanups than is necessary to protect health and the environment and that the use of more permanent remedies (such as incineration, bioremediation, and vitrification) can be deferred until land-use needs are clearer and treatment technologies are better developed. Opponents argue that the option may not provide as much protection as supporters claim and that invoking it would be unfair to local communities (which would bear the disruptive effects of the land-use restrictions) and to future generations (which would bear any costs of replacing interim cleanups with more permanent measures).

DOM-15 REDUCE NATIONAL WEATHER SERVICE COSTS

	Annual Added Receipts or Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Price NWS Information at Market Value						
Addition to Current-Law Receipts	2	2	2	2	2	10
Eliminate the NOAA Weather Radio Network						
Savings from the 1997 Funding Level						
Budget authority	7	7	7	7	7	35
Outlays	4	6	6	7	7	30
Savings from the 1997 Funding Level Adjusted for Inflation						
Budget authority	7	7	7	7	8	36
Outlays	4	6	7	7	8	32

The National Weather Service (NWS) provides weather and flood warnings, public forecasts, and severe-weather advisories to protect lives and reduce property damage from those hazards. The annual budget for such services, including operating weather satellites, is about $1 billion. The NWS is in the midst of a multiyear $4.5 billion modernization and restructuring program to upgrade technology and replace obsolete equipment. That ambitious effort, which the NWS expected to yield significant benefits, has been hampered by large cost overruns, delays, and operational problems.

A range of privatization options for the NWS offer potential opportunities for budgetary savings and better customer service. Private firms already play a significant role in the weather service industry. Estimates of the gross annual revenues of the more than 100 firms in the private weather sector range from $200 million to $250 million; however, the scope of the private market is constrained by the operations of the NWS. Official government policy states that the NWS "will not compete with the private sector when a service is currently provided or can be provided by commercial enterprises, unless otherwise directed by applicable law." The NWS is privatizing most of its specialized weather services, which provide targeted benefits to the aviation, marine, and agricultural communities. Annual savings will be about $3 million. To yield the most budgetary savings, the government could limit its role to supporting services that are essential to ensure public safety and the international exchange of information, and possibly to underwriting basic research.

Price NWS Information at Market Value. Currently, the NWS allows open access to all of its weather data and information services. Access to that information has contributed substantially to the growth of the weather service information industry, which transforms NWS data and general forecasts for large areas into marketable specific forecasts. Commercial users--such as the Weather Channel and Accu-Weather--pay fees to cover the costs of computer hookups and transmission of NWS data. Such fees are about half of the fair market value of those services.

The Omnibus Budget Reconciliation Act of 1990 set fees based on the fair market value of NWS data and information. The law excluded certain information from the fee structure, such as warnings and watches, international agreements, and data for nonprofit institutions. Initially, increases in the fee were limited to $2 million annually. However, the NWS viewed fair market pricing as a significant barrier to public access to its information and received approval from the Office of Management and Budget to reset the user fee to recover only the cost of disseminating the information. Charging firms fees that are based on the fair market value of access to that information could raise $10 million over five years.

Charging for information would lessen its dissemination but would also encourage the production of information that customers value. Market-based charges would be unlikely to result in the general public's having substantially less access to weather reports. For example, as long as the news media are willing to pay for private forecasts, the market will demand NWS products. In addition, because the fee structure would not apply to severe-weather warnings, the safety of the general public would not be an issue. Many European nations routinely charge users for weather information provided by their satellites.

Eliminate the NOAA Weather Radio Network. A 1983 Booz-Allen consulting study pushed for the elimination of the National Oceanic and Atmospheric Administration's (NOAA's) Weather Radio Network. It argued that the private media were disseminating weather forecasts and NWS products widely and that less than 5 percent of the population relied on the NOAA Weather Radio as their primary source of information. Eliminating the network would lower outlays by $30 million during the 1998-2002 period measured from the 1997 funding level. The savings from the 1997 funding level adjusted for inflation would be $32 million over that period.

The Administration believes that the NOAA network performs an essential public safety role that cannot be picked up easily by commercial radio. The President's 1997 budget proposed replacing and modernizing the NOAA Weather Radio transmitters. The President decided to strengthen the system after a tornado took the lives of 20 people in a rural Alabama church despite a 12-minute warning issued by the Birmingham weather office. Currently, many rural areas are not covered by broadcasts of NWS weather and flood warnings. Weather radios, which have a signal receptor, automatically turn on when a warning has been issued over the Weather Radio Network. Those signals also alert weather spotters, who provide supplemental information that enables forecasters to issue more accurate and more timely warnings and advisories to the public to be on the lookout for hazardous weather. Commercial stations and transmitters do not provide that service.

DOM-16 REDUCE FEDERAL SUPPORT FOR AGRICULTURAL RESEARCH AND EXTENSION ACTIVITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
From the 1997 Funding Level						
Budget Authority	175	175	175	175	175	875
Outlays	109	155	171	174	175	784
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	180	186	191	197	203	957
Outlays	112	163	184	193	200	852

The Department of Agriculture (USDA) conducts and supports agricultural research and education. In particular, the Agricultural Research Service, the department's internal research arm, focuses on maintaining and increasing the productivity of the nation's land and water resources, improving the quality of agricultural products and finding new uses for them, and improving human health and nutrition. The Cooperative State Research, Education, and Extension Service (CSREES) participates in a nationwide system of agricultural research and educational program planning and coordination between state institutions and the USDA. The CSREES also takes part in the Cooperative Extension System, a national educational network that combines the expertise and resources of federal, state, and local partners. The Economic Research Service carries out economic and other social science research and analysis for public and private decisions about agriculture, food, natural resources, and rural America.

The 1997 appropriations for those three USDA agencies total $1.75 billion. Reducing funding levels by 10 percent would save $784 million in outlays over the 1998-2002 period measured from the 1997 funding level or $852 million measured from the 1997 level adjusted for inflation.

Federal funding for agricultural research may, in some cases, replace private funding. If federal funding was eliminated in those instances, the private sector could finance more of its own research. Moreover, federal funding for some extension activities under the CSREES could be reduced without undercutting its basic services to farmers. For example, funding for the Nutrition and Family Education and Youth at Risk Programs amounted to $68 million under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for 1997.

Opponents of reducing funding for research and extension activities argue that the programs play important roles in developing an efficient farm sector--a reduction in federal funding could compromise the sector's future development and its competitiveness in world markets. If the burden of funding was transferred to the private sector, agricultural research, which contributes to an abundant, diverse, and relatively inexpensive food supply for U.S. consumers, could decline. Moreover, some federal grants are used to improve the health of humans, animals, and plants by funding research that promotes better nutrition or more environmentally sound farming practices. If federal funding was cut back, the public might have to bear some of that cost in higher prices, forgone innovations, and environmental degradation.

DOM-17 REDUCE DEPARTMENT OF AGRICULTURE SPENDING FOR EXPORT MARKETING AND INTERNATIONAL ACTIVITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	30	30	30	30	30	150
Outlays	16	30	30	30	30	136
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	31	32	33	34	35	165
Outlays	16	31	32	33	34	146

The Department of Agriculture (USDA) promotes exports and international activities through the programs of the Foreign Agricultural Service (FAS). For example, in the Foreign Market Development Cooperator Program, FAS acts as a partner in joint ventures with "cooperators," such as agricultural trade associations and commodity groups, to develop markets for U.S. exports. FAS also collaborates on other ventures, one of which, the Cochran Fellowship Program, provides training to foreign nationals with the objective of improving commercial relationships that will benefit U.S. agriculture. Eliminating funding for those two programs would reduce outlays by $136 million over the 1998-2002 period measured from the 1997 funding level or by $146 million measured from the 1997 level adjusted for inflation.

The Foreign Market Development Cooperator Program, also known as the Cooperator Program, typically promotes generic products and basic commodities, such as grains and oilseeds, but the program also covers some high-value products, such as meat and poultry. Some critics argue that cooperators should bear the full cost of foreign promotions because the cooperators benefit from them directly. (How much return, in terms of market development, the Cooperator Program actually generates or the extent to which it replaces private expenditures with public funds is uncertain.) Some observers also cite the possibility of duplication because the USDA provides funding for marketing through its Market Access Program and other activities.

Eliminating the Cooperator Program, however, could place U.S. exporters at a disadvantage in international markets, depending in part on the amount of support other countries provide to their exporters. Responding to the issue of duplication, some advocates note that the Cooperator Program is distinct from other programs, in part because it focuses on services to trade organizations and technical assistance. People concerned about U.S. exports of generic products and basic commodities consider the program a useful tool for developing markets that could have benefits for the economy overall.

The Cochran Fellowship Program brings foreign midlevel managers to the United States for training in agriculture and agribusiness. Although the program is popular among recipients and their sponsors, its direct benefits to U.S. agriculture are unknown; thus, it may be of marginal value to taxpayers. However, eliminating the Cochran Fellowship Program could hurt U.S. agriculture to the extent that the program builds commercial relationships, introduces foreign professionals to U.S. products, and creates new opportunities for U.S. exports.

DOM-18 END SMALL BUSINESS ADMINISTRATION LOANS AND LOAN GUARANTEES

	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
			End All Credit Programs			
From the 1997 Funding Level						
Budget authority	332	342	351	360	370	1,755
Outlays	210	318	343	353	363	1,587
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	341	361	381	402	425	1,910
Outlays	216	334	369	391	412	1,722
			Keep Disaster Programs			
From the 1997 Funding Level						
Budget authority	211	216	221	225	230	1,103
Outlays	142	203	213	218	223	999
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	217	228	239	251	264	1,199
Outlays	146	213	229	241	253	1,082

The Small Business Administration (SBA) provides both direct loans and loan guarantees to qualified small businesses. The SBA's lending objectives are to promote business development generally and to assist small businesses and homeowners in recovering from disasters. Eliminating all SBA loan and loan guarantee programs would reduce outlays by $1.6 billion over the 1998-2002 period measured against the 1997 funding level or by $1.7 billion relative to the 1997 level adjusted for inflation.

Those estimates assume that the SBA would continue to fund various business education and training programs. In addition, the SBA would still have responsibilities for managing its loan portfolio, including liquidations and possibly loan asset sales. The estimates project a decline in the administrative costs of managing the portfolio over the 1998-2002 period as the loans mature and expire.

An alternative to eliminating all loans would be to retain only those that provided assistance to disaster victims. Following that course could reduce SBA outlays by $1.0 billion over the 1998-2002 period measured against the 1997 funding level or by $1.1 billion relative to the 1997 level adjusted for inflation.

The disaster loan program--which lends money to homeowners and businesses to repair uninsured property damage caused by a natural disaster (usually federally declared)--constituted about half of the SBA's outlays in 1996. Although the Federal Emergency Management Agency also helps disaster victims through grants, loans are generally more cost-effective than grants because the federal government recoups some or all of the loan amount. In general, federal assistance to disaster victims can cause businesses and homeowners to underinsure against future disaster risks. Grants to disaster victims can create a greater incentive to underinsure than loans do.

In recent years, estimates of the default rate on the SBA's disaster loans have ranged between roughly 10 percent and 13 percent (net of recoveries). To reduce program costs, the SBA has proposed increasing the current 4 percent interest rate on disaster loans to the Treasury rate for debt of comparable maturities. According to the SBA, that would lower the subsidy rate on disaster loans--the expected budgetary cost of extending credit--by about 70 percent. Any percentage decline in the subsidy rate would reduce the nonadministrative costs of future loans by the same proportion. In 1996, the nonadministrative costs of the disaster loan program totaled $270 million.

Under the loan guarantee program, the federal government guarantees 80 percent of the principal for business loans up to $100,000 and 75 percent of the principal for larger ones. The interest rate on guaranteed loans is about 2.5 percentage points above the prime rate; in addition, the SBA guarantee has a charge of between 2 percent and 4 percent of the amount guaranteed. In 1996, the SBA guaranteed over 45,000 loans totaling more than $5.8 billion; its share of the guaranteed loans was roughly $4.7 billion. Holders of about 3,400 guaranteed loans defaulted in 1996, and the loans were subsequently purchased by the SBA. The Small Business Administration’s share of the outstanding balances of those loans exceeded $1.5 billion.

The 104th Congress amended both the Small Business Act and the Small Business Investment Act to reduce subsidy rates and improve the performance of the SBA's business loan programs. Among the most significant changes, the Congress increased the fees paid by loan recipients for most business loans and authorized certain lenders to liquidate defaulted SBA business loans. Increasing the fees that borrowers pay helps to reduce program costs because the revenues from the fees cover some of the expenses if a borrower defaults. The Congress also cut the percentage of each loan that the government guarantees under the SBA's largest loan program--the 7(a) program--from about 90 percent to about 80 percent. Reducing the guarantee rate should induce banks to take more care in evaluating loan applications because they will share more responsibility for the losses if a default occurs. If banks are more selective in approving SBA loans, the default rate should decline, and the cost to the government of the loan program should decrease.

SBA assistance is favored by people who view it as a way of aiding small businesses--which, they argue, generally create more jobs, improve technology more rapidly, and satisfy some markets more efficiently than do large firms. When banks and other traditional sources of loans to small businesses tighten credit standards or become more conservative in their lending practices, SBA assistance can help to fill a financing gap.

Small businesses rely more heavily on banks for financing than do large businesses, which find it easier to raise capital through the stock, bond, and commercial paper markets. Furthermore, small businesses may lack the collateral to secure conventional commercial loans. The SBA extends credit for up to 25 years--a significantly longer term than would otherwise be available to small businesses. Other sources of financing available to small businesses besides banks include finance companies, venture capital firms, leases, home-equity loans, and to some extent credit cards.

Opponents of SBA assistance claim that it tends to flow to the firms least likely to create stable employment, improve technology, or enhance national productivity. New firms, which are usually small, create most new jobs; but most new firms fail within a few years, eliminating many of the jobs created. SBA loans and loan guarantees go primarily to businesses that have been rejected by conventional providers of financing. Perhaps as a result, they have a high default rate. It can also be argued that financial markets are now more efficient and less susceptible to the types of market failure that justified the SBA program when it began.

DOM-19 REDUCE COSTS OF THE ITA BY ELIMINATING TRADE PROMOTION ACTIVITIES OR CHARGING THE BENEFICIARIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	159	186	186	186	186	903
Outlays	112	162	182	184	184	824
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	166	199	205	212	219	1,001
Outlays	116	172	198	207	214	907

The International Trade Administration (ITA) of the Department of Commerce has four direct program activities: the Import Administration, which investigates antidumping and countervailing-duty cases; the trade development program, which assesses the competitiveness of various U.S. industries and runs various export promotion programs; the market access and compliance (MAC) unit, which works to unlock foreign markets for U.S. goods and services; and the U.S. and foreign commercial services, which counsel U.S. businesses on exporting. The MAC unit, and perhaps the countervailing-duty program against foreign subsidies, may be necessary to maintain public support for free-trade policies, and in some cases they can be defended on economic grounds. The ITA's export promotion, marketing, and counseling could be eliminated, however, or the beneficiaries could be charged fees to pay more of the costs.

Eliminating those activities would reduce outlays by $112 million in 1998 and by $824 million over five years measured from the 1997 funding level. Doing so would reduce outlays by $116 million in 1998 and by $907 million over five years measured from the 1997 level adjusted for inflation. Alternatively, this option could include a mixture of spending reductions and increased user fees to cover some of the costs of trade promotion activities.

One might argue that such activities were better left to the firms and industries involved rather than to the ITA. Alternatively, one could argue that there might be some economies of scale to those activities, especially for small firms. If so, having one entity (the federal government) counsel exporters on foreign legal and other requirements, disseminate knowledge of foreign markets, and promote U.S. products abroad could make sense. In that case, net federal spending could be reduced by charging the beneficiaries of those programs their full cost.

However, fully funding the ITA's trade promotion activities through charges that are voluntary for all beneficiaries may not be possible. For example, in many cases it may be impossible to promote the products of only selected firms in a given industry that want and pay for such promotion without at the same time encouraging demand for the products of all other firms in the industry. In those circumstances, all of the firms have an incentive not to purchase the services because they know that they are likely to receive the benefits whether they pay for them or not. Consequently, if the federal government wanted to charge beneficiaries for the ITA's services, it might have to require that all firms in an industry (or the industry's national trade group) decide together whether to purchase the ITA's services. If the firms decided to purchase them, all firms in the industry would be required to pay according to some equitable formula.

When beneficiaries are not charged the full cost of services, the ITA's activities effectively subsidize the industries involved. Those implicit subsidies are an inefficient means of helping the industries because they are partially dissipated to foreigners in the form of lower prices for U.S. exports. Because the current-account balance is determined by total saving and investment in the U.S. economy, over which the ITA has no influence, the agency's activities do not improve the current-account balance. As a result of the changes they cause in exchange rates and other variables, all increases in exports resulting from the ITA's activities are completely offset by some mix of reduced exports in other industries and increased imports. Thus, other U.S. firms are hurt by the export promotion activities of the ITA.

DOM-20 ELIMINATE THE ADVANCED TECHNOLOGY PROGRAM

	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
From the 1997 Funding Level						
Budget Authority	221	224	224	224	224	1,117
Outlays	22	78	167	223	224	714
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	227	236	242	249	256	1,210
Outlays	23	80	174	237	244	758

Eliminating the Advanced Technology Program (ATP) of the Department of Commerce would save $714 million in outlays over the next five years measured against the 1997 funding level or $758 million relative to the 1997 level adjusted for inflation. Funding current project awards to completion would reduce those savings by about $300 million.

The Omnibus Trade and Competitiveness Act of 1988 established the ATP within the Commerce Department's National Institute of Standards and Technology. The objective of the ATP is to further the competitiveness of U.S. industry by helping convert discoveries in basic research more quickly into technological advancements with commercial potential. The program awards research and development (R&D) grants on the basis of merit to individual companies, independent research institutes, and joint ventures. The grants support research in generic technologies that have applications to a broad range of products, as well as precompetitive research (preceding product development).

The ATP's grants are limited to $2 million over a three-year period when awarded to a single firm, but they have no dollar limit when awarded to a joint venture over a period of up to five years. However, joint ventures must pay at least half of the R&D costs of each project, which acts as a check on a project's commercial viability. The program received its first appropriation, of $10 million, in 1990; by 1994, its appropriation had grown to $200 million. As of the end of 1993, the ATP had selected 89 projects and committed $241 million in funding. The amount of committed funds more than doubled in 1994 as an additional $307 million was awarded to 88 projects. In 1995, $382 million was awarded to 99 projects, and in 1996, $31 million was awarded to four projects.

It is too early to determine the commercial success of projects funded by the ATP because even after a project has ended, more research is required for product development and commercialization. As of September 1993, according to a report by the General Accounting Office (GAO), only four projects had ended (the ATP no longer funds them), and each was deemed successful in that the technology examined was found to be feasible. However, two of those projects were experiencing some difficulties with commercialization. Between September 1993 and April 1995, eight more projects were completed.

Opponents of the program argue that the near tripling of its funding between 1993 and 1994 (from $68 million to $200 million) could have lowered the average quality of winning R&D projects. (If the applicant pool does not increase as dramatically as the program's funding, the award process is likely to be less competitive.) Opponents also question whether the federal government is capable of picking projects with the most potential for technological and commercial success. They note that projects that stand out as clear "winners" might have been funded by the private sector in any case. One privately funded study of the 11 projects supported by the first competition in 1990 suggests that as many as half of them would probably have been undertaken even without ATP support, although at a lower level of funding. A recent GAO survey brings additional evidence to bear. GAO questioned 89 winners and 34 near-winners that applied for ATP funding between 1990 and 1993. Half of the near-winners continued their R&D projects despite a lack of ATP funding. Of the winners, 42 percent said that they would have continued with their project even without ATP funding, and 41 percent said they would not.

