

A
CBO
REPORT

BUDGET OPTIONS

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Numbers in the text and tables may not add up to totals because of rounding.

In Chapter 3, savings for most of the nondefense discretionary spending options are estimated in two ways: relative to the freeze variation of the Congressional Budget Office's baseline, referred to as WODI (without discretionary inflation), and relative to the inflation-adjusted version, or WIDI (with discretionary inflation). Savings for most of the defense options are estimated relative to program levels that are assumed to be roughly the same under WODI or WIDI.

Preface

This volume—part of the Congressional Budget Office's (CBO's) annual report to the House and Senate Committees on the Budget—is intended to help inform policymakers about options for the federal budget. The report has two main components. First, it discusses some major proposals to increase spending or cut taxes that have been prompted by the emergence of large budget surpluses. Second, it presents some 250 specific policy options to reduce spending or increase revenues in a wide variety of programs; those options could be used to offset the cost of new initiatives, maintain budgetary discipline, reorder priorities, or accomplish other goals.

The broad proposals and specific policy options come from many sources. In keeping with CBO's mandate to provide objective and impartial analysis, the discussion of each proposal or option presents the cases for and against it. The inclusion or exclusion of a particular proposal or option does not represent an endorsement or rejection by CBO. As a nonpartisan Congressional staff agency, CBO does not make recommendations about policy.

The report begins with an introduction that discusses the debate over surpluses and explains how to use the proposals and options. Part One of the volume examines a range of major policy initiatives for increasing spending (Chapter 1) or cutting taxes (Chapter 2) that have been prominent in the public debate. Part Two summarizes around 190 specific options for reducing spending (Chapter 3) and about 60 specific options for increasing revenues (Chapter 4). The spending options in Chapter 3 are organized by the functional categories of the budget—national defense; international affairs; general science, space, and technology; and so on. Each functional category is introduced by a page of background data and information about recent trends within that function. The report concludes with an appendix listing the scorekeeping guidelines used to enforce the discretionary spending limits and pay-as-you-go requirement of the Budget Enforcement Act of 1990 (as amended).

All divisions of the Congressional Budget Office contributed to this report, which was coordinated by Arlene Holen. Sandy Davis wrote the introduction. Chapter 1 was prepared by the Health and Human Resources Division, under the direction of Joseph Antos, Sandra Christensen, Ralph Smith, and Bruce Vavrichek. Chapter 2 was prepared by Robertson Williams, G. Thomas Woodward, and Richard Kasten. The spending options in Chapter 3 were coordinated by David H. Moore, R. Mark Musell, R. William Thomas, and Bruce Vavrichek. The revenue options in Chapter 4 were coordinated by Robertson Williams. Budget authority and outlay estimates were coordinated by Tom B. Bradley, Kim P. Cawley, Paul R. Cullinan, and Michael A. Miller. The background pages for each function were prepared by R. Mark Musell and Peter H. Fontaine. The staff of the Joint Committee on Taxation prepared most of the revenue estimates. Laurie Brown designed the interactive version of the report, with technical support from Frank Gibbs.

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Contents

	INTRODUCTION	1
	The Changing Fiscal Environment	2
	Using This Volume	4
	Exclusions and Limitations	6
	Scorekeeping Guidelines	7
	 PART ONE	
CHAPTER ONE	EXPANDING THE SCOPE OF FEDERAL ACTIVITIES	11
	Medicare	11
	Social Security	15
	Health Insurance Coverage	22
	Long-Term Care for the Elderly	31
	Education	34
 CHAPTER TWO	 CUTTING TAXES	 41
	The Federal Tax System	41
	Criteria for Assessing Tax Changes	46
	Ways to Reduce Revenues	47
	 PART TWO	
 CHAPTER THREE	 SPENDING OPTIONS	 59
	 Function 050: National Defense	
050-01-A	Reduce U.S. Forces to START II Levels by 2007	62
050-01-B	Reduce Nuclear Delivery Systems Within Overall Limits of START II	63