The program's supporters cite evidence from the GAO survey suggesting that the ATP encourages the formation of joint ventures, which increases cooperation among firms and between firms and academic institutions. GAO found that 26 of 34 joint-venture applicants awarded ATP funding had not worked together previously. Proponents of the program also point to the benefits of the ATP's support for research on generic technologies. Firms do not invest heavily in such studies because they cannot fully appropriate the benefits for themselves. (For example, generic technologies are likely to have applications to products developed later by firms that did not invest in the original research.) Because, say advocates, the incentive for firms to invest in that type of research is weak and produces less investment than is socially optimal, government support is desirable.

DOM-21 ELIMINATE THE MANUFACTURING EXTENSION PARTNERSHIP AND THE NATIONAL QUALITY PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	95	98	98	98	98	487
Outlays	10	34	44	97	98	283
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	96	103	106	109	111	525
Outlays	10	34	75	103	107	329

The Manufacturing Extension Partnership (MEP) and the National Quality Program reside, along with the Advanced Technology Program (see DOM-20), in the National Institute of Standards and Technology, which is part of the Department of Commerce. MEP consists primarily of a network of manufacturing extension centers that assist small and midsize manufacturing businesses with expertise in the latest management practices and manufacturing techniques, and provide other relevant business knowledge. The centers are nonprofit organizations that are not owned by the federal government but are partly funded by it. Other funding comes from state and local governments, fees for services, and contributions from industry. The National Quality Program consists primarily of the Malcolm Baldridge National Quality Award, which is given to firms for achievements in quality in three categories: manufacturing, service, and small business.

Eliminating MEP and the National Quality Program would reduce outlays by $10 million in 1998 and by $283 million through 2002 measured from the 1997 funding level. It would reduce outlays by $10 million in 1998 and by $329 million over five years measured from the 1997 level adjusted for inflation.

The Manufacturing Extension Partnership. Proponents of MEP point to the economic importance of small and midsize firms and their need for management and manufacturing expertise. Small and midsize manufacturing concerns produce more than half the total value of U.S. production and employ two-thirds of U.S. manufacturing workers. Yet a 1993 report by the National Research Council found that many small firms were operating substantially below their potential. Small firms, it is argued, frequently face limited budgets, lack of in-house expertise, and other barriers to obtaining the type of information that MEP provides. Those circumstances and the substantial reliance of larger manufacturing firms on small and midsize companies for various supplies and intermediate goods, lead proponents of the program to contend that MEP is needed for U.S. productivity and competitiveness in international markets.

Opponents can cite several counterarguments. First, they may question the contention that small manufacturing firms need the government to provide technical assistance. MEP began in 1989; small manufacturing firms thrived long before then, in part because other sources of expertise have been available. For example, many professors of business, science, and engineering are also consultants to private industry, and other ties between universities and private firms facilitate the transfer of knowledge and expertise. In fact, some of the extension programs MEP subsidizes predate the beginning of MEP.

Second, the contention about general U.S. competitiveness is misleading at best. International trade is determined by comparative, not absolute, advantage. Thus, increases in productivity from MEP cannot create an economywide gain in international competitiveness. Firms that are helped by MEP may see their competitiveness improve, resulting in more exports or fewer competing imports. But the alterations that then occur in the demand for the dollar in foreign exchange markets will cause movements in the exchange rate that will decrease the exports of other U.S. firms and increase competing imports for other firms. The balance of trade will not shift--it can be affected only by changes in such macroeconomic variables as aggregate saving and investment.

Finally, one may question the proposition that MEP increases the productivity of the economy. Federal spending for MEP constitutes a subsidy for the firms that are helped by MEP's services. In most cases, subsidies are inefficient: they cause firms to produce products for which the costs of production, including the cost of management and other overhead, are greater than the value of the product as reflected by its price. Furthermore, not all of the benefits of MEP go to U.S. firms and citizens. In the case of small businesses that increase their exports because of MEP's implicit subsidy, part of the subsidy probably goes to foreign customers in the form of lower prices for the products being sold.

The National Quality Program. Advocates defend the National Quality Program with arguments similar to those for MEP: namely, that the program's services increase the international competitiveness of U.S. firms. But opponents can counter that the arguments for the National Quality Program are even weaker than those for MEP. First, businesses need no added incentive to maintain quality--pressure from consumers of their products already provides that encouragement. If lost sales and consequent financial losses are insufficient to impel a firm to maintain or increase the quality of its products, the Malcolm Baldridge Award is unlikely to do so. Second, the same argument about comparative rather than absolute advantage that was applied to MEP also applies to the National Quality Program. Better-quality products can increase the international competitiveness of some U.S. firms but only at the expense of reduced competitiveness for others.

Third, winners of the Baldridge Award frequently mention it in their advertising. That means that firms value the award. If so, they should be willing to pay large enough fees to enter the contest that federal funding of the award could be eliminated.

DOM-22 ELIMINATE THE MINORITY BUSINESS DEVELOPMENT AGENCY

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	23	28	28	28	28	135
Outlays	12	24	28	28	28	120
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	24	30	31	31	32	148
Outlays	12	26	30	31	32	131

The Minority Business Development Agency (MBDA) of the Department of Commerce plays the lead coordinating role in all federal programs for minority business development. Through public/private partnerships, the MBDA provides a variety of direct and indirect business services. It provides management and technical assistance, expands domestic and international marketing opportunities, and collects and disseminates business information. The agency also provides support for advocacy, research, and technology to reduce information barriers.

From 1996 to 1997, budget authority for the MBDA declined from $32 million to $28 million, and outlays declined from $36 million to a projected $31 million. Eliminating the MBDA would reduce outlays by $12 million in 1998 and by $120 million over five years measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, outlays would fall by $12 million in 1997 and by $131 million over five years.

The arguments for and against the MBDA mirror in part those of the larger debate over affirmative action. Proponents contend that minority groups, especially African Americans, have historically been, and continue to be, hindered by pervasive discrimination. They argue that such discrimination leads to financial and educational disadvantage and lack of experience, which means that members of minority groups are less competitive relative to (non-Hispanic) whites in the business world. Discrimination also hinders minority businesses in their task of developing business relationships with suppliers and customers. Minorities, it is argued, need a helping hand to compensate for those unfair handicaps.

Opponents maintain that discrimination is substantially less than it once was and what remains is best fought by enforcing civil rights laws in the courts. Although, on average, African Americans and certain other minority groups are economically and educationally disadvantaged in comparison with whites, in many individual instances the reverse is true: individual African Americans or members of other minorities may be quite wealthy and educated and are competing with individual whites who are not. In such cases, opponents point out, a desire to help the disadvantaged would argue for helping the white person--not the minority group member. It is unfair, so the argument goes, to help current-generation minority individuals at the expense of current-generation whites simply because previous generations of whites benefited from discrimination against previous generations of minorities. Opponents contend that such help should be limited to remedies for specific acts of illegal discrimination that have been proved in court or to general help for anyone who is disadvantaged, without regard to race. If the MBDA was eliminated, the Small Business Administration would continue to provide various kinds of assistance to small businesses in general, although its loans and loan guarantees would be ended under another deficit reduction option in this volume (DOM-18).

DOM-23 ELIMINATE NEW FUNDING FOR THE RURAL RENTAL HOUSING ASSISTANCE PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	108	108	108	108	108	540
Outlays	11	68	82	90	96	347
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	111	115	116	119	123	584
Outlays	11	70	87	96	105	369

NOTE: Figures in the table exclude savings in administrative costs.

The Section 515 housing program, administered by the Rural Housing and Community Development Service (RHCDS), provides low-interest, 50-year mortgage loans to developers of multifamily rental projects in rural areas. Those mortgages typically have credits that reduce the effective interest rate to 1 percent and, in turn, lower rental costs for Section 515 tenants.

Under current rules, assisted tenants pay rent equal to the greater of 30 percent of their adjusted income or the minimum project rent. (The minimum project rent for each unit consists of a proportionate share of the amortization costs of the 1 percent mortgage and the project's operating expenses.) The owner of the housing project keeps the minimum rent, and the RHCDS collects any payments above it. Many of the poorest tenants receive additional federal subsidies through the Rural Rental Assistance Payments (RRAP) program, which reduces their rent payments to 30 percent of their income. During 1996, the Section 515 program made $151 million worth of new loans to finance about 1,910 new rental units.

Eliminating all new commitments for assistance under the Section 515 program would reduce federal outlays by about $347 million over the 1998-2002 period measured from the 1997 funding level; that calculation includes $50 million in lower RRAP payments. Savings from the 1997 funding level adjusted for inflation would amount to $369 million over the same period. Additional savings would be realized over time as the cost of administering a shrinking loan portfolio dropped.

Arguing in favor of this option is the inappropriateness of expanding rural rental assistance at a time when many other federal programs are being cut. Also, turnover among current residents of existing projects would ensure that some new income-eligible families would be assisted each year. This option, however, would reduce the proportion of rural families being assisted as the number of eligible families continued to grow. Moreover, growth in the supply of standard-quality, low-income rental projects in rural areas would slow.

DOM-24 ELIMINATE NEW DIRECT LOANS FOR RURAL HOMEOWNERS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	83	83	83	83	83	415
Outlays	68	82	82	82	82	396
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	85	87	90	92	95	449
Outlays	70	86	89	91	94	430

NOTE: Figures in the table exclude savings in administrative costs.

The Section 502 housing program, administered by the Rural Housing and Community Development Service (RHCDS), provides subsidized mortgages to low-income rural borrowers, many of whom live in areas that have a shortage of private mortgage funds. Generally, eligible borrowers may purchase homes by agreeing to pay a minimum percentage of their income to cover principal, interest, property taxes, and insurance for the full term of the loan, usually 33 years. In the past, that percentage of income was 20 percent, but for new borrowers today, it ranges from 22 percent to 26 percent, depending on the borrower's income. The effective interest rate on loans can amount to as little as 1 percent.

The federal cost of the program includes the difference between the RHCDS's cost of borrowing and the lower interest rates it charges homeowners, as well as the costs associated with any future defaults on the loans. During 1996, roughly 15,900 rural households purchased single-family homes with loans from the RHCDS at reduced rates of interest. The total value of all new Section 502 direct loans in 1996 was about $1 billion.

If new direct loans under the Section 502 program were eliminated, federal outlays would be reduced by $396 million over the 1998-2002 period compared with the 1997 funding level. Savings from the 1997 level adjusted for inflation would amount to $430 million over the period. The federal government would realize additional savings over time as the federal cost of administering the shrinking loan portfolio decreased.

Supporters of this option suggest that the current program may not be the best use of scarce federal resources. It makes sizable payments to relatively few households that have low income but that are better off than many households receiving no assistance. If this option was enacted, however, many low-income rural households would face added difficulties in both finding sources of lending and affording the interest rates they would be charged.

DOM-25 REDUCE FEDERAL AID FOR MASS TRANSIT

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority[a]	2,607	2,657	2,708	2,761	2,815	13,548
Outlays	332	783	1,201	1,493	1,735	5,544
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority[a]	2,626	2,697	2,770	2,845	2,922	13,860
Outlays	340	812	1,262	1,595	1,890	5,899

a. Budget authority includes mandatory contract authority specified in law.

In 1997, the principal federal transit assistance programs will provide about $3.8 billion in capital grants and about $0.5 billion in operating assistance to local mass transit agencies. Federal grants generally pay 80 percent of the costs of qualifying capital projects and offset up to 50 percent of local transit system operating deficits. In 1991, federal capital grants accounted for about 55 percent of all public capital spending for mass transit, and federal operating subsidies offset roughly 5 percent of the operating costs of transit systems nationwide.

The federal transit program is authorized through 1997 under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). In considering proposals for reauthorizing ISTEA, the Congress may explore a variety of options, including providing block grants for highways and transit and reducing spending. This option provides one approach to reducing spending: cutting the federal share of costs for qualifying investments in mass transit to 50 percent (as well as reducing funding by a corresponding amount) and eliminating operating assistance. Doing that would save $332 million in 1998 and $5.5 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $340 million in 1998 and $5.9 billion over the five-year period.

Proponents of this option point out that the large federal shares of investment spending and the subsidies for operating assistance appear to have had little effect on either transit productivity or the use of mass transit services. Despite modernization of transit systems, only 5.5 percent of journeys to or from work are made by mass transit. Transit agencies serve mainly downtown areas, whereas most of the growth in urban travel has been in the suburbs. At the same time, inflation-adjusted labor costs per mile of transit travel rose by 60 percent during the 1970s, when overall assistance levels were highest. Reducing the federal share of capital costs for mass transit might improve local investment choices, as a similar reduction seems to have done in the case of federal subsidies for construction of local wastewater treatment plants. Similarly, ending operating assistance could encourage local authorities to make better use of existing capital by improving services, using more cost-effective, smaller vehicles, or taking other steps to lower the operating costs of transit services.

Opponents argue, however, that reducing federal transit subsidies could harm some local transit services. The burden of diminished services would be borne disproportionately by people who were especially dependent on public transportation: the poor, the young, the elderly, and the disabled. Moreover, any reduction in transit service would occur just as the Clean Air Act of 1990 and ISTEA were placing increased pressure on states and localities to reduce their reliance on automotive transportation. Finally, an across-the-board cut in transit subsidies would be less efficient than targeted reductions, since certain transit investments, such as the rehabilitation of rail transit in older cities, could have a higher payoff.

DOM-26 ELIMINATE THE INTELLIGENT TRANSPORTATION SYSTEMS PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority[a]	233	233	233	233	233	1,165
Outlays	40	161	196	208	215	820
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority[a]	239	246	252	259	266	1,262
Outlays	41	166	207	224	237	875

a. Budget authority includes mandatory contract authority specified in law.

The Intelligent Transportation Systems (ITS) program is a research, development, testing, evaluation, and deployment program to improve travel on mass transit and highways by using advanced computer, communications, and sensor technologies. It was authorized under the Intermodal Surface Transportation Efficiency Act of 1991, which expires at the end of 1997.

The Congress provided $233 million for the ITS program in 1997. If the program was eliminated (and unobligated balances rescinded), budgetary savings would be $40 million in 1998 and $820 million over the 1998-2002 period compared with the 1997 funding level. Savings would be $41 million in 1998 and $875 million over the 1998-2002 period compared with the 1997 level adjusted for inflation.

By sponsoring substantial research and development and operational tests, the ITS program has helped make state and local officials aware of high-tech solutions to transportation problems. For example, using advanced technologies to speed the flow of traffic is far less costly than constructing additional roadways. Federal highway officials estimate that equipping one mile of freeway with electronic traffic surveillance costs about $1 million, but constructing one mile of urban freeway costs about $40 million. Eliminating the ITS program risks cutting short research and testing that could yield large savings in highway and transit costs.

The federal ITS program has been criticized, however, for having a scattershot approach to project funding and for not sufficiently evaluating the results of its research and identifying the most promising applications. Moreover, decisions about whether to adopt new transportation technologies lie primarily with state and local officials and with the private sector, and those parties have greater incentives than the federal government does to pursue applications that offer the greatest savings in costs.

Eliminating the ITS program as a separate activity would not necessarily mean eliminating ITS projects. It would merely put those projects into competition with other transportation research efforts. One variation on this option would be to retain some of the existing ITS funding but transfer it to the general highway research and development account. Total savings for this option would be reduced by the amount of any such transfer.

DOM-27 ELIMINATE THE OPERATING SUBSIDY FOR AMTRAK

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
From the 1997 Funding Level						
Budget Authority	223	223	223	223	223	1,115
Outlays	223	223	223	223	223	1,115
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	228	234	241	247	254	1,204
Outlays	228	234	241	247	254	1,204

Last year, the Congress considered several proposals for reducing federal subsidies for the National Railroad Passenger Corporation (also known as Amtrak). Time ran out before the Congress could pass legislation to reauthorize or fundamentally overhaul Amtrak. The transportation appropriation act cut funding for Amtrak, but the Omnibus Consolidated Appropriations Act replenished some of that funding. The 105th Congress will most likely revisit the question of Amtrak subsidies.

The federal government now provides Amtrak with subsidies of about $223 million a year for operating expenses, in addition to $142 million for mandatory passenger rail service payments, $223 million in capital grants, and $175 million for the Northeast Corridor Improvement Program. Eliminating the operating subsidy could save $223 million in 1998 and $1.1 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $228 million in 1998 and $1.2 billion over the five-year period.

When the Congress established Amtrak in 1970, it expected to provide subsidies only for a limited time, until Amtrak could become self-supporting. Instead of declining, however, federal subsidies rose steadily in the 1970s to nearly $1 billion in 1981. The Administration then proposed substantial cuts in federal funding. Amtrak subsequently raised fares and reduced costs, and subsidies have declined. Eliminating the operating subsidy would force Amtrak to intensify its efforts to cut costs and expand revenues.

Proponents of cutting subsidies argue that passenger rail service should compete on a level playing field with other modes of transportation--without the advantage of federal subsidies. Rail service in that case would have to become more efficient. Proponents also question the fairness of subsidizing the travel of business people, who make up a substantial share of Amtrak's passengers.

Opponents of cutting subsidies say that reducing federal support would lead Amtrak to cancel service on lightly traveled routes and that passengers in those areas might not have alternative transportation available. They also note that subsidizing rail service in congested areas may be justified as a way of offsetting the costs of congestion in travel by highway or air. Retaining federal subsidies for the Northeast Corridor Improvement Program may help to redress that imbalance. Finally, some Amtrak supporters claim that in the absence of operating subsidies, the entire system would have to shut down. If bankruptcy occurred, it is unclear what role the federal government would play in paying off Amtrak's liabilities, such as labor protection payments. In addition, because Amtrak contributes to the Railroad Retirement system, bankruptcy could hamper payments to current retirees. The estimates provided for this option do not include any potential impact for associated labor costs.

DOM-28 ELIMINATE AIRPORT GRANTS-IN-AID

	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
	From the 1997 Funding Level					
Budget Authority[a]	2,347	2,410	2,476	2,542	2,611	12,386
Outlays	263	876	1,183	1,329	1,401	5,052
	From the 1997 Funding Level Adjusted for Inflation					
Budget Authority[a]	2,347	2,410	2,476	2,542	2,611	12,386
Outlays	269	905	1,244	1,427	1,541	5,386

a. Budget authority is mandatory contract authority specified in law.

Under the Airport Improvement Program (AIP), the Federal Aviation Administration (FAA) provides airports with grants for expanding capacity and improving terminals. About half of the grant money is apportioned by formula. The other half is considered discretionary, although the Congress has imposed some restrictions on its allocation. Over the past decade, about two-thirds of AIP funding has gone to primary, commercial service airports; about one-quarter has gone to general aviation and reliever airports; and the rest has been divided among other special programs. Eliminating those grants would result in savings of $263 million in 1998 and about $5.1 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $269 million in 1998 and nearly $5.4 billion over the five-year period.

Recent trends in aviation have increased the importance of larger airports (as measured by the number of embarking passengers). If airport grants were eliminated, those airports would have little trouble financing capital improvements from the fees they collect or the additional bonds they could issue. In 1991, the Congress passed legislation allowing airports to levy passenger facility charges of up to $3 per passenger. By the end of 1995, the FAA had approved such charges at more than half of the eligible major airports. Those charges can supplement the revenues received from concessionaire rents, landing fees, and airline lease payments and, unlike federal grants, can be used to pay the interest on bonds issued by the airport. In 1995, passenger facility charges yielded revenues of about $1 billion.

Small reliever airports have been financed by the FAA in the expectation that they would draw general aviation aircraft away from major airports. To date, they have not done so. Thus, some critics would argue against providing federal subsidies to those airports.

Supporters of the current program argue that the benefits provided by the system of airports are nationwide in scope. They also argue that more assistance is needed to overcome airport congestion and to allow airports to construct new gates and terminals. Those improvements will promote competition among airlines, with benefits accruing to passengers.

DOM-29 ELIMINATE THE ESSENTIAL AIR SERVICE PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority[a]	39	40	41	42	42	204
Outlays	21	26	26	26	25	124
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority[a]	39	40	41	42	42	204
Outlays	21	27	28	29	29	134

a. Budget authority is mandatory contract authority specified in law.

The Essential Air Service (EAS) program was created by the Airline Deregulation Act of 1978 to continue air service to communities that had received federally mandated air service prior to deregulation. The program provides subsidies to air carriers serving small communities that meet certain criteria. Subsidies currently support air service to 72 communities exclusive of Alaska (to which separate rules apply), with about 600,000 passengers served annually. The subsidy per passenger ranges from $4 to nearly $404. The Congress has directed that such subsidies not exceed $200 per passenger unless the community is more than 210 miles from the nearest large or medium-size hub airport.

This option would eliminate only the discretionary EAS program. In the Federal Aviation Reauthorization Act of 1996, the Congress instructed the Federal Aviation Administration to establish and collect up to $100 million in user fees for air traffic control services. Beginning in 1998, $50 million of those fees will be made available to the EAS program. The collection and spending of the fees is treated as direct spending. The new spending from those fees would not be affected by eliminating the original program.

EAS outlays for 1996 were $22 million. If the program was eliminated, budgetary savings would be $21 million in 1998 and $124 million over the 1998-2002 period measured against the 1997 funding level, or $21 million in 1998 and $134 million over the 1998-2002 period measured against the 1997 level adjusted for inflation. To mitigate disruptions from eliminating the program, it could be phased out over several years. Total budgetary savings would depend on the speed of the phaseout.

Critics of the EAS program contend that the subsidies are excessive, providing air transportation at a high cost per passenger. They also maintain that the program was intended to be transitional and that the time has come to phase it out. Air transportation to small communities is not a vital part of the national transportation system. If states or communities derive benefits from that service, they could provide subsidies themselves. The Congress has called for states, local governments, and other entities to begin pursuing cost-sharing mechanisms in anticipation of a cost-sharing requirement of 50 percent in 1997.

Supporters of the subsidy program claim that it prevents the isolation of rural communities that would not otherwise receive air service. Subsidies are not available for service to communities located less than 70 miles from a large or medium-size hub airport (except in Alaska). The availability of airline transportation is an important ingredient in the economic development of small communities. Without continued air service, according to some proponents, some towns might lose a sizable portion of their economic base.

DOM-30 ELIMINATE NASA'S SUPPORT FOR PRODUCERS AND USERS OF COMMERCIAL AIRLINERS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	678	782	782	782	782	3,806
Outlays	143	378	546	652	727	2,446
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	688	814	835	858	881	4,076
Outlays	147	392	573	695	789	2,596

The National Aeronautics and Space Administration (NASA) funds the development of technology and systems intended for use in commercial airliners--both subsonic and supersonic--with the explicit objective of preserving the U.S. share of the current and future world airliner market. This option would end funding for activities related to advanced subsonic technology, high-speed research, and construction of national aeronautical facilities. (Eliminating funding for the latter would require rescinding the $365 million advance appropriation available in 1998.) Those cuts would reduce outlays by $143 million in 1998 and $2.4 billion from 1998 through 2002 compared with extending the 1997 funding level. Compared with the 1997 funding level adjusted for inflation, outlays would decline by $147 million in 1998 and $2.6 billion through 2002.

The industry that produces large commercial aircraft is among the nation's most significant when measured by value of shipments, employment, or export sales. Two U.S. firms, Boeing and McDonnell Douglas, account for all of the nation's final sales of large commercial aircraft, but many other aerospace and non-aerospace businesses supply components to those firms. Along with the European-based Airbus Industrie, the two U.S. producers dominate the world market for large commercial aircraft (although McDonnell Douglas's share is significantly smaller than Boeing's). Last December, Boeing and McDonnell Douglas announced plans to merge into a single company, which would retain the Boeing name. If the proposed merger takes place, Boeing will account for about two-thirds of all deliveries of commercial airliners with 115 or more seats.

NASA holds that the federal support offered in its Advanced Subsonic Technology Program--$174 million in 1997--is necessary to maintain the current U.S. share of the global market for subsonic aircraft. The program explores technologies that would make possible a new generation of commercial airliners that are safer, use less fuel, pollute less, and are cheaper to operate than aircraft now available. In recent years, NASA has increased the program's focus on technologies that could increase the capacity and safety of the air traffic control system. Program resources are also directed at technologies that could safely extend the lives of existing aircraft.

NASA's High-Speed Research effort, funded at $243 million in 1997, is a second conduit of support for the producers of commercial airliners. That program has two phases. Phase I is devoted to developing technologies that mitigate the atmospheric and noise effects of supersonic flight. Phase II, a cooperative venture with U.S. industry, is devoted to "high-leverage" technologies necessary for the economic viability of future supersonic commercial jet airplanes. NASA justifies the supersonic part of its aeronautical research and technology program the same way it justifies the pro gram's subsonic component: the agency needs to support U.S. businesses that produce large commercial aircraft for the world market.

As part of its research program, NASA had considered building the National Aeronautics Facility, which would house two state-of-the-art wind tunnels, one subsonic and the other transonic, for use in testing commercial airliner designs. In 1994, the Congress authorized an advance appropriation as a down payment on estimated construction costs of $2.5 billion, but it required the President to satisfy various requirements before the program could go forward. Those requirements included providing a plan for sharing costs with industry and various federal agencies and a list of programs within NASA that could be cut or eliminated to fund construction of the facility. In 1996, the Administration concluded that the complex was not affordable under current budget constraints. After completing a systems design review in June 1996, NASA phased out the program. However, the advance appropriation has yet to be rescinded.

The case for eliminating federal support to U.S. producers of commercial airliners rests on the notion that the applied and systems-oriented research and development (R&D) necessary to maintain U.S. market share is a private rather than a public responsibility. The owners and employees of aircraft companies benefit from success in the world market; accordingly, they should shoulder the burden of paying for the R&D necessary to produce better aircraft. The fact that the investments needed to develop, produce, and market a new commercial aircraft are very large--$8 billion to $10 billion by some estimates--and that the development of new aircraft requires many years should have little bearing on whether the public or private sector pays the cost of producing the necessary technologies.

Although a case can be made for federal support of R&D that ultimately benefits private businesses and is consistent with an economically efficient allocation of resources, it applies only weakly, or not at all, to the production of large aircraft. The benefits from the R&D supported by the NASA programs in question fall almost exclusively to aircraft manufacturers, their suppliers, and airlines. Left to their own devices, those parties should spend enough on the type of R&D supported by the NASA programs to leave society and themselves in the best position possible. Moreover, the type of research that is likely to be underfunded from society's point of view is supported by other NASA spending on aeronautical research and technology--$404 million in 1997.

The case for continued support of these programs is based largely on the unique competitive features of the market for large commercial aircraft. The United States and the European Union are parties to a bilateral agreement permitting public support for the development of commercial airliners. If the federal government failed to grant U.S. producers support comparable with that being provided by the governments of European competitors, opponents of this option would argue, U.S. producers would find themselves at a severe disadvantage in the global market.

A second argument for continuing NASA's expenditures on these programs is that limitations on noise levels and atmospheric pollutants impose an unfunded federal mandate on aircraft producers and airlines. Federal funds spent for research on noise and pollution abatement, as opposed to spending directed toward enhancing the economic viability of commercial aircraft, might be justified on the grounds that those funds cover a cost imposed on the industry by federal law. The force of that argument is diminished, however, to the extent that noise and atmospheric pollutants generated by jet air travel are unpaid "costs" that air travelers impose on the public at large. From that point of view, it is appropriate that aircraft producers, airlines, and, ultimately, air travelers pay the full social cost of their activities--including the cost of R&D that is directly applied to current and future jet aircraft.

DOM-31 ELIMINATE CARGO PREFERENCES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	216	266	317	367	418	1,584
Outlays	154	238	295	346	397	1,430
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	221	279	341	406	477	1,724
Outlays	157	250	315	381	450	1,553

The Cargo Preference Act of 1904 and other laws require that U.S.-flag vessels carry certain government-owned or government-financed cargo that is shipped internationally. Eliminating cargo preferences would lower federal transportation costs by allowing the government to ship its cargo at the lowest available rates. That would lower the need for discretionary appropriations. Between 1998 and 2002, ending cargo preferences would save $1.4 billion compared with maintaining the 1997 funding level. Savings from the 1997 funding level adjusted for inflation would total $1.6 billion over the same period. Roughly 75 percent of those savings would come from defense discretionary spending, with the other 25 percent from nondefense discretionary spending.

Four federal agencies--the Department of Defense (DoD), the Department of Agriculture (USDA), the Agency for International Development (AID), and the Department of Energy (DOE)--account for about 97 percent (by weight) of the government shipments subject to cargo preference laws. The preferences apply to nearly all DoD freight, three-quarters of the USDA's food-aid shipments, foreign assistance associated with AID, and oil shipments for DOE's Strategic Petroleum Reserve. On average, cargo preference laws boosted the government's transportation costs by $710 million a year between 1989 and 1993. Excluding costs associated with the 1991 Persian Gulf War, that figure still comes to an estimated $578 million per year. (Eliminating cargo preferences now would save less than that because the amount of cargo subject to the preference laws has decreased in recent years.)

Supporters of cargo preferences argue that they promote the economic viability of the nation's maritime industry and are directly responsible for some 6,000 U.S. jobs. That industry has suffered at the hands of foreign competition in recent decades. Under federal law, U.S. mariners must crew U.S. vessels, and in general, U.S. shipyards must build them. Because U.S.-flag vessels face higher labor costs and greater regulatory responsibilities than foreign-flag vessels, they generally charge higher rates.

Increased competition from foreign fleets partly accounts for the dwindling size of the U.S. merchant fleet. At the end of World War II, for example, about 40 percent of the world's commercial fleet was under the U.S. flag, and those vessels handled over 40 percent of the world's ocean-shipping trade. By the early 1990s, the number of U.S. vessels had dropped by about 80 percent, and they handled just 4 percent of ocean-borne foreign commerce. Without the guaranteed business from cargo preferences, up to two-thirds (by tonnage) of the roughly 155 U.S.-flag vessels still engaged in international trade would leave the fleet, according to a 1994 estimate by the General Accounting Office. They would do so either by reflagging in a foreign country to save money or by decommissioning if they could not operate competitively.

Supporters of cargo preference laws also say they help bolster national security by ensuring that U.S.-flag vessels and U.S. crews are available during wartime. During the Persian Gulf War, for example, U.S.-flag ships carried roughly three-quarters of the sustainment cargo--food, clothing, and ammunition--shipped toward the war zone. (Personnel then transferred much of the cargo from U.S.-flag ships to smaller feeder ships at European and Asian ports for transport directly to the conflict.)

Finally, proponents of cargo preferences argue that eliminating them could cause U.S. ship operators and shipbuilders to default on loans guaranteed by the government's Maritime Administration, which would raise mandatory spending. However, the Congressional Budget Office estimates that such defaults could increase mandatory spending by only about $10 million over the next several years. That amount would not significantly affect the savings estimated for this option.

On the other side, critics of cargo preference laws say they represent a subsidy of private industry by taxpayers. That subsidy equals about $1.8 million per ship, or about $48,000 per job, each year. With the substantial decline in the U.S. merchant marine, critics say, cargo preferences simply help a handful of carriers preserve their market share and market power.

Opponents of cargo preference laws also point out that even DoD officials question the national security importance of the merchant marine fleet. Commercial container ships are not necessarily useful in mobilizing troops for war because they are not equipped to carry, load, or unload tanks, trucks, or helicopters. As a result, DoD has invested in its own fleet specifically to transport military equipment. It also contracts with foreign-flag ships when needed. During the Persian Gulf War, military ships clearly dominated equipment deliveries; only a small fraction of the approximately 500 cargo ships sailing into the war zone during the conflict were U.S. commercial vessels. Opponents of cargo preferences believe that the future availability of military and foreign-flag ships would be adequate for the nation's wartime needs.

In addition, critics of the laws argue that the U.S. government is at a competitive disadvantage in selling surplus farm commodities abroad because the cargo preference laws force it to pay higher transportation costs.

DOM-32 ELIMINATE CERTAIN RURAL DEVELOPMENT PROGRAMS

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
Eliminate Direct Loans and Loan Guarantees						
From the 1997 Funding Level						
Budget authority	109	109	109	109	109	545
Outlays	13	37	68	86	101	305
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	112	115	118	121	124	590
Outlays	13	38	71	92	109	323
Eliminate Grants						
From the 1997 Funding Level						
Budget authority	550	550	550	550	550	2,750
Outlays	20	116	263	402	490	1,291
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	563	579	594	610	627	2,973
Outlays	20	119	273	423	525	1,360

The Department of Agriculture assists rural communities through a variety of programs. With the enactment of the Department of Agriculture Reorganization Act of 1994, the Rural Development Administration (RDA) transferred its functions to the Rural Housing Service, the Rural Utilities Service, and the Rural Business Service. In general, the programs provide loans, loan guarantees, and grants for rural water and waste disposal projects, community facilities, rural development, and fire protection. Funds are generally allocated among the states based on rural population and the number of rural families with income below the poverty threshold. Within each state, funds are awarded competitively to eligible applicants, including state and local agencies, nonprofit entities, and (in the case of loan guarantees for business and industry) for-profit organizations.

The amount of interest that loan applicants pay varies with the type of aid they receive and, in some programs, with the economic condition of the area. For example, for rural water and waste disposal loans, interest rates can range from 4.5 percent to market rates, depending on the median family income in the service area. If repayment of a loan would impose an undue financial burden on the residents of relatively poor areas, those areas may receive grants instead.

From amounts appropriated for 1997, the Administration has allocated $109 million in budget authority to support the costs of nearly $1.7 billion in combined direct loans and loan guarantees. Under credit reform, those costs include the present value of interest subsidies and the cost of loans that go into default. In addition, the Administration allocated $550 million for grants, of which $494 million was for water and waste disposal. Eliminating the loan programs would reduce federal outlays for subsidizing direct loans and loan guarantees by $305 million over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $323 million over the same period. Additional savings would be realized gradually as the costs of administering a shrinking portfolio decreased. Measured from the

1997 funding level, savings in outlays from eliminating grants would total about $1.3 billion from 1998 through 2002; adjusted for inflation, savings would be $1.4 billion.

One argument for terminating these programs is that federal funds should be directed toward activities whose benefits are national in scope, with state and local governments funding rural development. Moreover, studies by the General Accounting Office and the Center for Community Change found that two of the largest programs--the water and waste disposal program and the business and industry guaranteed loan program--were not well targeted toward low-income or distressed communities. Communities with higher incomes or lower unemployment (or both), the studies found, were more likely to receive assistance than communities with low incomes or higher unemployment.

Supporters of federal funding of rural development programs argue that, by sparking economic growth, the programs help to increase rural incomes. Eliminating those funding sources would probably reduce economic development activities because private credit simply might not be available in some areas. In addition, many fiscally distressed states and localities would be unable to offset the loss of federal grants and interest subsidies.

DOM-33 ELIMINATE THE ECONOMIC DEVELOPMENT ADMINISTRATION

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	321	329	329	329	329	1,637
Outlays	16	87	159	251	318	831
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	329	346	356	365	375	1,771
Outlays	16	90	166	265	340	877

The Economic Development Administration (EDA), an agency within the Commerce Department, provides grants to state and local governments for public works, technical assistance, defense conversion activities, and job programs, as well as loan guarantees to firms for business development. For 1997, appropriations for EDA programs total $329 million. Eliminating the EDA would reduce federal outlays by about $16 million in 1998 and $831 million over the 1998-2002 period measured against the 1997 funding level. Measured against the 1997 level adjusted for inflation, savings would be $16 million in 1998 and $877 million over the five-year period.

Critics of EDA programs have argued that federal assistance should not be provided for activities whose benefits are primarily local and that therefore should be the responsibility of state and local governments. In addition, EDA programs have been criticized for substituting federal credit for private credit and for facilitating the relocation of businesses from one distressed area to another through competition among communities for federal funds. Opponents have also cited the EDA's broad eligibility criteria, which together take in an area containing 80 percent of the U.S. population, and its record of providing aid with little proven effect compared with other programs having similar goals.

Because of the competitive nature of EDA grants, local governments do not incorporate that type of aid into their budget plans; hence, eliminating future EDA funding would not impose unexpected hardships on communities. Some of the reduction in aid associated with this option would, however, curtail economic development activities in financially distressed communities that have no other available resources. That cutback could result in the deterioration of infrastructure, the loss of prospective jobs, and decreases in local tax receipts in those areas.

DOM-34 ELIMINATE THE APPALACHIAN REGIONAL COMMISSION

	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
			From the 1997 Funding Level			
Budget Authority	159	160	160	160	160	799
Outlays	8	43	78	123	155	407
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	163	169	173	178	182	865
Outlays	8	44	82	130	166	430

The federal government provides annual funding to the Appalachian Regional Commission (ARC) for activities that promote economic growth in the Appalachian counties of 13 states. For 1997, the Congress appropriated $160 million for the ARC. The states are responsible for filing development plans and for recommending specific projects for federal funding. The commission distributes the funds competitively, based on such factors as the area's growth potential, per capita income, and rate of unemployment; the financial resources of the state and locality; the prospective long-term effectiveness of the project; and the degree of private-sector involvement.

The ARC supports a variety of programs, including the Appalachian Development Highway System, to open up areas with development potential; the Community Development Program, primarily to create jobs; the Human Development Program, to improve rural education and health; and the Research and Local Development District Programs, to provide planning and technical assistance to multicounty organizations. Federal funds also support 50 percent of the salaries and expenses of the ARC staff. Discontinuing the programs funded through the ARC would reduce federal outlays by $8 million in 1998 and by $407 million over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $8 million in 1998 and $430 million over the five-year period.

Those in favor of termination argue that the programs supported by the ARC duplicate activities funded by other federal agencies, such as the Department of Transportation's federal highways program and the Department of Housing and Urban Development's Community Development Block Grant program. Critics of the ARC also contend that although it allocates resources to poor rural communities, those areas are no worse off than many others outside the Appalachian region and therefore no more deserving of special federal attention.

Nevertheless, eliminating federal funding of the ARC programs would reduce economic development activities in the region, because the fiscal distress of many states and localities would probably preclude their offsetting that loss of resources. Thus, fewer jobs might be created, and rural infrastructure, education, and health care conditions might suffer in that area of the country.

DOM-35 ELIMINATE OR RESTRICT COMMUNITY DEVELOPMENT BLOCK GRANTS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Eliminate the CDBG Program						
From the 1997 Funding Level						
Budget authority	4,600	4,600	4,600	4,600	4,600	23,000
Outlays	184	1,794	3,312	4,462	4,600	14,352
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	4,715	4,844	4,973	5,106	5,244	24,882
Outlays	189	1,844	3,450	4,722	4,990	15,195
Restrict Eligibility and Reduce Funding						
From the 1997 Funding Level						
Budget authority	920	920	920	920	920	4,600
Outlays	37	359	662	892	920	2,870
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	1,035	1,164	1,293	1,426	1,564	6,482
Outlays	41	409	801	1,152	1,310	3,713

The Community Development Block Grant (CDBG) program provides annual grants, by formula, to eligible metropolitan cities and urban counties through what is referred to as its entitlement component. Under the formula, jurisdictions with greater needs (as measured by factors such as population, poverty levels, and housing conditions) receive larger grants than those with lesser needs. The program also allocates funds, by formula, to each state. Those funds are distributed among nonentitlement areas, typically through a competitive process. Nonentitlement areas generally are units of local government that have populations under 50,000 and that are not metropolitan cities or parts of urban counties.