050-02	Terminate Production of D5 Missiles After 2000	64
050-03	Reduce the Scope of DOE's Stockpile Stewardship Program	65
050-04	Eliminate Two Army National Guard Combat Divisions	67
050-05	Cancel the Army's Comanche Helicopter Program	68
050-06	Cancel the Army's Crusader Artillery Program	69
050-07	Cancel the Army's Tank Upgrade Program	70
050-08	Reduce Procurement of the Virginia Class New Attack Submarine	71
050-09	Reduce the Number of Aircraft Carriers to Ten and Air Wings to Nine	72
050-10	Use Marine Corps Squadrons to Fill Out Navy Air Wings	73
050-11	Defer Purchases of the Marine Corps's V-22 Aircraft	75
050-12	Reduce Air Force Tactical Forces	76
050-13-A	Reduce Purchases of the Air Force's F-22 Fighter	77
050-13-B	Cancel Production of the Air Force's F-22 Fighter	78
050-14	Slow the Schedule of the Joint Strike Fighter Program	79
050-15	Create Common NATO Airlift and Cut U.S. C-17 Costs	81
050-16	Cut Requirements for Pilots in Nonflying Positions	82
050-17	Restructure the Officer Corps	83
050-18	Deny Unemployment Compensation to Service Members Who Leave Voluntarily	85
050-19	Downsize the Military Medical System	86
050-20	Revise Cost Sharing for Military Health Benefits	88
050-21	Have DoD and VA Purchase Drugs Jointly	89
050-22	Eliminate DoD's Elementary and Secondary Schools	91
050-23	Consolidate and Encourage Efficiencies in Military Exchange Activities	92

050-24	Increase Competition Between DoD and Private-Sector Housing	93
050-25	Create Incentives for Military Families to Save Energy	94
050-26	Apply Technology to Reduce the Cost of Operating Equipment	95
050-27	Close and Realign Additional Military Bases	97
050-28	Demolish Excess and Obsolete Structures	98
050-29	Consolidate Depot Functions and Close Some Facilities	99
050-30	Change the Management and Pricing of Repairs	100
050-31	Allow Federal Agencies to Bargain for Electricity	102
050-32	Sell Surplus Real Property of the Department of Energy	103
050-33	Eliminate Cargo Preference	104

**Function 150:
International Affairs**

150-01	Eliminate Overseas Broadcasting by the U.S. Government	106
150-02	Reduce Assistance to Israel and Egypt	107
150-03	Eliminate the Export-Import Bank, Overseas Private Investment Corporation, and Trade and Development Agency ...	108

**Function 250:
General Science, Space, and Technology**

250-01	Cancel the International Space Station Program	110
250-02	Eliminate the Experimental Program to Stimulate Competitive Research	111

**Function 270:
Energy**

270-01	Eliminate the Department of Energy's Applied Research Programs for Fossil Fuels	114
--------	---	-----

270-02	Eliminate the Department of Energy's Applied Research for Energy Conservation	115
270-03	Eliminate the Department of Energy's Applied Research for Solar and Renewable Energy Sources	116
270-04	Eliminate Energy Conservation Grant Programs	117
270-05	Eliminate Electrification and Telephone Credit Subsidies Provided by the Rural Utilities Service	118
270-06	Restructure the Power Marketing Administrations to Charge Higher Rates	119
270-07	Sell the Southeastern Power Administration and Related Power Generation Equipment	120
270-08	Eliminate Federal Funding for the Partnership for New Generation Vehicles	121
270-09	Sell Oil from the Strategic Petroleum Reserve	122
270-10	Eliminate the Analysis Function of the Energy Information Administration	123
270-11	Require the Tennessee Valley Authority to Accelerate the Repayment of Deferred Nuclear Assets and Limit Its Future Borrowing	124

**Function 300:
Natural Resources and Environment**

300-01	Increase Net Receipts from National Timber Sales	126
300-02	Impose a Ten-Year Moratorium on Land Purchases by the Departments of Agriculture and the Interior	127
300-03	Eliminate Federal Grants for Water Infrastructure	128
300-04	Spend the Remaining Balance of the Superfund Trust Fund and Terminate the Program	129
300-05	Charge Market Rates for Information Provided by the National Weather Service	130
300-06	Change the Revenue-Sharing Formula from a Gross-Receipt to a Net-Receipt Basis for Commercial Activities on Federal Lands	131