Community Development Block Grants in general must be used to aid low- and moderate-income households, to eliminate slums and blight, or to meet emergency needs. In accomplishing those goals, they may be used for a wide range of community development activities, including rehabilitation of housing, improvement of infrastructure, and economic development. Funds from the entitlement component may also be used to repay principal and interest on obligations that are issued by local governments to finance certain activities--such as the acquisition or rehabilitation of public property--and that are guaranteed by the federal government under the Section 108 loan guarantee program.

For 1997, the appropriation for the CDBG program amounts to $4.6 billion. Of that total, $3 billion is allocated to metropolitan cities and urban counties, and $1.3 billion goes to nonentitlement government units; the remainder is earmarked for specific purposes described in the appropriation act. Substantial federal savings could be realized either by terminating the CDBG program or by restricting eligibility for the entitlement component--to exclude the least needy jurisdictions--and reducing funding levels. Least needy jurisdictions could be defined by measuring relative economic well-being and fiscal capacity using factors such as the number and percentage of families below the poverty level and per capita income.

Eliminate the CDBG Program. If the CDBG program was eliminated, savings in federal outlays would amount to around $184 million in 1998 and almost $14.4 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $189 million in 1998 and $15.2 billion over the five-year period.

One argument for terminating the program is that federal funds should be targeted toward programs whose benefits are national rather than local. Accordingly, programs such as the CDBG program, which generate primarily local benefits, should be funded by state and local governments. Moreover, to the extent that local jurisdictions use CDBG funds to help them compete against each other to attract business, benefits are shifted away from local jurisdictions to private firms. Yet, without the CDBG program, a number of its activities would not be undertaken by most local governments--particularly the rehabilitation of low-income housing and, to some extent, economic development. Since the CDBG program is the largest source of federal aid for many cities, fewer resources would be available for low-income households. Furthermore, CDBG funding has presumably been figured into the budgets of entitlement recipients. Ending that support could impose at least temporary stress on many governments, some of which continue to experience fiscal difficulties.

Restrict Eligibility and Reduce Funding. If the entitlement component of the program was cut by 20 percent, federal outlays could be reduced by $37 million in 1998 and $2.9 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $41 million in 1998 and $3.7 billion over the five-year period. One way of achieving such a cut would be to eliminate funding for a sufficient number of the least needy jurisdictions. A cutback of that kind would effectively increase the proportion of funds going to the nonentitlement component from 30 percent to 35 percent, but the typically competitive nature of the distribution process would presumably ensure that those funds would be targeted toward the neediest areas. Carrying out this option would require both a change in the authorizing legislation and a cut in the program's annual appropriation.

An argument in favor of such a cutback is that no pressing interest is served by supporting jurisdictions that have above-average ability to fund projects themselves. For example, 15 of the 20 counties that had the highest per capita income in the nation in 1989 received funds in 1993 under the CDBG entitlement component. Eliminating funding for that type of jurisdiction, rather than reducing grants across the board, would ensure that the most distressed jurisdictions retained the same level of aid. However, a reduction in federal funds for affluent jurisdictions would probably curtail activities designed to aid low- and moderate-income households in any pockets of poverty in those areas, because local governments would probably not completely offset the reduction.

DOM-36 ELIMINATE FEDERAL SUPPORT FOR TENNESSEE VALLEY AUTHORITY ACTIVITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	81	106	106	106	106	505
Outlays	32	87	105	106	106	436
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	85	114	118	122	126	565
Outlays	34	92	114	119	123	482

The Tennessee Valley Authority (TVA) is a federal agency that operates an electric utility with billions of dollars in annual sales. It is also charged with "planning for the proper use, conservation, and development of the natural resources of the Tennessee River drainage basin." The annual federal appropriation for the TVA supports its water and land management activities (including maintaining a system of dams and reservoirs), its environmental research center, its recreational and educational programs, and its efforts to assist local economic development. Recently, TVA Chairman Craven H. Crandall Jr. proposed eliminating the federal appropriation in exchange for new authority allowing the TVA to sell electricity outside its current service area.

In 1997, the TVA anticipates spending $124 million on those non-power-generating activities, financed by $106 million from federal appropriations, $12 million from purchasers of TVA electricity, and $6 million from user fees, timber sales, and other sources. Eliminating the activities that the annual appropriation supports, except those activities whose costs could be shifted to nonfederal sources, would reduce federal outlays by about $32 million in 1998 and $436 million over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, outlays would be reduced by $34 million in 1998 and $482 million over the five-year period.

In recent years, the TVA has used the largest chunk of its appropriation for water and land management. Eliminating federal support for those activities accounts for 66 percent of the total savings in this option. The main argument for cutting that funding is that the activities should be financed regionally by state and local governments or by charging their beneficiaries fees--or discontinued if they are insufficiently valuable. Proponents of maintaining federal funding note that the TVA has a federally mandated mission to promote the proper use, conservation, and development of the region's natural resources as well as its economic well-being. They also argue that some benefits of the management activities, such as reductions in flood crests and improvements in ecological stability, are distributed very broadly or accrue in part to future generations. Funding the activities underlying those benefits through fees levied on the beneficiaries is therefore difficult.

Fourteen percent of the savings in this option come from eliminating funding for the TVA's Environmental Research Center in Muscle Shoals, Alabama. Past research at the center (formerly, the National Fertilizer and Environmental Research Center) developed 75 percent of the fertilizers in use today. The center's current program includes research in ozone mitigation, pollution-free agriculture, utility waste management, and biotechnology for cleaning up hazardous wastes.

Critics of the center argue that many of its research projects benefit the private sector and that other projects should be consolidated with research being conducted by the Department of Agriculture or the Environmental Protection Agency. Supporters of continued funding note that the center has refocused its efforts (eliminating the projects in fertilizer research and development) and increased its use of external funding from other federal agencies and the private-sector Electric Power Research Institute. They also argue that the center is uniquely positioned to develop solutions that reflect a large region's environmental, economic, and social needs.

The remaining 20 percent of savings projected from this option result from withdrawing federal funding for the TVA's programs in recreation, environmental education, and local economic development. The broad argument against federal funding of those programs is that their benefits are largely regional. Funding should therefore be provided by state or local governments or through fees levied on private beneficiaries. Supporters of continued funding again point to the TVA's federally mandated mission and to the difficulty that state and local governments could have in apportioning the costs of collectively valuable programs in the absence of federal funding.

DOM-37 ELIMINATE THE NEIGHBORHOOD REINVESTMENT CORPORATION

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	50	50	50	50	50	250
Outlays	50	50	50	50	50	250
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	51	53	54	56	57	271
Outlays	51	53	54	56	57	271

The Neighborhood Reinvestment Corporation (NRC) is a public, nonprofit organization charged with revitalizing distressed neighborhoods. The NRC oversees a network of locally initiated and locally run groups called NeighborWorks® organizations, also known as NWOs, which engage in a variety of housing, neighborhood revitalization, and community-building activities. The corporation provides technical and financial assistance to begin new NWOs; it also monitors and assists existing members of the network. As of 1996, the NeighborWorks® Network had 171 NWOs as members. They operate in approximately 426 municipalities nationwide.

Eliminating the NRC would save $50 million in federal outlays in 1998 and a total of $250 million over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, savings would be $51 million in 1998 and $271 million over the five-year period.

For 1997, the NRC's annual appropriation of $50 million represents 89 percent of its annual income. With those funds, the corporation provides grants, conducts training programs and educational forums, and produces informative publications in support of member NWOs. The bulk of the grant money goes to NWOs. The organizations use the funds to cover operating costs; undertake projects; purchase, construct, and rehabilitate properties; and capitalize their revolving loan funds. A revolving loan fund relies on its initial stock of financial capital to make loans, which means that new loans are made only as outstanding loans are repaid (the sense in which the fund "revolves"). NWO revolving loan funds make home ownership and home improvement loans to individuals or loans to owners of mixed-use properties who provide long-term rental housing for low- and moderate-income households. Also, the NRC awards grants to Neighborhood Housing Services of America to provide a secondary market for the loans from NWO revolving funds. The corporation also uses its revenue to cover administrative costs and award contracts to suppliers of goods and professional services.

One argument for terminating the program is that federal funds should be targeted toward programs whose benefits are national rather than local. Member NWOs are funded partially at the local level, but because the NRC organizes, supervises, and provides grants to those local organizations, the program constitutes a case in which federal funds are being used to generate local benefits. In addition, the NRC does not dispense funds and assistance to all distressed communities. Instead, the benefits of the program accrue only to those neighborhoods that actively seek NRC funds.

Another argument for eliminating the NRC is that it appears to duplicate the efforts of other federal programs. For example, the Community Development Block Grant program also serves to rehabilitate low-income housing. Various other initiatives are carried out by government-sponsored enterprises (GSEs) to promote home ownership and community development. Such GSE initiatives include the Federal Home Loan Bank System's Affordable Housing and Community

Investment Programs and the Federal Home Loan Mortgage Corporation's Expanding Markets Program.

Proponents of the NRC argue that without it, the activities that it currently funds would not be undertaken, in part because state and local governments might not have the resources to make up the difference in federal aid. They also note that some of the NRC's activities are not duplicated in other home lending and housing rehabilitation programs--in particular, the nonhousing activities that the NWOs conduct in conjunction with home ownership and housing rehabilitation (such as community organization building, neighborhood cleanup and beautification, and leadership development). NRC supporters maintain that this focus on the condition of the neighborhood as a whole represents a comprehensive approach to the problems of affordable housing and community revitalization, and that the broad orientation has advantages that would not be associated with a more narrow focus.

To the extent that both the market and personal value of a home are inextricably tied to the condition of the neighborhood in which it is located, rebuilding the entire neighborhood enhances the value of each individual piece of property in that neighborhood. Rebuilding may enhance the collateral value of the properties, making the homeowners in the neighborhood eligible for loans from banks and other private sources at a later date. An emphasis on distressed neighborhoods and on the sources of distress may therefore have benefits that a program focused exclusively on low-income housing would not.

Finally, advocates say that the NRC fills a niche in the housing market. Supporting that contention is the fact that the home purchases it facilitates appear to be far below the median national price of a home. Additionally, the residents of the participating NWO neighborhoods are overwhelmingly low- to moderate-income people. Both of those factors suggest that the NRC operates in a market that has historically been underserved.

DOM-38 ELIMINATE FUNDING FOR HEAD START

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	3,981	3,981	3,981	3,981	3,981	19,905
Outlays	1,592	3,583	3,981	3,981	3,981	17,118
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	4,081	4,192	4,303	4,419	4,538	21,533
Outlays	1,632	3,717	4,225	4,338	4,455	18,367

Since 1965, Head Start has funded grants to local agencies to provide comprehensive services to economically disadvantaged children and their families. Its purpose is to foster the development of children from low-income families. The services supported by Head Start address the health, education, and nutrition of the children as well as their social behavior. Funds are awarded to about 1,400 grantees at the discretion of the Secretary of Health and Human Services, using state allocations determined by formula. Grantees must contribute 20 percent of program costs from nonfederal funds unless they obtain a waiver.

Head Start emphasizes involving families and the community to ensure that local programs are responsive to the needs of the areas they serve. As a result, wide variation exists in how Head Start services are delivered and in local program costs, sponsoring agencies, and coordination with other social service programs. Most Head Start programs provide center-based services to children for three or four hours a day during the school year. Although Head Start is authorized to serve children who are below the age of compulsory school attendance, most participants enter the program at age 4 and remain in it for one year before entering kindergarten. In 1995, about 750,000 children were served, approximately 60 percent of whom were 4 years of age. The average cost per child in Head Start in that year was $4,500 (compared with $6,100 per pupil spent by public elementary and secondary schools).

Eliminating Head Start would reduce federal outlays in the 1998-2002 period by $17.1 billion measured from the 1997 funding level. The savings from the 1997 funding level adjusted for inflation would be almost $18.4 billion over that period.

The primary argument for eliminating Head Start is that it does not improve the prospects of participants over the long run. Although the program produces gains in intellectual performance, social behavior, and emotional development by the end of a year of intervention, those gains decline and disappear as participants move through elementary school. Moreover, participation in Head Start does not inoculate children against serious academic problems and the need for remedial instruction in their early years of elementary school. Some early intervention efforts have provided evidence of long-term improvement in the lives of participants, but those projects were much more intensive--and expensive--than Head Start and were initiated several decades ago, when the social environment of the country, especially in urban areas, was different. Such results may not be possible in today's communities.

The main argument for funding Head Start is that it appears to reduce modestly the probability that participants will be placed in special education programs and to increase the likelihood that students will be promoted to higher grades. Proponents also argue that Head Start enrolls the most severely disadvantaged children and consequently could be credited with preventing participants from falling even further behind in their cognitive and socioemotional development before they enter elementary school.

An alternative option is to redirect some of the savings from eliminating Head Start to the Early Head Start Initiative approved in the 1994 reauthorization of Head Start. The initiative, whose funding is limited to 5 percent of total Head Start spending in 1998, offers comprehensive child development and family support services that are similar to those provided by regular Head Start projects--but the initiative offers them year-round to families with children under age 3 and pregnant women. Proponents of shifting funds to the initiative contend that it offers better value for the money. They argue that serving children who are younger, on average, than those in regular Head Start projects in conjunction with their parents could be more effective than the regular projects in producing lasting effects on patterns of child development and long-term behavior. However, critics of expanding the initiative are concerned about a possible dearth of qualified staff to meet the complex needs of younger children and their families. In that case, not only would the additional funds not be better spent, but the children might actually get fewer useful services than in the regular Head Start program.

DOM-39 ELIMINATE OR REDUCE FUNDING FOR TITLE I, EDUCATION FOR THE DISADVANTAGED

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Eliminate Funding						
From the 1997-1998 School Year Funding Level						
Budget authority	6,400	7,698	7,698	7,698	7,698	37,192
Outlays	924	6,159	7,544	7,698	7,698	30,023
From the 1997-1998 School Year Funding Level Adjusted for Inflation						
Budget authority	6,560	8,070	8,290	8,510	8,740	40,170
Outlays	950	6,340	7,930	8,300	8,530	32,050
Reduce Funding by 50 Percent						
From the 1997-1998 School Year Funding Level						
Budget authority	3,200	3,849	3,849	3,849	3,849	18,596
Outlays	462	3,079	3,772	3,849	3,849	15,011
From the 1997-1998 School Year Funding Level Adjusted for Inflation						
Budget authority	3,360	4,224	4,439	4,661	4,891	21,575
Outlays	485	3,261	4,161	4,455	4,678	17,040

NOTE: Funds provided by the Congress for the 1997-1998 school year include an advance appropriation for fiscal year 1998 that the Congressional Budget Office has incorporated in its baseline. The estimates of savings in this table assume that the program would be eliminated beginning in the 1998-1999 school year.

Title I of the Elementary and Secondary Education Act of 1965 provides grants to school districts to fund supplementary educational services for educationally disadvantaged children who live in areas with high concentrations of children from low-income families. Federal funds are allocated through a formula based on the number of poor children in an area. However, schools that receive Title I funds may use them to provide services to any students who are performing well below their grade level.

Students who receive services through Title I are most often pulled out of their regular classrooms for supplemental instruction. The extra education students receive can be in any subject but is most often in reading, mathematics, and language arts. The emphasis is largely on basic skills, although federal law encourages greater attention to developing so-called higher-order thinking skills.

Title I funds reach over half of all schools (more than 50,000) and in the 1993-1994 school year served approximately 6.6 million children. Almost 70 percent of participants are in elementary school; an additional 10 percent are enrolled in kindergarten or preschool. Minorities make up about 60 percent of participants, with Hispanics the largest minority group.

Eliminating Title I funding would reduce federal outlays in the 1998-2002 period by about $30 billion measured from the 1997-1998 school year funding level. The savings from the 1997-1998 school year funding level adjusted for inflation would be more than $32 billion over that period.

The primary justification for eliminating Title I funding is that it does not improve the academic progress of students who receive its services. Comparisons with similar groups of students (by grade and poverty status) show that program participants do not improve their academic achievement relative to other students. Moreover, a recent study by the Department of Education found that the test scores of students receiving Title I services actually declined between the third and fourth grades, whereas those of nonrecipients rose slightly. (Many education researchers consider that time to be a critical transition period because by the fourth grade, students should have sufficiently mastered reading skills to enable them to learn by reading.)

According to its supporters, the main justification for continuing Title I funding is that it has become a major federal instrument for fostering school reform to improve learning for all children. States applying for Title I funds must show that they have, or will develop by 1998, standards for challenging academic content (for purposes of instruction) and for student performance (for assessing the outcomes of instruction), at least in the areas of mathematics and reading or language arts. Those standards, which specify what children are expected to know and be able to do, must apply to Title I participants as well as to all other pupils in the state.

An alternative approach would be to reduce funding for Title I to 50 percent of the 1997-1998 school year funding level. That option would save about $15 billion in the 1998-2002 period, or about $17 billion when adjusted for inflation. On the one hand, Title I could still be an effective instrument of school reform with only half of its current funding. On the other hand, it would probably continue to be ineffective in improving the academic skills of students who received its services.

DOM-40 ELIMINATE FUNDING FOR BILINGUAL EDUCATION

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	157	157	157	157	157	785
Outlays	19	125	154	157	157	612
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	161	165	169	174	179	848
Outlays	19	129	161	169	174	652

Federal bilingual education programs authorized in title VII of the Elementary and Secondary Education Act of 1965 fund grants to school districts and other recipients to provide instruction to students who have limited proficiency in English primarily because a language other than English is spoken in their homes.

Bilingual education projects funded through title VII provide a range of services to students with limited proficiency in English. In 1993, they aided about 350,000 pupils; in addition, title VII funds supported programs to train teachers and other educators that in 1991 could be found at 81 colleges and universities in 27 states. Most of the students served were taught by using a method of instruction called transitional bilingual education, which involves teaching children in each of their classes jointly in English and their native language. No more than 25 percent of federal funding for bilingual education programs may be used to support instruction only in English.

Eliminating federal bilingual education programs would reduce federal outlays in the 1998-2002 period by about $612 million measured from the 1997 funding level. Savings from the 1997 level adjusted for inflation would be about $652 million over the five-year period.

Proponents of this option contend that transitional bilingual education programs under title VII largely perpetuate and reinforce native cultures rather than advance literacy in the English language. The result, they maintain, is that the integration of students into U.S. society is retarded.

Supporters of this federal program assert that transitional bilingual education, which introduces students to the English language while continuing instruction in their native language, helps students in two ways: they acquire knowledge in a variety of academic subjects as well as become literate in English. As a result, supporters argue, students will not fall behind their schoolmates in other subjects by the time they make the transition to classes taught only in English.

DOM-41 ELIMINATE OR REDUCE FUNDING TO SCHOOL DISTRICTS FOR IMPACT AID

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			Eliminate Funding			
From the 1997 Funding Level						
Budget authority	730	730	730	730	730	3,650
Outlays	595	712	729	730	730	3,496
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	748	769	789	810	832	3,948
Outlays	610	747	784	806	827	3,774
			Restrict Eligibility and Reduce Funding			
From the 1997 Funding Level						
Budget authority	68	68	68	68	68	340
Outlays	55	66	68	68	68	325
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	69	71	73	75	77	365
Outlays	57	70	73	75	77	352

Impact Aid (previously known as School Assistance in Federally Affected Areas) is intended to compensate school districts affected by activities of the federal government. The program pays districts for federally connected pupils and for school construction in areas where the federal government has acquired a significant portion of the real property tax base, thereby depriving the school district of a source of revenue.

Impact Aid goes to school districts that have a minimum of 3 percent (or at least 400) of their pupils associated with activities of the federal government, such as pupils whose parents both live and work on federal property (including Indian lands), pupils whose parents are in the uniformed services but live on private property, and pupils who live in low-rent housing that is federally subsidized. In addition, aid goes to a few districts enrolling at least 2,000 pupils (and 15 percent of enrollment) whose parents work on federal property. In 1995, approximately 2,500 school districts in all 50 states received Impact Aid. As a result of the program's reauthorization in 1994 (as title VIII of the Elementary and Secondary Education Act of 1965, as amended), Impact Aid is likely to be more targeted in the future toward pupils whose parents live and work on federal land. Because of hold-harmless provisions, however, most school districts will not be fully affected by the changes in the law until this year.

Eliminating all funding for Impact Aid would reduce federal outlays in the 1998-2002 period by about \$3.5 billion measured from the 1997 funding level or by about \$3.8 billion measured from the 1997 level adjusted for inflation. Proponents of eliminating the program argue that the economic benefits from federal activities outweigh the demands placed on the schools, making Impact Aid unnecessary. Those economic benefits are considered so substantial that local jurisdictions compete vigorously for new federal activities and lobby intensely to forestall losing existing ones.

Opponents counter that the presence of federal activities does not adequately compensate local governments and school districts for losses in property tax revenues. (Additional revenues resulting from federal activities are collected primarily by the state through income and sales taxes.) Moreover, some school districts--especially isolated ones that have military installations with large numbers of children residing on federal property--would face severe financial hardship if such funding was eliminated.

A second option would be to restrict Impact Aid payments to school districts with children who are most directly associated with federal activities. That includes children who live on federal property and have a parent on active duty in the uniformed services, as well as children who live on Indian lands. Such a restriction would reduce federal spending by about $325 million during the 1998-2002 period measured from the 1997 funding level or by about $350 million measured from the 1997 level adjusted for inflation. (The estimate of savings from this alternative, which would require changes in authorizing legislation, is based on the proportion of program spending that occurred on behalf of those children in 1997.)

Proponents of this alternative argue that restricting Impact Aid payments to students whose presence puts the greatest burden on school districts is appropriate given the limited funding available for federal discretionary programs. Opponents argue that eliminating payments for other types of children associated with federal activities could significantly affect selected districts--for example, those in which large numbers of military families live off-base but shop at military exchanges, which do not collect state and local sales taxes.

DOM-42 ELIMINATE FUNDING FOR THE SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES ACT

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	556	556	556	556	556	2,780
Outlays	67	445	545	556	556	2,169
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	570	585	601	617	634	3,007
Outlays	68	458	573	600	616	2,315

The Safe and Drug-Free Schools and Communities Act funds grants to states for programs to prevent drug abuse and violence. To be eligible for funds, states must assess their need for such aid and articulate measurable goals and objectives for reducing and preventing drug abuse and violence. Funds are allocated to states based on the number of children of school age and the share of federal Title I funds they receive. (Title I is the main federal program for educating disadvantaged children.)

The vast majority of those federal funds are allocated by states to school districts. Districts that receive funds must implement comprehensive programs to prevent drug abuse and violence among students and employees and must include activities to involve parents and community groups.

Eliminating funding for the Safe and Drug-Free Schools and Communities Act would reduce federal outlays by about $2.2 billion over the 1998-2002 period measured from the 1997 funding level. Savings from the 1997 level adjusted for inflation would be about $2.3 billion.

Critics of this program argue that it has not been successful in reducing drug and alcohol abuse among teenagers. The proportion of adolescents who say they use illicit drugs has risen from 20 percent to 31 percent between 1993 and 1996. Opponents also maintain that federal efforts to reduce drug use and violence should focus on law enforcement activities rather than on education and prevention efforts. Federal involvement in education and prevention programs in schools and communities, critics believe, undermines the accountability and responsibility of parents, teachers, and community leaders in combating drug abuse and violence.

Supporters of this program cite the increasing drug use among teenagers as evidence of the need for the program. Drug abuse and violence are so pervasive, they argue, that parents, teachers, and leaders in local communities lack both the time and the knowledge to be effective in opposing them. Proponents consider it necessary to employ expert guidance and additional training to help teachers, counselors, and others take action to deal with the problems associated with drug abuse and violence.

DOM-43 REDUCE FUNDING FOR ELEMENTARY AND SECONDARY EDUCATION PROGRAMS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	7,402	8,052	8,052	8,052	8,052	39,610
Outlays	1,257	6,360	7,843	8,052	8,052	31,564
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	7,774	8,874	9,324	9,791	10,274	46,037
Outlays	1,321	6,752	8,666	9,328	9,795	35,862

NOTE: Funds for Title I for the 1997-1998 school year include an advance appropriation for fiscal year 1998 that the Congressional Budget Office has incorporated in its baseline. The estimates of savings in this table assume that Title I would be reduced beginning in the 1998-1999 school year.

About $325 billion was spent educating children in elementary and secondary schools in this country in the 1995-1996 school year. The federal share of that total was estimated to be almost 7 percent, or about $22 billion. The largest federal programs funded through the Department of Education are Title I of the Elementary and Secondary Education Act, which funds services for economically and educationally disadvantaged students; Impact Aid, which compensates school districts affected by certain federal activities; the Individuals with Disabilities Education Act, which funds services for disabled students; and the Perkins Vocational and Applied Technology Education Act, which funds vocational education.

Because the federal contribution to elementary and secondary education is relatively small, some analysts have suggested that funding for such programs in the Department of Education be decreased to help reduce federal spending (see, for example, DOM-39, DOM-40, and DOM-42). Over the 1998-2002 period, holding funding for those programs at 50 percent of the 1997 level would save about $32 billion measured from the 1997 funding level or $36 billion measured from the 1997 level adjusted for inflation. This option would reduce the appropriation by about 55 percent, in real terms, in the fifth year.

If the funding for those programs was reduced, the Congress might also consider modifying them to enhance the flexibility of state and local governments in adjusting to those decreases. One possible change would be to fold the programs into a block grant that specified purposes for which the funds could be spent but left decisions about how to use the funds to the states and the school districts. Since some of the programs are associated with federal mandates regarding services that children must receive (for example, for disabled students), the Congress might also want to modify those mandates.

The primary argument in favor of this proposal is that the federal government cannot afford to fund those programs at their current levels. If funding was reduced, state and local governments might offset some of the cuts to the extent that they found the programs useful or required by federal mandates. Enhancing the flexibility of states and school districts in adjusting to possible cuts could reduce some of the negative consequences of reductions in funding.

The main argument for maintaining funding for those programs is that the effects of cuts would be concentrated among the special populations of students that the programs serve. Those populations include students with one or more of the following characteristics: economically and educationally disadvantaged, limited proficiency in English, disabled, Indian (Native American) origin, and in vocational education. Because states and school districts are unlikely to be able to offset all of the reductions in federal funds, services for students in those categories would probably be reduced.

DOM-44 ELIMINATE 16 SMALL GRANT PROGRAMS IN THE DEPARTMENT OF EDUCATION

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	77	77	77	77	77	385
Outlays	11	62	76	77	77	303
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	79	81	84	86	88	418
Outlays	12	63	80	83	86	324

The Department of Education funds more than 200 programs that address a range of problems at all levels of education. Some analysts have argued that a number of those programs have either largely or completely achieved their original purposes or could be supported by other funding sources. The National Performance Review (NPR) recommended that 34 such programs be eliminated, and the Congress did eliminate a number of them. Among the remaining programs on the NPR list are six relatively small programs that are not considered elsewhere in this volume. Another 10 programs in the Department of Education considered here are each funded at $10 million or less in 1997. Those 16 programs range in cost from about $1 million to $15 million a year. Eliminating all of them would save, over the 1998-2002 period, about $300 million measured from the 1997 funding level or about $325 million measured from the 1997 level adjusted for inflation.

NPR Terminations. The Congress appropriated $34 million in 1997 for the six programs that the NPR recommended terminating. Eliminating those programs would reduce federal spending over the 1998-2002 period by $133 million measured from the 1997 funding level or by $142 million measured from the 1997 level adjusted for inflation.

Those six grant programs vary in size and serve a wide range of purposes. The largest one--Education for Native Hawaiians--received $15 million in 1997. The smallest is the Ellender Fellowships (a grant to the Close Up Foundation to bring economically disadvantaged people to Washington, D.C., to increase their understanding of the federal government), which gets $1.5 million in funding. Other programs include several small ones for libraries and for civic education.

The NPR recommended terminating these programs because they duplicate others, have achieved their purposes, or are more appropriately supported with nonfederal funds. The Department of Education has already suggested eliminating most of them. Opponents of this option argue that many of the programs have been successful in addressing the specific problems for which they were created but are still needed because the underlying conditions continue to exist. Advocates also point out that alternative funding from local and state governments or private sources would probably not be forthcoming if the federal programs were eliminated.

Other Small Programs. The Congress appropriated about $44 million in 1997 for the 10 additional programs considered here that had annual spending of about $10 million or less. Eliminating those programs would reduce federal spending over the 1998-2002 period by $171 million measured from the 1997 funding level or by $182 million measured from the 1997 level adjusted for inflation.

Those 10 programs are all small and support a range of projects. The largest program, Inexpensive Book Distribution, received $10 million in 1997. The next largest program, Urban Community Services, received $9 million. The other eight programs were all funded at $7 million or less.

Proponents of eliminating those programs argue that the projects supported by them are generally too small to be effective on a national scale, duplicate other efforts across the nation, or could be funded from other federal programs. Many of the programs might also obtain funding from foundations or other nonfederal sources. Opponents of elimination, however, argue that many of the programs are intended to demonstrate the effectiveness of imaginative ideas that could later be adopted by other schools, districts, or states. They also contend that the federal government has a natural role in disseminating information about useful innovations in education.

DOM-45 ELIMINATE STATE STUDENT INCENTIVE GRANTS

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	50	50	50	50	50	250
Outlays	10	50	50	50	50	210
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	51	53	54	56	57	271
Outlays	10	52	53	54	56	225

The State Student Incentive Grant (SSIG) program helps states provide financially needy postsecondary students with grant and work-study assistance while they attend academic institutions and schools that teach occupational skills. States must match federal funds at least dollar for dollar, while also meeting maintenance-of-effort criteria. Unless excluded by state law, all public and private nonprofit postsecondary institutions in a state are eligible to participate in the SSIG program. In 1997, the federal government provided $50 million, an increase of almost 60 percent from the previous year.

During the 1998-2002 period, eliminating SSIGs would save taxpayers $210 million measured from the 1997 funding level or $225 million measured from the 1997 level adjusted for inflation. The extent of the actual reduction in student assistance would depend on the responses of states, some of which would probably make up part of the lost federal funds.

Proponents of eliminating this program argue that it is no longer needed to encourage states to provide more student aid. When the SSIG program was authorized in 1972, only 31 states had student grant programs; now, all 50 states provide student grants.

Opponents of eliminating SSIGs argue that not all states would increase their student aid appropriations to make up for the lost federal funding, and some might even reduce them. In that case, some students receiving less aid might not be able to enroll in college or might have to attend a less expensive school. Eight states just met the SSIG matching provision in the 1991-1992 school year.

DOM-46 ELIMINATE FEDERAL FUNDING FOR CAMPUS-BASED STUDENT AID

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	1,571	1,571	1,571	1,571	1,571	7,855
Outlays	157	1,524	1,571	1,571	1,571	6,394
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	1,610	1,654	1,698	1,744	1,791	8,497
Outlays	161	1,566	1,657	1,701	1,747	6,832

The federal government provides campus-based student aid through three programs: Supplemental Educational Opportunity Grants, Perkins Loans (formerly National Direct Student Loans), and Work-Study. Financial aid administrators at postsecondary institutions determine which eligible students receive aid under general federal guidelines. In 1997, the federal government provided $1.6 billion in campus-based aid, which will go to roughly 2.0 million students.

Eliminating federal funding for those programs would lower outlays from the 1997 funding level by $6.4 billion during the 1998-2002 period. The savings from the 1997 funding level adjusted for inflation would be $6.8 billion over that period. Alternatively, some of the savings from eliminating those programs could be redirected to the Federal Pell Grant Program, which is more closely targeted toward low-income students. The extent of the reduction in total student aid would depend on the responses of postsecondary institutions, some of which would make up part or all of the lost federal funds. Moreover, since postsecondary institutions retain about $6.5 billion in revolving funds under the Perkins Loan program, an estimated 620,000 students would receive loans, averaging about $1,340 in 1997, even if the federal government did not fund any new campus-based aid.

The primary justification for this option reflects the view that the main goal of federal student aid is to provide access to postsecondary education for people with low income. Because campus-based aid is tied to specific institutions, students with greater need at poorly funded schools may receive less than those with less need at well-funded institutions.

Postsecondary institutions object to this option, however, because it would reduce their discretion in packaging aid to address the special situations of some students while also reducing total available aid. Moreover, these programs disproportionately help students at private, nonprofit institutions (whose students get 40 percent of this aid, compared with about 20 percent of Pell Grant aid). Thus, cutting campus-based aid would make that type of school less accessible to needy students.

Redirecting some of the savings from eliminating campus-based aid to the Pell Grant program would mitigate the effects on lower-income students of less total aid. The Pell Grant appropriation provides for a maximum award of $2,700 in the 1997-1998 school year. Redirected funds from campus-based programs could be used by the appropriations committees to increase the maximum Pell grant. Pell grants allow students to choose freely among postsecondary institutions rather than be limited to institutions that offer them campus-based aid.

DOM-47 ELIMINATE FUNDING FOR THE NATIONAL AND COMMUNITY SERVICE ACT

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Discretionary Spending						
From the 1997 Funding Level						
Budget authority	388	402	402	402	402	1,996
Outlays	38	201	311	358	373	1,281
From the 1997 Funding Level Adjusted for Inflation						
Budget authority	398	423	435	447	459	2,162
Outlays	39	208	326	382	408	1,363
Direct Spending[a]						
Budget Authority	17	18	17	17	17	86
Outlays	0	0	0	0	0	0

a. Budget authority savings are from the interest that accrues in the National Service Trust Fund. No outlay savings are shown because the Congressional Budget Office includes the estimated outlays from the trust fund as discretionary spending.

As a reward for providing community service, students may receive aid from the federal government to attend postsecondary schools through the National and Community Service Act. The act funds three programs: the AmeriCorps Grants Program, the National Civilian Community Corps (NCCC), and Learn and Serve America. Those programs provide assistance for education, public safety, the environment, and health care, among other services. In many cases, the programs build on existing federal, state, and local programs. The AmeriCorps Grants Program and NCCC provide participants with an educational allowance that may reach as much as $4,725 for at least 1,700 hours of community service annually. Each person may participate for up to two years, and the awards can be used for up to seven years after service. Participants also receive a stipend for living expenses and, if they need them, health insurance and child care. Learn and Serve America participants do not receive stipends or education awards but may receive academic credit toward their degrees. In 1997, federal funding for the three programs amounts to $403 million, of which $215 million is for AmeriCorps grants. About one-third of the total financial resources available for the AmeriCorps Grants Program comes from state and local governments and from private enterprises. An estimated 25,000 participants will receive assistance.

Eliminating federal funding for those programs would save $1.3 billion over the 1998-2002 period measured from the 1997 funding level. The savings from the 1997 level adjusted for inflation would be $1.4 billion over that period. (Those estimates include costs associated with terminating the programs.) Alternatively, some of the savings from eliminating those programs could be redirected to the Federal Pell Grant Program, which is more closely targeted toward low-income students.

Some critics who favor eliminating the three programs maintain that the federal government's cost per participant is excessive. For example, in 1995 the federal government paid $20,800 per AmeriCorps participant, of which only about one-third actually constituted financial aid. Furthermore, critics argue that community service should be voluntary rather than an activity for which a person is paid. An additional justification for this option is based on the view that the main goal of federal aid to students should be to provide access to postsecondary education for people with low income. Because participation in these programs is not based on family income or assets, funds do not necessarily go to the poorest students.

Supporters of the programs argue, however, that in addition to providing valuable services, the National and Community Service Act enables many students to attend postsecondary schools. Moreover, a substantial portion of the AmeriCorps Grants Program's total funding comes from state and local governments and from private enterprises, and at least some of those funds might not be available if the act was not there as leverage. Further, supporters argue, the federal government has taken steps to reduce its cost for the program. Proponents also argue that some early research on the AmeriCorps Grants Program, NCCC, and Learn and Serve America indicates that the benefits to individuals and U.S. society are likely to be greater than the federal investment in those programs. In addition, they believe that offering opportunities for national service promotes a sense of idealism among young people and should be supported.

Redirecting some of the savings from eliminating those programs to Pell grants would mitigate the effects of this option on lower-income students. The Pell Grant appropriation provides for a maximum award of $2,700 per student in the 1997-1998 school year. The appropriations committees could use redirected funds from these national service programs to increase the maximum Pell grant.

DOM-48 ELIMINATE THE SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	465	465	465	465	465	2,325
Outlays	85	425	465	465	465	1,905
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	475	490	500	515	530	2,510
Outlays	85	435	490	500	515	2,025

The Senior Community Service Employment Program (SCSEP) funds part-time jobs for people age 55 and older who are unemployed and who meet income eligibility guidelines. Through SCSEP, which is authorized under title V of the Older Americans Act, grants are awarded to several nonprofit organizations, the U.S. Forest Service, and state agencies. The sponsoring organizations and agencies pay participants to work in part-time community service jobs for about 20 to 25 hours per week, up to a maximum of 1,300 hours per year.

SCSEP participants work in schools, hospitals, and senior citizen centers and on beautification and conservation projects. They are paid the higher of the federal or state minimum wage or the local prevailing rate of pay for similar employment. Participants also receive annual physical examinations, personal and job-related counseling, and assistance to move into private-sector jobs when they complete their projects. SCSEP is not considered a training program, but in recent years it has put increasing emphasis on preparing its participants for unsubsidized employment. About 20 percent of enrollees move on to such jobs.

Eliminating SCSEP would reduce outlays over the 1998-2002 period by about $1.9 billion measured from the 1997 funding level or by about $2.0 billion measured from the 1997 level adjusted for inflation. Opponents of the program maintain that it offers few benefits aside from income support and that the presumed value of the work experience gained by SCSEP participants would generally be greater if the experience was provided to equally disadvantaged young people, who have longer careers over which to benefit. In addition, the costs of producing the services now provided by SCSEP participants could be borne by the organizations that benefit from their work; under current law, those organizations bear only 10 percent of such costs. That shift would ensure that only those services that were most highly valued would be provided.

SCSEP, however, is the major federal jobs program aimed at low-income older workers, and eliminating it could cause hardship for older workers who were unable to find comparable unsubsidized jobs. In general, older workers are less likely than younger workers to be unemployed, but those who are take longer to find work. Moreover, without SCSEP, community services might be reduced if nonprofit organizations and states were unwilling or unable to increase expenditures to offset the loss of federal funds.