300-07	Reauthorize Holding Fees and Charge Royalties for Hardrock Mining on Federal Lands	132
300-08	Raise Grazing Fees on Public Lands	133
300-09	Recover Costs Associated with Administering the U.S. Army Corps of Engineers Permitting Programs	134
300-10	Impose User Fees on the Inland Waterway System	135
300-11	Open the Coastal Plain of the Arctic National Wildlife Refuge to Leasing	136
300-12	Impose a New Harbor Maintenance Fee	137
300-13	Terminate Economic Support Fund Payments Under the South Pacific Fisheries Treaty	138
300-14	Eliminate Federal Funding of Beach Replenishment Projects . . .	139
300-15	Eliminate Energy-Efficiency Programs of the EPA	140

**Function 350:
Agriculture**

350-01	Reduce Federal Support for Agricultural Research and Extension Activities	142
350-02	Reduce Department of Agriculture Spending for Export Marketing and International Activities	143
350-03	Reinstate Assessments on Growers, Buyers, and Importers of Tobacco	144
350-04	Eliminate Mandatory Spending for the Agricultural Research Activities of the Fund for Rural America and the Initiative for Future Agriculture and Food Systems	145
350-05	Limit Future Enrollment of Land in the Department of Agriculture's Conservation Reserve Program	146
350-06	Eliminate Attaché Positions in the Foreign Agricultural Service	147
350-07	Reduce the Reimbursement Rate Paid to Private Insurance Companies in the Department of Agriculture's Crop Insurance Program	148

350-08 Eliminate Public Law 480 Title I Sales and Limit the Secretary
of Agriculture's Authority 149

350-09 Eliminate the Market Access Program 150

**Function 370:
Commerce and Housing Credit**

370-01 End the Credit Subsidy for Major Small Business Administration
Business Loan Guarantee Programs 152

370-02 Reduce Costs of the ITA by Eliminating Trade Promotion
Activities or Charging the Beneficiaries 153

370-03 Eliminate the Advanced Technology Program 154

370-04 Eliminate the Manufacturing Extension Partnership and
the National Quality Program 155

370-05 Eliminate the Minority Business Development Agency 156

370-06 Eliminate the 85 Percent Market Adoption Test for Digital
Television 157

370-07 Charge a User Fee on Commodity Futures and Options Contract
Transactions 158

370-08 Eliminate FHA Mortgage Insurance Rebates 159

370-09 Increase the Ginnie Mae Guarantee Fee 160

370-10 Require All GSEs to Register with the SEC 161

370-11 Eliminate New Funding for the Rural Rental Housing
Assistance Program 162

**Function 400:
Transportation**

400-01 Eliminate Federal Subsidies for Amtrak 164

400-02 Eliminate the Essential Air Service Program 165

400-03 Establish Charges for Airport Takeoff and Landing Slots 166

400-04 Increase User Fees for FAA Certificates and Registrations 167

400-05 Establish Marginal Cost-Based Fees for Air Traffic Control Services 168

400-06 Impose a User Fee to Cover the Cost of the Federal Railroad Administration's Rail Safety Activities 169

**Function 450:
Community and Regional Development**

450-01 Convert the Rural Community Advancement Program to State Revolving Loan Funds 172

450-02 Eliminate the Appalachian Regional Commission 173

450-03 Drop Wealthier Communities from the Community Development Block Grant Program 174

450-04 Eliminate the Neighborhood Reinvestment Corporation 175

450-05 Drop Flood Insurance for Certain Repeatedly Flooded Properties 176

450-06 Reduce the Flood Insurance Subsidy on Pre-FIRM Structures 177

450-07 Eliminate the Community Development Financial Institutions Fund 178

**Function 500:
Education, Training, Employment, and Social Services**

500-01 Reduce Funding for Title I, Education for the Disadvantaged 180

500-02 Eliminate Funding for Bilingual Education 181

500-03 Reduce Funding to School Districts for Impact Aid 182

500-04 Limit Federal Funding for State Education Reform 183

500-05 Eliminate Funding for Federal Initiatives to Reduce Class Size 184

500-06 Consolidate and Reduce Funding for Several Elementary and Secondary Education Programs 185

500-07 Reduce Spending and Increase the Targeting of Funds for Safe and Drug Free Schools and Communities 186