DOM-49 ELIMINATE FUNDING FOR THE ARTS AND HUMANITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
			From the 1997 Funding Level			
Budget Authority	923	923	923	923	923	4,615
Outlays	694	865	903	921	923	4,306
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	945	967	996	1,027	1,059	4,994
Outlays	709	900	966	1,016	1,049	4,640

NOTE: The savings shown in 1998 and 1999 would require a rescission of all or part of the advance appropriations for the Corporation for Public Broadcasting of $250 million in both years. Funding for the corporation is $260 million in 1997. Eliminating it would save $250 million compared with the 1998 funding level.

The federal government subsidizes various arts and humanities activities. In 1996, federal outlays for the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the National Endowment for the Arts, the National Endowment for the Humanities, and the John F. Kennedy Center for the Performing Arts totaled about $1 billion.

Eliminating funding for those programs would reduce federal outlays over the 1998-2002 period by about $4.3 billion measured from the 1997 funding level or by about $4.6 billion measured from the 1997 level adjusted for inflation. The final effect on arts and humanities activities would depend on the extent to which other funding sources--states, individuals, firms, and foundations--increased their contributions and on whether higher admission fees to those activities were used to make up for reduced federal funding.

Proponents of this option argue that federal funding for the arts and humanities is not affordable in a time of fiscal stringency, especially when programs addressing central federal concerns are not fully funded. Moreover, because many arts and humanities programs benefit predominantly higher-income people, instituting or raising admission fees or ticket prices could substitute for federal aid in many cases. In a number of cities in the United States and abroad, for example, museums charge fees.

Eliminating federal appropriations for the arts and humanities would probably result in fewer of those activities, however, because other funding sources would not be likely to offset fully the loss in federal subsidies. As a result, activities that preserve and advance the nation's cultural heritage would be likely to decline.

DOM-50 REDUCE THE MATERNAL AND CHILD HEALTH CARE BLOCK GRANT AND THE PREVENTIVE HEALTH SERVICES BLOCK GRANT

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	418	418	418	418	418	2,090
Outlays	161	368	400	418	418	1,765
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	429	440	453	465	478	2,265
Outlays	165	383	426	456	468	1,898

In its appropriations for 1997, the Congress provided about $835 million in block grants for programs in maternal and child health and preventive health services. Almost all of those funds are distributed to the states, with a small amount being used for federal initiatives. The block grants, which are funded through the Public Health Service, allow states considerable flexibility in choosing the programs to fund within the specified areas. Those grants do not generally restrict benefits to categories of recipients, such as low-income families.

Each block grant supports a wide range of programs. The Maternal and Child Health Care Block Grant subsidizes programs that provide such services as preventive care, prenatal care, health assessments for children, rehabilitation services for blind and disabled children, and community-based services for children with special health care needs. The 1997 funding for that block grant is $681 million. The Preventive Health Services Block Grant supports programs in areas not covered by other grants, including emergency medical service systems, prevention of sex offenses and provision of services to victims, and support of state and local government efforts to develop data systems to monitor the health of the population. Funding for 1997 is $154 million.

If funding for each of those block grants was held at half of the 1997 level, the savings in outlays for the 1998-2002 period would be about $1.8 billion measured from the 1997 funding level or about $1.9 billion measured from the 1997 level adjusted for inflation. In 2002, spending would equal 56 percent of the 1997 level adjusted for inflation.

The principal justification for such reductions is that the federal commitment to other programs directed toward maternal and child health and preventive health services has increased substantially in recent years. For example, Medicaid's coverage of low-income women and young children has expanded in several ways. States are now required to provide Medicaid coverage to pregnant women and to children under age 6 in families with income below 133 percent of the federal poverty level. States are also now required to provide Medicaid coverage to children under the age of 19 who were born after September 30, 1983, and whose family income is below the poverty line. The phase-in will continue until all children under the age of 19 with family income below the poverty line are covered by Medicaid in 2002. Thus, the block grants are not essential for ensuring access to health services for those individuals.

In addition, states have the option of providing Medicaid coverage for pregnant women and infants in families with income of up to 185 percent of the poverty line. As of August 1996, 34 states and the District of Columbia had set income thresholds above 133 percent of the poverty line for that population. Similarly, between 1991 and 1996, funding for programs of the Centers for Disease Control and Prevention for immunization, chronic and environmental disease, breast and cervical cancer, tuberculosis, and human immunodeficiency virus (HIV) infection increased by $643 million, or 79 percent.

The major disadvantage of cutting the block grants is that in the current fiscal environment, many states might be unable to assume a greater share of the financial responsibility for the affected programs. Cuts in the block grants could adversely affect the health of people --especially those in low-income families who are not eligible for Medicaid--who would receive less assistance from those programs.

DOM-51 ELIMINATE SUBSIDIES FOR HEALTH PROFESSIONS EDUCATION

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	289	289	289	289	289	1,445
Outlays	116	263	278	289	289	1,235
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	297	305	314	322	331	1,569
Outlays	119	274	296	316	325	1,330

The Congress provided about $289 million to the Public Health Service in 1997 to subsidize education for physicians, nurses, and public health professionals. Those funds primarily furnish institutional support through grants and contracts to schools for designated training programs in the health professions. A limited amount of the assistance is provided through loans, loan guarantees, and scholarships for students. The programs promote training in primary care for physicians and other health professionals, advanced nursing education, and increased enrollment of minority and economically disadvantaged students:

o *Primary care training*. Several programs provide federal grants to medical schools, teaching hospitals, and other training centers to develop, expand, or improve graduate medical education in primary care specialties and other allied health fields and to encourage practice in rural and low-income urban areas. Funding for 1997 is $137 million.

o *Nursing education*. The subsidies to nursing schools are meant to increase graduate training for nurse administrators, educators, supervisors, researchers, and nursing specialists, including nurse-midwives and nurse-practitioners. Funding for 1997 is $63 million.

o *Support for minority and economically disadvantaged students*. Over half of these funds go to professional schools for recruiting, training, and counseling minority and economically disadvantaged students. The remaining funds are for student loans and scholarships. Funding for 1997 is $89 million.

Eliminating all of those subsidies would save, over the 1998-2002 period, about $1.2 billion measured from the 1997 funding level or about $1.3 billion measured from the 1997 level adjusted for inflation. The principal justification for this option is that market forces provide strong incentives for individuals to seek training and jobs in the health professions. Over the past several decades, physicians--the principal health profession targeted by the subsidies--have rapidly increased in number, from 142 physicians in all fields for every 100,000 people in 1950, to 161 in 1970 and 244 in 1990. Projections by the American Medical Association indicate that the total number of physicians per capita will continue to rise through 2000. In the case of nurses, if a shortage indeed existed, higher wages and better working conditions would attract more people to the profession and more trained nurses to nursing jobs, and would encourage more of them to seek advanced training.

Moreover, because the subsidies go mainly to institutions, they may have little effect on the numbers or characteristics of people studying to be health professionals. For example, most of the subsidies for nurses' training are directed toward increasing skills through baccalaureate degree programs and advanced education in nursing, rather than raising the number of new entrants into the profession. Similarly, over half of the funds for increasing enrollment of minority and economically disadvantaged students are used to support schools' recruitment, training, and counseling efforts. Many critics of the subsidies contend that schools in the health professions have a strong commitment to recruiting students from diverse backgrounds. Given that commitment, schools would probably continue much of their recruiting and training efforts even if the subsidies were eliminated.

The major disadvantage of eliminating the subsidies is that the incentives supplied by market forces may not be sufficient to entirely meet the goals of these health professions programs. For example, third-party reimbursement rates for primary care may not encourage enough physicians to enter those specialties and may not include financial inducements sufficient to increase access to care in rural and inner-city areas. In addition, fewer people might choose advanced training in nursing, which could limit the opportunities for the use of relatively inexpensive physician substitutes. Another drawback relates to the goal of increasing enrollment of minority and economically disadvantaged students. To the extent that schools did not fully offset the cut in federal funds for scholarships, fewer such students might enter the health professions, possibly exacerbating the problem of access to care in medically underserved areas.

DOM-52 REDUCE FUNDING FOR RESEARCH SUPPORTED BY THE NATIONAL INSTITUTES OF HEALTH

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	1,275	1,275	1,275	1,275	1,275	6,375
Outlays	504	1,071	1,246	1,269	1,272	5,362
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	1,610	1,975	2,342	2,725	3,122	11,774
Outlays	636	1,497	2,026	2,419	2,808	9,386

The federal government provided $12.7 billion in 1997 for research funded through the National Institutes of Health (NIH). About 60 percent of the NIH research budget is awarded to universities and other nonprofit institutions through research grants and contracts. The remainder is spent for research within the institutes, research contracts with industrial firms, research by state and local governments, foreign research, and administration.

A reduction in funding for NIH research could be justified by its rapid growth in recent years. Between 1986 and 1996, NIH expenditures doubled. If funds for NIH research were reduced to 90 percent of the 1997 funding level and held there, the savings in outlays from 1998 through 2002 would be $5.4 billion. Measured against the 1997 funding level adjusted for inflation, the savings would be about $9.4 billion. NIH could respond to such reductions by limiting its overhead reimbursements for research grants and by funding research projects at a reduced proportion of their costs, thereby encouraging researchers to find additional sources of support. (See DOM-62 for a related option.)

In 1997, NIH will allocate an estimated $7.1 billion --over half of its total funding--to competitively awarded grants for research projects. Reducing NIH funding might mean that fewer research grants could be awarded. Because funding for those projects is based on a rating system, the least promising projects would be dropped first. In 1995, NIH funded 27 percent of the grant applications it received. Reducing the number of grants that NIH awards could cause some biomedical researchers to leave the field or seek employment in the private sector.

The federal government is the mainstay of support for basic biomedical research on which advances in medical technology depend, and many people argue that the government should spend more, not less, on such research. Although industry accounts for nearly half of all spending on health research and development, it may spend too little on basic research. Such research is aimed at discovering fundamental properties of nature--it can result in new knowledge that has applications for many treatments. But the results of basic research usually cannot be appropriated by a single firm; rather, they increase a knowledge base that many firms use in their search for cures for specific diseases. Because a firm cannot fully appropriate the benefits of that kind of research, it may spend less on it than is socially optimal. Hence, many people argue that government has an important role in funding basic biomedical research.

Advocates of such funding point to the benefits of past federal support of basic research, which has played a role in the recent explosion of knowledge about molecular biology and human genetics. Such knowledge could help in the search for new diagnostic tests and cures for serious health conditions that threaten the lives or well-being of millions of people--for example, birth defects, arthritis, diabetes, multiple sclerosis, immune system diseases, heart disease, and cancer. The reduction in NIH expenditures set out in this option could slow progress in those important areas.

Proponents of a reduction in NIH spending for health research and development maintain that the effects of less government funding could be softened by increases in private-sector expenditures. To support their claim, they point to the recent increase in such funding: between 1984 and 1994, private-sector spending for health research and development tripled, even exceeding the increase in NIH spending.

DOM-53 LIMIT THE GOVERNMENT'S COST FOR THE FEHB PROGRAM BY ADOPTING AN EMPLOYEE VOUCHER PLAN

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Discretionary Spending						
Budget Authority	100	200	400	500	700	1,900
Outlays	100	200	400	500	700	1,900
Direct Spending						
Budget Authority	100	200	300	500	700	1,800
Outlays	100	200	300	500	700	1,800

NOTES: Estimates do not include any savings realized by the U.S. Postal Service.

In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. That current-law spending projection differs from projections that are not based on any programmatic assumptions and simply assume that the 1997 level of funding for this activity (or that amount adjusted for inflation) is provided every year.

The Federal Employees Health Benefits (FEHB) program provides health insurance coverage for over 4 million active federal employees and annuitants, as well as their 4.6 million dependents and survivors, at an annual cost to the government of about $11 billion. In 1997, the government is expected to pay, on average, about 70 percent of the premiums for active employees and annuitants (including family coverage). Although some large private employers pick up the entire cost of health insurance coverage, most now require employees to share costs. Many firms have also significantly reduced benefits and coverage for retirees.

More so than private-sector employees, federal employees have been able to switch from high-cost to lower-cost plans to blunt the effects of rising premiums. The dollar cap on premium contributions in the cost-sharing structure of the FEHB program (discussed below) encourages that efficient behavior and intensifies competitive pressures on all participating plans to hold down premiums. In the 1991-1995 period, premiums of FEHB plans increased by an average of 4 percent a year, whereas the premiums paid by medium-size and large firms surveyed by Hay/Huggins Company, a benefits consulting firm, increased by 7 percent a year. Furthermore, FEHB plan rates increased by just 2.6 percent in 1997, after falling slightly last year. (Private firms also paid lower premiums in 1996.)

The FEHB program's cost sharing functions in the following way. For both employees and retirees, the government contributes 75 percent of the premium for the particular option selected by the enrollee, up to a cap on the contribution of $1,630 per year for individuals ($3,510 for families). Thus, the employee's share is at least 25 percent of any plan's premium. The dollar cap is set at 60 percent of the average high-option premiums for individuals and families in the "Big Six" plans--five large plans and a phantom plan that acts as a placeholder for a former participating insurer. (Employer costs are higher under the U.S. Postal Service's collective bargaining agreement.) Employees have an incentive not to choose plans with premiums above $2,180 ($4,680 for family coverage) because they pay 100 percent of the added cost of the premium. Thus, the dollar cap helps to control program costs.

By contrast, the requirement that enrollees pay 25 percent of the premium in plans with costs below the $2,180 cap weakens employees' incentives for price-conscious selection among those health plans and also blunts price competition among plans to attract participants. Under the current arrangement, an employee switching from a plan costing $2,100 to one costing $1,800 would reduce his or her annual cost by only $75.

This option simply makes a dollar cap universal by offering a flat voucher for health insurance premiums. Under that approach, the FEHB program would change so that it provided vouchers that paid the first $1,580 of the premium for employees and retirees ($3,470 for family coverage). Those amounts are based on the average government contributions in 1997 and would increase annually by the rate of inflation rather than by the rate of change in the Big Six premiums. The budgetary savings would come from indexing by inflation rather than by the growth of premiums--not from the voucher's enhanced incentives for reducing costs. Because the Congressional Budget Office (CBO) expects premiums to rise at about twice the rate of inflation, the government's savings would be considerable. In addition, the government would have more control over its premium contributions because they would be more predictable; the program would no longer be an open-ended entitlement.

Compared with current law, savings in discretionary spending from reduced payments for current employees and their dependents would total $1.9 billion over five years. Yet despite those savings, government spending for FEHB premiums for current employees would still be growing each year. If the goal was to hold government payments constant over time, additional policy actions would be required. Savings in direct spending, relative to current-law spending, from reduced benefits for retirees would reach $1.8 billion over five years.

This option would strengthen price competition among health plans in the FEHB program because almost all current enrollees would be faced with paying all of the incremental cost of premiums above the new cap; now, only about one-third are in that position. (CBO's estimates of savings, however, reflect only the effects of indexing by inflation and not any additional benefit from enhanced competition.) The prospect of paying more would make purchasers more price-conscious, and many plans would have a greater incentive to economize and offer lower premiums to retain their participants. Moreover, if premiums did not rise faster than inflation, enrollees would receive the full benefit. A final advantage is that in the lowest-cost plans, enrollees could look forward to the government's paying the entire premium. (Almost all plans currently have premiums above $1,580 for individuals and $3,470 for family coverage, and companies would have no incentive to offer a plan below those amounts.)

On the downside, enrollees as a group would pay an increasing share of their premiums--possibly just under 40 percent by 2002--if premium rates rose faster than the general rate of inflation that governs the proposed plan's growth. The added cost to enrollees could exceed $400 per worker in 2002 and more in later years. Although asking employees and retirees to pay more could encourage participants to select more cost-efficient plans, it could also place more participants in plans with inferior benefits. Because any added costs to employees would amount to a reduction in compensation, the government might find it harder to attract and retain high-quality employees. Finally, for current retirees and long-time federal workers, cuts in promised benefits amount to a retroactive change in the terms of their employment that lowers their standard of living. (For further discussion of the pros and cons of such cuts, see ENT-26.)

This option has an additional drawback in that it would strengthen the existing incentives for FEHB plans to seek out healthy people and for healthy people to select cheap plans. Those patterns isolate sick people in selected plans that then experience increases in costs and risk financial instability. The Office of Personnel Management, which administers the FEHB program, can review plans to try to limit that form of adverse selection. However, its effectiveness in limiting all adverse selection is doubtful.

DOM-54 ELIMINATE LOW-INCOME HOME ENERGY ASSISTANCE

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	1,300	1,300	1,300	1,300	1,300	6,500
Outlays	910	1,150	1,150	1,150	1,150	5,510
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	1,308	1,343	1,379	1,416	1,454	6,900
Outlays	912	1,179	1,211	1,243	1,276	5,821

NOTE: The Congressional Budget Office's baseline includes $300 million a year during the 1998-2002 period that is contingent on the President's designation of an emergency, together with about $1 billion a year in regular budget authority. The savings shown for 1998 would require a rescission of the $1 billion advance appropriation that is contained in the 1997 appropriation act.

The Low Income Home Energy Assistance Program (LIHEAP) helps pay the home energy costs of some low-income households. Authorized by the Omnibus Budget Reconciliation Act of 1981 and administered by the Department of Health and Human Services, LIHEAP funding for block grants to states is $1 billion in 1997. States may use the grants to help eligible households pay their home heating or cooling bills, meet energy-related emergencies, or fund low-cost weatherization projects.

Households may be eligible if they receive assistance from certain other programs, such as Aid to Families with Dependent Children or Supplemental Security Income, or if their income is low. In addition, federal law requires that states give preference to households with the highest energy costs (relative to income) when disbursing LIHEAP funds. Only a minority of eligible households actually receive assistance.

Eliminating LIHEAP would save $5.5 billion in federal outlays during the 1998-2002 period measured from the 1997 funding level or $5.8 billion measured from the 1997 level adjusted for inflation. LIHEAP was created in response to the rapid increases in the price of energy used in the home in the late 1970s and early 1980s. Since 1981, however, inflation in fuel prices has lagged far behind general inflation: fuel prices are up about 30 percent since 1981 in comparison with an overall inflation rate of about 70 percent. That fact might now warrant either eliminating or reducing LIHEAP.

The most recent LIHEAP appropriation of $1 billion, however, is about 60 percent below the program's original 1981 level of funding in real terms. The additional appropriation of $300 million cannot be spent unless the President designates an emergency. Further reductions would create hardships for some low-income households, forcing them to choose between paying for energy or for other household necessities. A further argument for retaining LIHEAP at some level is the flexibility it provides to respond quickly to a future spurt in energy prices.

DOM-55 END THE EXPANSION OF PROGRAMS FOR BUILDING NEW HOUSING UNITS FOR ELDERLY AND DISABLED PEOPLE

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	839	839	839	839	839	4,195
Outlays	0	0	159	327	663	1,149
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	860	883	907	931	956	4,537
Outlays	0	0	163	340	693	1,196

Since the early 1980s, federal activities to provide rental subsidies for low-income people have shifted sharply from constructing low-income housing to using less costly existing housing subsidized with vouchers and certificates. Two construction programs under which new commitments are still being made are the Section 202 and Section 811 programs for elderly and disabled people, respectively. For 1997, $839 million was appropriated to construct about 11,000 new units and subsidize their operating costs.

Eliminating funding for additional new units under those programs would reduce outlays by $1.1 billion over the 1998-2002 period measured from the 1997 funding level. Measured from the 1997 level adjusted for inflation, outlays would be reduced by $1.2 billion. Initially, savings in outlays would be substantially smaller than savings in budget authority because of the long lags involved in building new projects and thus in spending authorized funds.

Proponents of this option contend that expanding programs to construct new housing for elderly and disabled people is inappropriate in light of the cutbacks in other areas of spending. Moreover, they see little need to subsidize any new construction. The overwhelming housing problem today, they argue, is not a shortage of rental units but the inability of low-income households to afford those that exist. For example, average annual vacancy rates nationwide have consistently exceeded 7 percent since 1986, the highest level since 1968. Also, turnover among households living in existing assisted projects would ensure that some new elderly or disabled households were assisted each year. If elderly and disabled people needed more housing assistance, it could be provided less expensively through vouchers or certificates.

Opponents of the option argue that national statistics on the supply of rental units mask local shortages of certain types of units. In particular, many households with an elderly or disabled person need housing that can provide special social and physical services that are not generally available in their current residence. People who support subsidized construction of units for low-income elderly and disabled households also maintain that the high costs of producing such units require the certainty of a guaranteed stream of income that only project-based subsidies can provide.

DOM-56 REDUCE FEDERAL RENT SUBSIDIES BY SHIFTING SOME COSTS TO TENANTS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Establish a Minimum Rent for Assisted Tenants of $50 per Month						
Section 8						
From the 1997 funding level						
Budget authority	15	15	15	15	10	70
Outlays	35	45	40	30	25	175
From the 1997 funding level adjusted for inflation						
Budget authority	35	50	50	50	50	235
Outlays	40	75	70	65	60	310
Public Housing Operating Subsidies[a]						
Budget authority	40	35	35	35	30	175
Outlays	20	35	35	35	35	160
Gradually Increase Payments by Tenants from 30 Percent to 35 Percent of Income						
Section 8						
From the 1997 funding level						
Budget authority	40	80	120	160	190	590
Outlays	80	190	280	360	420	1,330
From the 1997 funding level adjusted for inflation						
Budget authority	110	240	420	610	780	2,160
Outlays	90	280	480	690	920	2,460
Public Housing Operating Subsidies[a]						
Budget authority	90	180	280	380	490	1,420
Outlays	40	130	230	330	430	1,160
Give Preference on Waiting Lists to Working Families						
Section 8						
From the 1997 funding level						
Budget authority	0	2	2	2	3	9
Outlays	10	18	25	29	34	116
From the 1997 funding level adjusted for inflation						
Budget authority	5	35	45	85	90	260
Outlays	10	40	65	90	120	325
Public Housing Operating Subsidies[a]						
Budget authority	15	25	40	55	70	205
Outlays	5	20	30	45	60	160

a. For public housing operating subsidies, savings from these options are essentially the same whether measured from the 1997 funding level or from the 1997 level adjusted for inflation.

Most lower-income renters who receive federal rental assistance are aided through various Section 8 programs or the public housing program, all of which are administered by the Department of Housing and Urban Development (HUD). Those programs usually pay the difference between 30 percent of a household's income after certain adjustments and either the actual cost of the dwelling or, under the Section 8 voucher program, a payment standard. In 1996, the average federal expenditure per assisted household for all of HUD's rental housing programs combined was roughly $5,300. That amount includes both housing subsidies and fees paid to administering agencies.

Increasing the amount that assisted tenants contribute toward their housing costs could yield savings in outlays by reducing federal payments on their behalf. One option is to require assisted tenants to pay at least $50 per month toward their rent. Alternatively, the percentage of their adjusted income that tenants contribute toward their rent could be raised from 30 percent to 35 percent. Yet another option for reducing federal outlays is to increase the proportion of assisted tenants who have relatively high income and thus require relatively low federal payments. That shift could be accomplished by giving preference on waiting lists to eligible working families. However, realizing the savings from those options would require changing the authorizing legislation of rental assistance programs and cutting their annual appropriations.

Establish a Minimum Rent for Assisted Tenants of $50 per Month. Under current program rules, more than 10 percent of renters who receive aid through the various housing assistance programs contribute less than $50 per month toward their rent. In the Section 8 programs, establishing a minimum rent of $50 per month would reduce outlays over the 1998-2002 period by $175 million measured from the 1997 funding level or by $310 million measured from the 1997 level adjusted for inflation. The option would also save $160 million in operating subsidies for public housing. (In the public housing program, this option and those discussed below produce the same savings whether measured from the 1997 funding level or from the 1997 level adjusted for inflation. The savings are similar because they depend on tenants' income and on the number of assisted households, both of which are assumed to be the same for the two funding levels.)

An advantage of this strategy is that it would require all assisted tenants to pay at least a minimum amount for their housing. A $50 minimum payment is not large in comparison with the average monthly rent of more than $450 estimated to be paid in 1997 by unsubsidized renters with very low income. A disadvantage of the option is that it would raise the housing costs of the poorest assisted households--those with adjusted income below $2,000 per year--who would probably find it difficult to increase what they paid for rent.

Gradually Increase Payments by Tenants from 30 Percent to 35 Percent of Income. If tenants' contributions were gradually raised (by 1 percentage point per year) from 30 percent to 35 percent of income, outlays in the Section 8 programs would drop by $1.3 billion measured from the 1997 funding level, or by $2.5 billion measured from the 1997 level adjusted for inflation, over the 1998-2002 period. Outlays for public housing operating subsidies would fall by $1.2 billion over the same period.

An advantage of this option, compared with establishing a $50 minimum rent, is that it would not single out the poorest subsidized tenants for rent increases but would treat all subsidized tenants similarly. In addition, if rent payments were increased to 35 percent of income, tenants' out-of-pocket costs would still be well below the nearly 50 percent of income typically paid by eligible renters who receive no assistance. Nevertheless, the poorest households receiving assistance might have trouble increasing their rent payment. The option could also cause some higher-income renters in assisted housing projects to move to unassisted housing because it might now cost less to rent. As those tenants were replaced by new ones with lower income, the concentration of families with very low income in those projects would increase. In turn, the savings of this option could decrease somewhat, and the quality of life in the projects could deteriorate.

Give Preference on Waiting Lists to Working Families. Current rules for rental assistance programs give priority to applicants on waiting lists who have the most severe housing problems, which are defined in terms of the affordability and physical condition of their present housing units. Such families, on average, have substantially lower income than other income-eligible families without severe housing problems. If the programs required that at least 50 percent of assisted units that became available each year (excluding units designed for elderly and disabled people, which are typically not suitable for occupancy by families) be offered to families that included an employed adult, the proportion of units occupied by eligible families with higher income would gradually increase. Because such tenants would pay a larger amount in rent, federal subsidies in the Section 8 program would decline over the 1998-2002 period by an estimated $116 million measured from the 1997 funding level. They would drop by $325 million measured from the 1997 level adjusted for inflation. Outlays for public housing operating subsidies would be reduced by $160 million over the period.

Giving priority to families with an employed adult would increase the incentive to work among income-eligible renters who were not receiving assistance. In addition, working families would serve as role models in subsidized housing projects and possibly make such projects more desirable to live in. Nevertheless, this option would shift a substantial proportion of the aid that became available each year away from households with the lowest income and the most severe housing problems.

DOM-57 REDUCE THE NUMBER OF FAMILIES RECEIVING RENTAL ASSISTANCE

	Annual Savings (Millions of dollars)					Five-Year Cumulative
	1998	1999	2000	2001	2002	Total
From the 1997 Funding Level						
Budget Authority	40	215	325	415	495	1,490
Outlays	130	240	330	380	435	1,515
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	100	565	990	1,425	1,870	4,950
Outlays	165	495	835	1,180	1,535	4,210

Each year between 1975 and 1995, the Department of Housing and Urban Development (HUD) has increased the stock of Section 8 certificates and vouchers. Those forms of housing assistance allow recipients to live in housing of their own choosing, provided the units meet certain standards. Under the certificate program, HUD pays the difference between 30 percent of a recipient's income and a unit's actual rent (which today can range up to the 40th percentile of local rents). Under the voucher program, HUD pays the difference between 30 percent of a recipient's income and a payment standard. If the unit's actual rent exceeds the payment standard, the tenant pays the excess; if the unit's rent is less than the payment standard, the tenant may keep the difference. At the end of 1996, a total of about 1.4 million commitments for rental assistance were outstanding in both programs.

Outlays for the households assisted under these two programs are estimated to total around $7.9 billion in 1997. If the Congress extended the life of all commitments that are due to expire over the 1998-2002 period, the cost of those 1.4 million commitments would increase to around $9.1 billion by 2002, because the subsidy per household rises annually as a result of inflation. (The Omnibus Budget Reconciliation Act of 1990 directs the Congressional Budget Office to incorporate the cost of future renewals into its budget projections for housing aid when adjusting for inflation.) If, however, the Congress froze the budget authority for renewals of expiring contracts at the 1997 level, outlays for those programs would fall to $2.6 billion by 2002 because not enough funds would be available to renew all contracts. In addition, the number of assisted families would drop to about 384,000 by the end of 2002.

About 8 percent of vouchers and certificates are returned to public housing agencies each year by current recipients. Households turn in their vouchers, for example, when they move or when an increase in their income effectively reduces their subsidy to zero. Whether or not the Congress renewed all expiring contracts, the total number of outstanding certificates and vouchers, and thus outlays, could be reduced over time by reissuing only a portion of them. If half of the returned certificates and vouchers were not reissued, outlays would fall by $1.5 billion over the 1998-2002 period measured from the 1997 funding level or by $4.2 billion measured from the 1997 level adjusted for inflation.

An argument in support of this option is that no current recipients would lose their housing assistance as a result of it. Furthermore, some new income-eligible households would continue to be aided each year if half of the certificates and vouchers that were turned in were reissued.

An argument against the option is that it would hasten the current decline in the proportion of low-income renters who receive federal housing aid. Currently, about 30 percent of eligible renters receive assistance, and in spite of increases in the past in the number of certificates and vouchers, that share has started to decline because of growth in the number of eligible households.

DOM-58 REDUCE STAFFING AT VA MEDICAL FACILITIES BY 5 PERCENT

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	208	415	415	415	415	1,868
Outlays	187	411	415	415	415	1,843
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	215	434	449	465	481	2,044
Outlays	194	430	449	465	481	2,019

The Veterans Health Administration (VHA) of the Department of Veterans Affairs (VA) operates a nationwide medical care system that employed more than 191,000 people in 1996 and comprises 173 hospitals, 131 nursing homes, and 391 outpatient clinics. Most of the hospitals are large and well staffed, providing access to high-quality medical care for eligible veterans. In the past, a large portion of that care was delivered on an inpatient basis. Today, although some hospitals are treating greater numbers of inpatients, most have seen a steady decline in demand for such services as major surgery and common acute care procedures.

This option assumes that the Congress will direct that the VHA's workforce be reduced by 5 percent in 1998. The VA would be free to distribute that reduction among medical specialties and facilities as it deemed best. A 5 percent reduction, if applied across the board, would save $187 million in 1998 and $1.8 billion over five years measured from the 1997 funding level. Savings from the 1997 level adjusted for inflation would be $2.0 billion over the 1998-2002 period.

Several factors support a 5 percent reduction. The VA is adapting several of the managed care principles that have emerged in the private sector. For example, it has reorganized its delivery system into integrated networks and established primary care as the central focus of patient treatment, thus reducing its need for specialists. In addition, technological advances and recent legislative changes governing eligibility for care in the veterans health care system will enable the VA to provide more outpatient care, which means that more patients can be treated with fewer doctors and staff. Besides improving efficiency, this option would also mean that surgeons and specialists would see more patients, thereby providing such physicians with the "hands-on" experience needed to maintain high-quality care. (The drop in the amount of inpatient treatment has resulted in instances in which surgeons at some VA medical centers have performed few or no operations during some recent years.)

However, reducing staff by 5 percent could have disadvantages as well. To prevent shortages of some positions in some hospitals, the VA needs to exercise care in selecting the hospitals that must reduce their staff and the types of jobs to be eliminated. Workforce reductions need to be targeted toward those facilities that have experienced the greatest decrease in their workload. Otherwise, overburdened facilities could be forced to delay treatment for some patients.

DOM-59 SUSPEND FUNDING FOR MAJOR CONSTRUCTION OF VETERANS' MEDICAL FACILITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	219	219	110	110	110	768
Outlays	1	36	103	149	155	444
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	224	231	118	122	125	820
Outlays	1	37	107	156	164	465

Historically, the Department of Veterans Affairs (VA) has spent about $500 million a year on constructing and modernizing its medical care facilities. The VA continues to request funds to build new medical centers and to convert existing facilities in order to expand capacity and services. In recent years, however, the General Accounting Office (GAO) has concluded that some projects slated for construction are not the most prudent or most economical use of federal resources. This option would suspend funding for major VA construction projects, including new facilities and existing structures, for two years. Funding would then resume in 2000 at 50 percent of projected levels. This option would save $444 million in outlays between 1998 and 2002 measured from the 1997 funding level. Savings from the 1997 level adjusted for inflation would total $465 million over that five-year period.

Proponents of this option argue that funding new construction in the VA health care system makes no sense given GAO's assessment of unused inpatient hospital capacity in many areas of the country. Last year, the VA gained substantial authority to provide care on an outpatient basis and to contract with local health care providers. In addition, it recently established Veterans Integrated Service Networks (VISNs) to coordinate resources better within a geographic region. As a result, constructing and renovating facilities are not the only ways for the VA to meet the demand for health care. Before it spends more money to do either, proponents say, the VISNs should assess the long-term demand for care and begin exercising their contract authority to meet veterans' needs.

Opponents of this option argue that some locations are underserved by private-sector health care providers as well as by the VA. Thus, the department's new contract authority would not be effective in creating access to care in those areas. Without having funds available for construction, the VA might not be able to provide care to some deserving veterans simply because of where they live.

DOM-60 REDUCE FUNDING FOR LAW ENFORCEMENT EFFORTS TO CONTROL ILLEGAL DRUGS

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	2,088	2,088	2,088	2,088	2,088	10,440
Outlays	1,441	1,845	1,959	2,022	2,033	9,300
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	2,149	2,213	2,280	2,348	2,419	11,409
Outlays	1,483	1,956	2,139	2,273	2,355	10,206

The federal government currently allocates just over $15 billion a year to controlling illegal drugs. Of that amount, approximately $10.2 billion goes toward controlling the supply and distribution of illegal drugs in this country. (The remainder goes to research and development, treatment, education, and other efforts to control the demand for drugs.) Interdiction and international activities account for about $2.1 billion of the $10.2 billion designated for efforts to control the supply of drugs.

The results of this formidable effort have been mixed, and both supporters and detractors of current law enforcement activities can find encouragement in recent trends. Some indicators show that drug use is significantly less prevalent than it was before federal efforts to control illegal drugs began, whereas other measures show that there has been no decline among certain important subgroups, especially hard-core users. With no clear proof of the efficacy of law enforcement efforts against drugs, some critics argue that the federal government could drastically reduce the resources directed toward the problem without affecting drug use over the long term.

This option would eliminate drug interdiction and international activities to control the supply of drugs. Those two efforts are the ones for which critics find the most questionable results. Through the mid-1990s, the Congress scaled back funding for those activities somewhat, although their appropriations for 1997 have risen over the 1996 funding level. Over five years, this option would save $9.3 billion measured from the 1997 funding level or $10.2 billion measured from the 1997 level adjusted for inflation.

This option would eliminate not only the drug supply activities conducted by domestic agencies but those of the Department of Defense as well. Defense-related efforts account for roughly one-fourth of interdiction and international activities, and efforts related to the administration of justice account for over two-fifths. The remainder is split between the budget functions for transportation and international affairs.

Proponents of reducing federal spending for interdiction and international activities argue that those efforts have not and cannot have a lasting effect on either the availability of or the demand for drugs. They have undoubtedly made it more difficult and more costly to grow, process, import, and distribute illegal drugs; but no hard evidence exists to support the hypothesis that intensified efforts have kept those drugs away from users or pushed prices up to levels that, in the long run, appreciably reduce the amount of drugs being purchased. In fact, some sources show that illicit drugs are less expensive and more readily available now than they were before the federal government began trying to control them.

In addition, current research shows that efforts to cut off the supply of drugs in their country of origin are not cost-effective, because producers' costs are only a small part of the users' charges. As drugs proceed farther along the processing and delivery chain, disruptions have a greater effect on retail prices and thus, one assumes, a greater deterrent effect. This evidence suggests that to use law enforcement dollars to the greatest advantage, efforts should focus on the later stages of drug supply, particularly at the street level, where responsibility rests with state and local units of government. (Of course, efforts to control the supply of drugs at that level are tenuous for several reasons: competition among producers and distributors, the large markup from wholesale to retail prices, and the ability of distributors to dilute the drug and so maintain an end price that customers can afford.)

Proponents of cutbacks in law enforcement efforts also argue that factors related to demand, rather than supply, are dominant in determining drug use. In the past 10 years, most measures of substance abuse have shown significant declines, including lower levels of serious drug use and reductions in the number of people needing treatment. Although causality cannot be assigned, one could argue that the declines are independent of the level of federal resources allocated to controlling drug use. Proponents of reducing enforcement efforts claim that perceptions of health risks and societal attitudes, not enforcement, have probably reduced the demand for drugs among casual users. They also argue that stepped-up levels of enforcement could not have controlled past increases in the number of people with serious drug problems because hard-core users tend to become immune to such efforts. Instead of more enforcement, proponents argue for an expansion or reshaping of existing drug education and treatment programs and for more attention to societal problems, such as dysfunctional families, that contribute to overall drug use.

Opponents of cutting funds for drug enforcement and related efforts point to the successful side of those activities: the destruction of major drug trafficking organizations and the large quantities of illegal crops and drugs that have been destroyed or seized. Law enforcement planners believe that they can take some credit for the reductions seen in drug use since its apex in the mid-1980s; they argue that street prices would have been much lower, and the availability of drugs much greater, without extensive funding for criminal justice efforts. Given that overall drug use remains at unacceptably high levels and that several indicators show recent increases in some categories of use, they contend that it would be premature and irresponsible to reduce or shift current resources away from enforcement. They point out, moreover, that criminal justice efforts are needed as much to keep some control over illegal drug activity as to reduce it, and that many programs are hard-pressed to maintain their existing levels of effort even with current funding. For some agencies, cutting back their funding for interdiction and international efforts would also disrupt some of their activities that are not related to combating the use of drugs.

DOM-61 REDUCE FUNDING FOR JUSTICE ASSISTANCE AND CERTAIN JUSTICE-RELATED ACTIVITIES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
			From the 1997 Funding Level			
Budget Authority	413	414	416	416	416	2,075
Outlays	274	354	399	416	416	1,859
			From the 1997 Funding Level Adjusted for Inflation			
Budget Authority	424	436	451	462	475	2,248
Outlays	280	371	426	455	469	2,001

In addition to the law enforcement activities that the Department of Justice (DoJ) carries out directly, it and related government entities provide various types of law enforcement or legal assistance to individuals, community organizations, and state and local law enforcement agencies. That assistance can take the form of direct payments to individuals; financial grants to carry out projects or conduct research; information, training, or services; or in-kind grants. This option would reduce direct financial assistance by 20 percent while removing many of the restrictions on the use of those justice assistance grants. In addition, it would terminate the Legal Services Corporation (LSC) and the State Justice Institute (SJI). Those cuts can, of course, be considered separately.

In 1997, the federal government will provide state and local units of government and nonprofit organizations with justice assistance grants totaling nearly $661 million, excluding funds authorized by the 1994 Crime Control Act. That financial assistance is spread among many grant programs, each earmarking funds for a specific purpose. Consolidating those grants into one large formula grant for justice-related activities and reducing the total funding by 20 percent would generate outlay savings of $25 million in 1998 and $459 million through 2002 measured from the 1997 funding level. (Savings would be $25 million in 1998 and $489 million through 2002 measured from the 1997 level adjusted for inflation.)