500-08-A Eliminate Interest Subsidies on Loans to Graduate Students 187

500-08-B	Increase Origination Fees for Unsubsidized Loans to Students and Parents	188
500-08-C	Restrict Eligibility for Subsidized Student Loans by Including Home Equity in the Determination of Financial Need	189
500-09	Reduce Special Allowance Payments to Lenders in the Student Loan Program	190
500-10	Eliminate Administrative Fees Paid to Schools in the Campus-Based Student Aid and Pell Grant Programs	191
500-11	Eliminate the Leveraging Educational Assistance Partnership Program	192
500-12	End New Funding for Perkins Loans	193
500-13	Reduce Funding for the Arts and Humanities	194
500-14	Eliminate Funding for the Senior Community Service Employment Program	195
500-15	Eliminate Funding for the National and Community Service Act	196
500-16	Reduce Funding for Head Start	197
500-17	Reduce the 50 Percent Floor on the Federal Share of Foster Care and Adoption Assistance Payments	198
500-18	Reduce the Federal Matching Rate for Administrative and Training Costs in the Foster Care and Adoption Assistance Programs	199

**Function 550:
Health**

550-01	Reduce Funding for the National Health Service Corps	202
550-02	Reduce the Floor on the Federal Matching Rate in Medicaid	203
550-03	Reduce the Enhanced Federal Matching Rates for Certain Administrative Functions in Medicaid	204
550-04-A	Restrict the Allocation of Common Administrative Costs to Medicaid	205
550-04-B	Reduce Spending for Medicaid Administration	206

550-05	Convert Medicaid and Medicare DSH Payments into a Block Grant	207
550-06	Recover Unspent Funds from the State Children's Health Insurance Program	208
550-07	Reduce Subsidies for Health Professions Education	209
550-08	Combine and Reduce Public Health Service Block Grants	210
550-09	Adopt a Voucher Plan for the FEHB Program	211
550-10	Base Retiree Health Benefits on Length of Service	212
550-11	Establish New User Fees for Medical Devices Regulated by the FDA	213
 Function 570: Medicare 		
570-01	Reduce Medicare's Payments for the Indirect Costs of Patient Care That Are Related to Hospitals' Teaching Programs	216
570-02	Reduce Medicare's Direct Payments for Medical Education	217
570-03	Eliminate Additional Capital-Related Payments for Hospitals with Residency Programs	218
570-04	Convert Medicare Payments for Graduate Medical Education to a Block Grant and Slow Their Rate of Growth	219
570-05	Eliminate Medicare's Additional Payments to Sole Community Hospitals	220
570-06	Institute a Single Global Payment for Hospitals' and Physicians' Services Provided During an Inpatient Stay	221
570-07	Increase and Extend the Reductions in the Medicare PPS Market Basket	222
570-08	Reduce Medicare's Payments for Hospitals' Inpatient Capital-Related Costs	223
570-09	Eliminate Medicare's Payments to Hospitals for Enrollees' Bad Debts	224
570-10	Eliminate Medicare's Payments to Nonhospital Providers for Enrollees' Bad Debts	225

570-11	Reduce Medicare Payments for Currently Covered Prescription Drugs	226
570-12	Index Medicare's Deductible for SMI Services	227
570-13-A	Simplify and Limit Medicare's Cost-Sharing Requirements	228
570-13-B	Restrict Medigap Coverage	229
570-14	Collect Deductible and Coinsurance Amounts on Clinical Laboratory Services Under Medicare	230
570-15	Impose a Copayment Requirement on Home Health Visits Under Medicare	231
570-16	Prohibit First-Dollar Coverage Under Medigap Policies	232
570-17	Increase the Premium for SMI Services Under Medicare to 30 Percent of Program Costs	233
570-18	Tie the Premium for SMI Services Under Medicare to Enrollees' Income	234
570-19-A	Increase Medicare's Age of Eligibility to Match Social Security's Normal Retirement Age	235
570-19-B	Permit Early Buy-In to Medicare and Increase the Normal Age of Eligibility	236

**Function 600:
Income Security**

600-01	End Trade Adjustment Assistance	238
600-02	End the Expansion of Programs for Building New Housing Units for Elderly and Disabled People	239
600-03	Increase Payments by Tenants in Federally Assisted Housing	240
600-04	Reduce Rent Subsidies to Certain One-Person Households	241
600-05	Stop Expansion of the Number of Rental Assistance Commitments	242
600-06	Reduce Funding for Employment and Training in the Food Stamp Program	243
600-07	Reduce the Exemptions from Employment and Training Requirements for Food Stamp Recipients	244

600-08	Reduce the \$20 Unearned Income Exclusion Under the Supplemental Security Income Program	245
600-09	Create a Sliding Scale for Children's SSI Benefits Based on the Number of Recipients in a Family	246
600-10	Reduce the Federal Matching Rate for Administrative Costs in the Child Support Enforcement Program	247
600-11	Reduce TANF Block Grants to States	248
600-12	Reduce Funding for the Low Income Home Energy Assistance Program	249
600-13-A	Defer Cost-of-Living Adjustments for CSRS Annuitants	250
600-13-B	Limit Some COLAs for Federal Retirees	251
600-13-C	Reduce COLAs for Middle- and High-Income Federal Retirees	252
600-14	Modify the Salary Used to Set Federal Pensions	253
600-15-A	Restrict the Government's Matching Contributions to the Thrift Savings Plan	254
600-15-B	Restructure the Government's Matching Contributions to the Thrift Savings Plan	255
600-16	Increase Employee Contributions for Federal Pensions	256
Function 700: Veterans Benefits		
700-01	Charge Monthly Rather Than Up-Front Fees for VA Mortgage Insurance	258
700-02	End Future Veterans' Compensation Payments for Certain Veterans with Low-Rated Disabilities	259
700-03	End Future Awards of Veterans' Disability or Death Compensation When a Disability Is Unrelated to Military Duties	260
700-04	Eliminate "Sunset" Dates on Certain Provisions for Veterans in the Balanced Budget Act of 1997	261
700-05	Extend and Increase Copayments for Outpatient Prescriptions Filled at VA Pharmacies	262

700-06	Increase Beneficiaries' Cost Sharing for Care at VA-Operated Nursing Facilities	263
--------	---	-----

**Function 750:
Administration of Justice**

750-01	Reduce Funding for Law Enforcement Efforts to Control Illegal Drugs	266
--------	---	-----

750-02	Reduce Funding for Justice Assistance and Certain Justice-Related Activities	267
--------	--	-----

**Function 800:
General Government**

800-01	Restrict Public-Purpose Transfers of Real Property by GSA	270
--------	---	-----

800-02	Eliminate General Fiscal Assistance to the District of Columbia	271
--------	---	-----

800-03	Eliminate Mandatory Grants to U.S. Territories	272
--------	--	-----

800-04	Require the IRS to Deposit Fees from Installment Agreements in the Treasury as Miscellaneous Receipts	273
--------	---	-----

800-05	Eliminate Federal Antidrug Advertising	274
--------	--	-----

800-06	Eliminate the Presidential Election Campaign Fund	275
--------	---	-----

**Function 920:
Allowances**

920-01	Eliminate Requirements That Agencies Purchase Alternative-Fuel Vehicles	278
--------	---	-----

920-02	Reduce the Number of Political Appointees	279
--------	---	-----

920-03	Charge Federal Employees Commercial Rates for Parking	280
--------	---	-----

920-04	Impose a Fee on GSE Investment Portfolios	281
--------	---	-----

920-05	Repeal the Service Contract Act	282
--------	---	-----

920-06-A	Repeal the Davis-Bacon Act	283
----------	--------------------------------------	-----

920-06-B	Raise the Threshold for Coverage Under the Davis-Bacon Act	284
----------	--	-----

**CHAPTER
FOUR REVENUE OPTIONS 285**

Restrict Itemized Deductions and Credits Under the Income Tax

REV-01	Limit Mortgage Principal Eligible for Interest Deduction to \$300,000	287
REV-02	Limit the Mortgage Interest Deduction for Second Homes	288
REV-03	Limit Deductions of State and Local Taxes to the Amount Exceeding 2 Percent of Adjusted Gross Income	289
REV-04	Limit Deductions for Charitable Gifts of Appreciated Property to Tax Basis	290
REV-05	Limit Deductions for Charitable Giving to the Amount Exceeding 2 Percent of Adjusted Gross Income	291
REV-06	Phase Out the Child and Dependent Care Credit	292
REV-07	Include Social Security Benefits in the Phaseout of the Earned Income Tax Credit	293
REV-08	Limit the Tax Benefit of Itemized Deductions to 15 Percent	294