For 1997, the Congress appropriated $283 million to fund the LSC and $6 million to fund the SJI. Eliminating funding for those two organizations as described below would save $248 million in 1998 and $1.4 billion over the 1998-2002 period measured from the 1997 funding level (or $254 million in 1998 and $1.5 billion through 2002 from the 1997 level adjusted for inflation). One-time costs of $5 million are subtracted from those savings estimates to reflect the costs of closing the LSC and SJI.

Reduce and Consolidate Direct Financial Assistance. The DoJ provides grants to states and localities, virtually all of which are distributed through the Bureau of Justice Assistance. Although the Crime Control Act increased funding for that type of assistance, this option focuses on programs authorized elsewhere. One of the largest such programs is the Anti-Drug Abuse Grants (or Byrne grants) program, which accounts for $361 million of the total $661 million for justice assistance grants. Other grants fund juvenile justice programs; support research, development, and evaluation of state justice programs; provide for the collection and analysis of justice statistics and information; or fund various other initiatives. Grants are classified and administered as either program grants, which are awarded to governments or nonprofit groups based on competitive applications, or formula grants, which allocate funds on the basis of population and other characteristics of the states.

Critics of federal spending for law enforcement assistance argue that DoJ directs much of its funding toward problems that are of low priority to recipient governments or that are not federal responsibilities.

They also contend that resources are used inefficiently and that with some modification, financial assistance could be scaled back substantially with no detrimental effects on the nation's law enforcement capabilities. The reductions in this option would entail consolidating the programs and changing the method by which funds are allocated. Most DoJ grants are categorical grants, which must be used for a specific purpose and in some cases require the receiving entity to provide matching funds. Specifying the grant's purpose could encourage units of government to spend money on programs that might not be a high priority in their jurisdiction. (From that point of view, applicants take grants because they are available rather than because of pressing need.) In contrast, block grants are dedicated to a broad category, and recipients are allowed to direct resources toward the programs within that category where the need is greatest. Shifting the method of distributing funds exclusively to block grants would enhance the ability of localities to address their law enforcement problems, even with fewer total resources.

Advocates of restructuring the federal government's grant programs also point to potential savings from lower administrative costs. Currently, each program grant requires that applicants file a proposal detailing how the grant will be used and what oversight will be conducted; in addition, recipients must submit follow-up reports on the program's achievements. Administrative expenses absorb a portion of the total grant that could be used to carry out program activities if the entire program was administered as a single formula grant.

Opponents of reducing funding for law enforcement point to the vital role of the federal government in augmenting the resources of the states and directing funds to areas of critical national need. In certain cases, they argue, the problems that those funds are addressing are national in scope; without the incentive of federal grants, the states might neglect those problems because of the scarcity of their resources. Without federal assistance, these advocates assert, the nation's streets would be far more dangerous than they already are. With crime rates soaring in most of the country, they argue, there should be more, rather than less, federal money allocated to battling crime.

Other areas, such as juvenile justice, also rely heavily on federal assistance for support. In many cases, states supplement federal funds with their own resources, thus raising the total level of resources directed at the problem. Reducing federal funding for those efforts would cause many of the states to terminate their programs and allocate their funds to other purposes. Proponents of the current categorical grant system maintain that if such grants are used effectively, they can provide the necessary incentive for states to address problems that federal lawmakers feel are most pressing. These advocates argue that the purpose of the grants is not to provide the resources for law enforcement efforts at all levels of government but to persuade states and localities to address problems that they otherwise might not. The federal effort to persuade states to enhance their civil rights protections is an example of how that practice has operated in the past.

Terminate the Legal Services Corporation and the State Justice Institute. The Legal Services Corporation is an independent, not-for-profit organization that supplies funding to programs providing free legal advice to the poor on civil matters. Since its inception in 1974, the LSC has been the subject of controversy. Critics such as the American Farm Bureau Federation charge that the activities of legal service lawyers too often focus on advancing social causes rather than on meeting the needs of poor people with routine legal problems; they also question the appropriateness of some of the tactics employed by LSC attorneys. In addition, such critics argue that providing legal services to the poor is not a federal responsibility. If funds for the LSC were eliminated, the responsibility for legal aid to the poor would rest with states and local governments. That change would make those services more responsive to local needs.

Terminating the LSC would save $247 million in 1998 and $1.4 billion through 2002 compared with extending the 1997 funding level. (Compared with the 1997 level adjusted for inflation, savings would be $253 million in 1998 and $1.5 billion through 2002.)

Those people in favor of continued support for the LSC argue that the federal government's funding of free legal services for poor people is the only way to ensure that all citizens receive legal representation, regardless of their financial situation. Removing federal funding in favor of support from private sources and pro bono services would diminish access to legal services. Proponents of the LSC argue that relying on uncertain and indirect forms of assistance, rather than on a specifically targeted program of federal aid, is insufficient protection; the inadequacy of local and private support was one of the factors that led to direct federal financing in the first place. In addition, proponents point out that criticisms of the LSC have subsided in the past few years as a result of its eliminating some of its more controversial activities. They argue that thorough oversight and clear definition of permitted services would further curtail the activities that some observers find objectionable while still achieving the LSC's purpose.

The State Justice Institute was established in 1984 as a private, not-for-profit corporation to provide grants and undertake other activities to improve the administration of justice in the states. According to critics, the SJI has a negligible impact on the functioning of state justice systems. Most of its grants support research on improving the administration of justice, particularly the courts, but the SJI does little to disseminate or spur implementation of the results of those studies. Critics say the SJI's funds would be more effective if they were used to aid justice systems in implementing ideas that have been shown to work, rather than to produce more research. Opponents further argue that the institute has no effect on how justice systems function and that terminating it would cause no noticeable decline in services. Termination would, however, produce savings from the 1997 funding level of $1 million in 1998 and $21 million through 2002. (Measured from the 1997 funding level adjusted for inflation, savings would be $1 million in 1998 and $23 million through 2002.)

SJI proponents argue that the institute is a useful source of new ideas for improving state justice systems and a forum for officials of different state and federal agencies to exchange innovative ideas. They point to useful projects that the institute has funded, such as the one that reduced the average length of trials in San Jose from eight days to four, as examples of how the SJI's work has improved the administration of justice. Proponents further assert that the SJI is one of only a few institutions that focus on the courts, a critical element in any criminal justice system. They argue that without enhanced court administration, improvements in other areas of law enforcement cannot achieve their full potential.

DOM-62 REDUCE THE OVERHEAD RATE ON FEDERALLY SPONSORED UNIVERSITY RESEARCH

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
From the 1997 Funding Level						
Budget Authority	397	397	397	397	397	1,985
Outlays	157	333	388	395	396	1,669
From the 1997 Funding Level Adjusted for Inflation						
Budget Authority	496	607	718	833	952	3,606
Outlays	196	460	622	741	858	2,877

Federal spending for research and development (R&D) performed at universities covers both direct and overhead costs (also known as indirect costs). The major direct costs of research are wages for scientists, engineers, and technicians and payments for materials and specialized equipment. Overhead costs allocated to federal research include research-related administrative overhead, library and student services, buildings and equipment used in common, and operations and maintenance. The National Institutes of Health (NIH) accounts for roughly half of federally sponsored university research. The National Science Foundation and the Department of Defense are also major sources of federal funds.

To calculate the overhead expenses that can be allocated to federal research, universities typically take most, but not all, of their direct costs (known as modified direct costs) and apply a prenegotiated payment rate to them in each of several categories. The sum of the rates from all of those categories is the overall payment rate for overhead expenses. Overall overhead payment rates could be set and frozen for all universities at 90 percent of their 1997 level. Doing so would save $157 million in 1998 and $1.7 billion over the 1998-2002 period relative to the 1997 funding level. Relative to the 1997 level adjusted for inflation, the option would save $196 million in 1998 and $2.9 billion over the 1998-2002 period. (The two sets of savings estimates differ because the inflation-adjusted level of funding for university R&D grants would have to be reduced to maintain the program at the 1997 funding level. Both sets of cuts would reduce the grant programs to the same level of funding in 2002.) To capture the savings from this option, the Congress would have to reduce the appropriations for university research by an amount corresponding to the mandated reduction in overhead costs.

The overhead payments for federally sponsored university research have increased faster than the direct costs of research, although growth has moderated in recent years. In 1972, each dollar of direct research funding paid to universities carried an additional 30 cents to cover the overhead costs allocated to federal research. Over the next decade, the share of overhead costs rose rapidly, finally leveling off at around 45 percent beginning in 1985. In 1994, the government paid 44 cents in indirect costs for each dollar spent on direct research. (Because payment rates are applied only to a portion of the total direct costs and because some agencies pay lower overhead rates for certain grants, the overall payment rate is higher than the ratio of overhead costs to direct costs.)

Overhead payments related to facilities have led the increase in costs, contrary to the impression given by well-publicized instances of questionable charges by universities to overhead payment accounts. Those charges have not been a major factor in the long-term growth of the share of overhead; in fact, auditors estimate that they account for only about 1 percent of those costs. Increases in the costs of operating and maintaining facilities--utilities, repairs, and janitorial services--have been the major component of the escalation in facilities costs in the past decade. And growth has continued even in the face of substantial drops in the price of energy. Higher costs for new buildings as a result of higher real estate prices, construction inflation, and interest costs have not been as significant.

Given the leveling off of overhead rates since the late 1980s, many analysts have questioned the need for continuing to focus on them. But that leveling has only been possible because of pressure on the administrative portion of overhead expenses. Overhead rates for facilities costs have continued to rise throughout the 1990s. The Administration has promulgated regulations that would require universities to provide more detailed information to justify their requests for reimbursement. It is also developing benchmarks for facilities costs to provide appropriate incentives for universities to hold down unnecessary expenses.

The rise in the share of funding for federally sponsored university research that goes to pay for overhead has fostered a concern that each federal dollar spent is now producing less actual research activity. Freezing the payment for overhead costs at 90 percent of its current level is meant to allay that concern. Under that policy, no single university would experience a very large reduction. But the reduction would hurt small and state universities that have kept their overhead costs low.

Some people might argue that competition by universities for grants should be sufficient to control the growth of overhead, and that the increases in the share of those costs are an unavoidable outcome of market forces and reflect real cost increases. The market for university research, however, tends to be concentrated among a relatively small number of universities overall and to be very concentrated in specific research areas. Because only a few institutions contend for a large share of federal spending for university R&D, it may not be reasonable to assume that competition is enough to hold down overhead costs. The higher overhead rates charged by the largest private universities that are major recipients of federal support may indicate a lack of competition. (There is also some evidence that those schools may charge much lower overhead rates on private grants.) If competition is indeed lacking, regulatory rules are an appropriate response to ensure that federal dollars are spent in the most productive way. Capping overhead payment rates would supply the discipline that the market has been unable to provide and motivate some institutions to become more efficient and cost-conscious.

Defenders of the current system contend that the increases in the overhead costs of university research are legitimate and that the nation's system of research universities will be hurt if universities are not permitted to recover the total cost of the research they conduct. Financially strapped institutions could be forced to reduce investments in new facilities, library collections, and the like. In fact, the success seen since 1985 in slowing the growth of overhead costs can be attributed in part to reduced spending for libraries. If inadequate library resources reduce the effectiveness of universities in performing their research and education missions in the future, the near-term savings gained by controlling overhead costs may not be worth the loss of future benefits to society as a whole.

University advocates make other points as well. The higher overhead rates of large private universities may not result from a lack of cost discipline; instead, because those institutions lack state government appropriations, they may simply be more assiduous in claiming all that is rightfully theirs. Another argument made against a reduction is that, because the data are lacking to determine the actual total costs of R&D, such a reduction could be set below the real cost-recovery point. Nevertheless, many in the research community would advocate reductions in the amount of overhead payments. However, they would apply the savings to increasing the number of research grants rather than reducing the deficit.

DOM-63 REDUCE THE NUMBER OF POLITICAL APPOINTEES

	Annual Savings (Millions of dollars)					Five-Year Cumulative Total
	1998	1999	2000	2001	2002	
Budget Authority	33	102	90	37	73	335
Outlays	32	99	91	40	71	333

NOTES: Savings exclude reductions in agency contributions to federal employee retirement trust funds because those reductions do not affect the deficit.

In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. That current-law spending projection differs from projections that are not based on any programmatic assumptions and simply assume that the 1997 level of funding for this activity (or that amount adjusted for inflation) is provided every year.

Generally, the term "political appointee" refers to employees of the federal government who are appointed by the President, some with and some without confirmation by the Senate, and to certain policy advisors hired at lower levels. For the purposes of this option, the term covers Cabinet Secretaries, agency heads, and other "executive-schedule" employees at the very top ranks of government; top managers and supervisors who are noncareer members of the Senior Executive Service; and confidential aides and policy advisors who are referred to as Schedule C employees. Total employment in such positions, according to Congressional Budget Office (CBO) projections, will average about 2,700 over the next five years. If the government instead capped the number of political appointees at 2,000, savings over the 1998-2002 period would total $333 million. The average salary for political appointees in CBO's calculations is estimated to be $88,700.

The National Performance Review (NPR) called for reductions in the number of federal managers and supervisors but made no specific reference to those who were political appointees. Yet the argument that the NPR put forth for reducing the number of government managers--that they add to organizational layering and complexity and therefore stifle initiative and limit flexibility--also applies to top managers who are political appointees.

Reports from several groups, including the National Commission on the Public Service and the Twentieth Century Fund, have called for cuts in the number of political appointees. The National Commission on the Public Service, also known as the Volcker Commission, called for limits similar to the one described here. In addition to the problem of excess organizational layering, the Volcker Commission described concerns associated with the lack of expertise in government operations and programs that characterizes many appointees. In political appointments, the commission noted, more weight is generally given to political loyalties than to knowledge of government. Moreover, few appointees are in office long enough to acquire the necessary skills and experience to master their job. That lack of experience, wrote the commission, means that political appointees in many instances are not effective in carrying out the policies of the President they serve and can disrupt the day-to-day operations of agencies. Another consequence is that career managers become frustrated and demoralized, making recruitment and retention difficult in the top ranks of the career civil service.

Those observers who defend the use and proliferation of political appointees cite the importance for a President of establishing control over the vast bureaucracy by having like-minded individuals and allies strategically located throughout the government. Those appointees, supporters note, form an important link to the electorate because they help to ensure leadership throughout government that is consistent with the philosophy of each elected President. Such appointees, moreover, can be a source of fresh perspectives and innovation. The high rate of turnover among many appointees, supporters argue, means that those officials make way for someone new before they reach the point of "burnout."

DOM-64 REPEAL THE SERVICE CONTRACT ACT

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
Budget Authority	726	746	767	788	810	3,837
Outlays	689	745	766	787	809	3,796

The McNamara-O'Hara Service Contract Act of 1965 (SCA) sets basic labor standards for employees working on government contracts whose principal purpose is to furnish labor, such as laundry, custodial, and guard services. Contractors covered by the act generally must provide those employees with wages and fringe benefits that are at least equal to those prevailing in their locality or those contained in a collective bargaining agreement of the previous contractor. The Department of Labor measures prevailing wages in an area based on the specific wages and benefits earned by at least 50 percent of workers in a particular type of job, or on the weighted average of wages and benefits paid to workers in that type of job. The provision about collective bargaining agreements applies to successor contractors, regardless of whether their employees are covered by such an agreement.

In 1995, the SCA covered approximately 27,000 contracts, valued at more than $22 billion. The Department of Defense accounted for about 36 percent of that dollar value, the Army Corps of Engineers for 22 percent, and the National Aeronautics and Space Administration for 13 percent.

The cost of services procured by the federal government could be reduced by repealing the SCA. That action would reduce outlays by about $689 million in 1998 and by about $3.8 billion over the 1998-2002 period, provided federal agency appropriations were reduced to reflect the anticipated reduction in costs.

Federal procurement costs would fall because the option would promote greater competition among bidders. Repealing the SCA would give contractors added flexibility that could allow them to reduce the costs of providing services. Opponents of this option are concerned that it would allow bidders to undermine existing collective bargaining agreements. In addition, repealing the SCA would reduce the compensation of workers in some firms that provide services to the government, which in turn could reduce the quality of such services.

DOM-65 REPEAL OR MODIFY THE DAVIS-BACON ACT

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1998	1999	2000	2001	2002	Five-Year Cumulative Total
			Repeal the Davis-Bacon Act			
Discretionary Savings						
Budget authority	826	854	877	901	926	4,384
Outlays	196	463	625	739	816	2,839
Mandatory Savings						
Budget authority	32	26	24	24	23	129
Outlays	28	27	25	24	24	128
			Raise the Threshold to $1 Million			
Discretionary Savings						
Budget authority	321	323	332	341	350	1,667
Outlays	83	157	223	273	309	1,045
Mandatory Savings						
Budget authority	5	4	3	3	3	18
Outlays	2	3	3	3	3	14
			Raise the Threshold to $250,000			
Discretionary Savings						
Budget authority	82	83	85	87	90	427
Outlays	33	53	67	75	80	308
Mandatory Savings						
Budget authority	1	1	1	1	1	5
Outlays	0	1	1	1	1	4
			Change from Weekly to Monthly Wage Reporting			
Discretionary Savings						
Budget authority	94	100	103	106	109	512
Outlays	22	55	74	87	96	334
Mandatory Savings						
Budget authority	4	3	3	3	3	16
Outlays	1	3	3	3	3	13

Since 1935, the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or federally assisted construction projects with contracts of $2,000 or more. The Department of Labor measures prevailing wages in an area based on the specific wages and benefits earned by at least 50 percent of workers in a particular type of job, or on the weighted average of wages and benefits paid to workers in that type of job. Those procedures, as well as the classifications of workers who receive prevailing wages, favor union wage rates in some cases.

In 1996, a total of $42 billion in federal discretionary funds was authorized for construction projects covered by the Davis-Bacon Act. Forty-nine percent of that amount went to transportation projects, 14 percent went to the Department of Defense, and 10 percent went to the Department of Housing and Urban Development.

The federal government could reduce outlays for construction by repealing the Davis-Bacon Act or by modifying it. Repealing the act would reduce discretionary outlays by about $196 million in 1998 and by about $2.8 billion over the 1998-2002 period. Mandatory spending would fall by $28 million in 1998 and by $128 million over the 1998-2002 period.

As an alternative, raising the threshold for determining which projects are covered by Davis-Bacon from $2,000 to $1 million would exclude about 23 percent of the value of all contracts currently covered by the act. Savings in that case would total about $83 million in 1998 and about $1 billion over the five-year period in discretionary outlays and $2 million and $14 million, respectively, in mandatory spending. Raising the threshold to $250,000 would exclude about 7.5 percent of the value of all contracts and save about $308 million over the five-year period in discretionary spending and about $4 million in mandatory spending.

Changing the requirements for wage-and-hour reporting for contracts covered by Davis-Bacon from a weekly to a monthly basis would reduce compliance costs for contractors by about $334 million over the five years in discretionary spending and $13 million in mandatory spending. (Altering Davis-Bacon would not automatically reduce federal spending, just the cost of construction projects. Therefore, the above estimates assume that the Congress would reduce federal appropriations for agencies to reflect the anticipated reduction in their construction costs.)

Repealing Davis-Bacon or raising the threshold for projects it covers would allow the federal government to spend less on construction. In addition, either action would probably increase the opportunities for employment that federal projects might offer to less skilled workers. However, such changes would lower the earnings of some construction workers. Opponents of these options also argue that eliminating or relaxing Davis-Bacon requirements could jeopardize the quality of federally funded or federally assisted construction projects. Reducing the requirements for wage-and-hour reporting would lessen the paperwork required of employers, but at the same time it might diminish the effectiveness of the Davis-Bacon Act by reducing the government's ability to detect noncompliance.