Restrict the Tax-Favored Treatment of Nonretirement Fringe Benefits

REV-09	Impose an Excise Tax on Nonretirement Fringe Benefits	295
REV-10	Limit the Tax Exemption of Employer-Paid Health Insurance	296
REV-11	Include Employer-Paid Life Insurance in Taxable Income	297
REV-12	Eliminate the Employer Exclusion for Dependent Care	298

Restrict the Tax-Favored Treatment of Certain Household Income

REV-13	Include the Income-Replacement Portion of Workers' Compensation and Black Lung Benefits in Taxable Income	299
REV-14-A	Include 85 Percent of Social Security and Railroad Retirement Benefits in Taxable Income for All Recipients	300
REV-14-B	Include 85 Percent of Social Security and Railroad Retirement Benefits in Taxable Income for Higher-Income Recipients and Include 50 Percent for All Other Recipients	301

REV-14-C	Include 85 Percent of Social Security and Railroad Retirement Benefits in Taxable Income for Higher-Income Recipients	302
REV-15	Include Investment Income from Life Insurance and Annuities in Taxable Income	303
REV-16	Include an Income-Related Portion of the Insurance Value of Medicare Benefits in Taxable Income	304
REV-17	Raise the Age Limit for the Kiddie Tax from 14 to 18 for Taxing Investment Income	305

Increase Taxes Dedicated to Social Insurance Trust Funds

REV-18	Expand Medicare Coverage to Include State and Local Government Employees Not Now Covered	306
REV-19	Make Calculation of Taxable Wages for Self-Employed People Equivalent to Calculation for Other Workers	307

Increase Taxes on Income of Multinational Corporations

REV-20	Eliminate the Source Rules Exception for Inventory Sales	308
REV-21	Treat Foreign Sales Corporations Like Other Foreign Subsidiaries	309
REV-22	Make Foreign Subnational Taxes Deductible Rather Than Creditable	310

Broaden Taxes on Wealth and Capital Gains

REV-23-A	Include Accrued Capital Gains in the Last Income Tax Return of the Deceased	311
REV-23-B	Enact Carryover Basis for Capital Gains Held Until Death	312
REV-24	Eliminate Like-Kind Exchanges	313
REV-25	Convert the Credit for State Death Taxes to a Deduction	314
REV-26	Include Life Insurance Proceeds in the Base for Estate Taxes . . .	315
REV-27	Eliminate Nonbusiness Valuation Discounts Under the Estate Tax	316

Curtail Income Tax Preferences for Businesses		
REV-28	Eliminate Private-Purpose, Tax-Exempt Bonds	317
REV-29	Reduce Tax Credits for Rehabilitating Buildings	318
REV-30	Repeal the Low-Income Housing Credit	319
REV-31-A	Tax Credit Unions Like Other Thrift Institutions	320
REV-31-B	Tax Credit Unions with More Than \$10 Million in Assets Like Other Thrift Institutions	321
REV-32	Repeal the Expensing of Exploration and Development Costs for Extractive Industries	322
REV-33	Repeal the Percentage Depletion for Extractive Industries	323
REV-34	Repeal the Tax Credit for Enhanced Oil Recovery Costs and Expensing of Tertiary Injectants	324
REV-35	Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels	325
REV-36	Capitalize the Costs of Producing Timber	326
REV-37	Replace Corporate Credit with a Deduction for Employer FICA on Certain Tip Income	327
REV-38	Repeal the "Lower of Cost or Market" Inventory Valuation Method	328
REV-39	Tighten Rules on Interest Deductions for Corporate-Owned Life Insurance	329
REV-40	Repeal Tax-Free Conversions of Large C Corporations to S Corporations	330
REV-41	Repeal the Expensing of Certain Agricultural Costs	331
REV-42	Eliminate Exemption of Income for Cooperatively Owned Electric and Telephone Utilities	332
REV-43	Eliminate Exemption for Interest Income on Debt Issued by Electric Utilities for Generation or Transmission	333

Impose Taxes on Activities Harmful to the Environment

REV-44	Increase the Excise Tax on Cigarettes by 50 Cents per Pack	334
REV-45	Increase All Alcoholic Beverage Taxes to \$16 per Proof Gallon	335
REV-46	Index Tobacco and Alcohol Tax Rates for Inflation	336
REV-47	Increase Motor Fuel Excise Taxes by 12 Cents per Gallon	337
REV-48-A	Tax Water Pollutants on the Basis of Biological Oxygen Demand	338
REV-48-B	Impose an Excise Tax on Toxic Water Pollutants	339
REV-49-A	Impose a Tax on Sulfur Dioxide Emissions	340
REV-49-B	Impose a Tax on Nitrogen Oxide Emissions	341
REV-49-C	Impose a Tax on Particulate Matter	342
REV-49-D	Impose a Tax on Volatile Organic Compounds	343
REV-50	Impose a One-Time Tax on Emissions from New Automobiles and Light Trucks	344
APPENDIX	SCOREKEEPING GUIDELINES	345

TABLES

1.	The Budget Outlook Under Current Policies	3
2.	Expenditures by the Elderly for Nursing Home and Home Health Care, 1995	32
3.	CBO Projections of Revenues	42
4.	Effective Tax Rates and Shares of Tax Liability, by Income Quintile and Source of Revenue, 1995	43

FIGURES

1.	Total Revenues as a Share of GDP	41
2.	Revenues, by Source, as a Share of GDP	44

BOX

1.	Eligibility for Social Security and the Earnings Test	19
----	---	----

Introduction

As the 21st century begins, the Congress confronts a fiscal environment that has changed dramatically in a short period of time. For nearly three decades, lawmakers fought persistent deficits. Over the past three years, those deficits have disappeared and been replaced with large and growing surpluses. The surprising speed with which those surpluses have emerged—and the bright budget and economic outlook under which they are projected to grow—has caused a major shift in the public and political debate over federal budget policy.

The budget debate is no longer dominated by initiatives to reduce the deficit; it is now focused on various alternatives for using projected surpluses. In general, that debate involves the extent to which projected surpluses should be devoted to paying down public debt or used to increase spending and lower taxes. Many lawmakers have concluded that any spending increases or tax cuts should not exceed the amount of projected on-budget surpluses—that is, excluding the portion of the surplus attributable to Social Security (which accounts for nearly all off-budget spending and revenues). Social Security surpluses would be used to reduce public debt.

Yet the recent turnaround in federal fiscal fortunes remains uncertain. The budget projections generally do not show large on-budget surpluses until later years, when the current outlook is the most unsure. Those surpluses are also based in part on assumptions about future levels of total discretionary spending that may be difficult to attain.¹ A significant

downturn in the economy, or other unforeseen events, could further reduce or even eliminate surpluses and drive the budget back into deficit.²

Limiting the cost of new policy initiatives to the amount of on-budget surpluses may prove difficult. The major policy initiatives to increase spending or lower taxes that have been most actively debated would involve significant sums of money. Even relatively modest spending increases or tax cuts could substantially reduce projected surpluses.

If the fiscal outlook remains bright and surpluses are realized as projected, lawmakers will still face budgetary choices and trade-offs and may decide to reorder federal budgetary priorities. No amount of budget surplus justifies waste and inefficiency. Citizens should expect value for their tax dollar and a tax burden that is not excessive.

In this fiscal environment, it is useful for lawmakers to be informed about the range of major budget options and choices that they now face. Accordingly, this volume has two broad purposes. Part One illustrates the possible scope and effect of some of the broad policy proposals to increase spending or cut taxes that are now being offered and vigorously debated. Part Two provides specific policy options that lawmakers may adopt to help offset the cost of those new initiatives, maintain budgetary discipline, or reorder priorities.

1. Discretionary spending is provided anew each year in appropriation acts. It accounts for about one-third of total spending. The remaining two-thirds, known as mandatory (or direct) spending, is controlled by other laws that generally are permanent.

2. For further discussion about the uncertainty of budget projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2001-2010* (January 2000), Chapter 5.

The Changing Fiscal Environment

The Congressional Budget Office (CBO) estimates that fiscal year 2000 will mark the first time since the mid-1920s that the federal government will record growing total budget surpluses for three consecutive years. The total surplus for 2000, estimated at about \$180 billion, would be the largest in history in nominal dollars and the largest since 1951 as a percentage of gross domestic product (GDP).

CBO projects that under current policies and assumptions about the economy, total budget surpluses will grow dramatically over the coming decade and will total between \$3.1 trillion and \$4.2 trillion, depending on assumptions about the path of discretionary spending (see Table 1).³ Between 2007 and 2009, those surpluses would be large enough to pay off all publicly held federal debt that is available for redemption.⁴ CBO's projections also include growing on-budget surpluses that total between \$0.8 trillion and \$1.9 trillion over the next 10 years. The off-budget surpluses of the Social Security trust funds are projected to total about \$2.3 trillion during that period.

The projected on-budget surpluses assume spending restraint as well as high levels of tax receipts. Surpluses at the higher end of the range (\$1.9 trillion over 10 years) assume that the statutory limits on discretionary spending are adhered to through 2002—which has not been the case for the past two years—or that discretionary spending is frozen at the current level with no adjustment for inflation (a cut in real resources of over 20 percent by 2010). Surpluses

at the lower end (\$0.8 trillion over 10 years) assume that discretionary spending grows at an average annual rate of 2.7 percent. All surplus projections assume no changes in mandatory spending or tax laws, which means in part that some tax breaks that are routinely extended are assumed to expire. Revenues are projected to remain near historically high levels over the next 10 years, averaging just below 20 percent of GDP each year.

CBO's budget projections are based on economic forecasts that could turn out worse than expected and on budget policies that are likely to change. Alternative economic assumptions that are also reasonable would produce surpluses that differ from CBO's projections by hundreds of billions of dollars a year several years from now. Substantial spending increases or tax cuts, in the absence of offsetting savings, would further erode those surpluses. Such changes could also make it more difficult to continue paying down federal debt and to comply with current budget enforcement procedures.

Paying Down Debt

Reducing federal debt increases national saving and thereby promotes the economic growth that will be needed to help meet the long-term budgetary challenges facing the nation. Surpluses that are lower than the levels assumed in CBO's baseline variations would make it harder to deal with those long-term budgetary problems.

Despite the favorable budget outlook over the next decade, budgetary pressures linked to the aging of the baby-boom generation loom just beyond that 10-year horizon. For example, about 3.4 workers are now paying taxes to support each Social Security beneficiary. In 2030, that ratio will drop to about 2 workers for each beneficiary and is expected to decline further after 2030.⁵ Those and other, related trends could drive the budget back into deficit after 2010 and lead to serious fiscal problems in the future. The timing and magnitude of those long-term fiscal pressures are

3. Because discretionary spending is provided anew each year (and for other reasons), projecting its possible future path is more difficult than projecting mandatory spending and tax receipts, for which permanent laws generally are in place. CBO's current projections include three variations for discretionary spending—levels adjusted for inflation after 2000, levels frozen at the total enacted for 2000, and levels equal to CBO's estimates of the statutory limits on discretionary spending for 2001 and 2002 and adjusted for inflation thereafter. See CBO's report *The Budget and Economic Outlook*, pp. 2-5.

4. *Ibid.*, Table 1-5. Paying off available public debt does not mean that there will be no federal debt in circulation. For example, some outstanding debt with longer maturities will not be available for redemption during the 2001-2010 period. For further discussion, see *The Budget and Economic Outlook*, p. 19.

5. See 1999 *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 30, 1999), Table I.F.19.

Table 1.
The Budget Outlook Under Current Policies (By fiscal year, in billions of dollars)

	Actual 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total, 2001- 2010
Discretionary Spending Grows at the Rate of Inflation After 2000													
On-Budget Surplus	1	23	11	26	31	37	43	86	115	131	162	195	838
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>195</u>	<u>209</u>	<u>225</u>	<u>239</u>	<u>254</u>	<u>268</u>	<u>281</u>	<u>295</u>	<u>2,314</u>
Total Surplus	124	176	177	209	227	246	268	325	368	399	444	489	3,152
Discretionary Spending Is Frozen at the Level Enacted for 2000													
On-Budget Surplus	1	23	22	50	76	102	129	194	245	288	346	407	1,858
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>196</u>	<u>209</u>	<u>226</u>	<u>240</u>	<u>255</u>	<u>269</u>	<u>282</u>	<u>296</u>	<u>2,320</u>
Total Surplus	124	176	188	232	271	312	355	434	500	556	628	703	4,179
Discretionary Spending Equals CBO's Estimates of the Caps Through 2002 and Grows at the Rate of Inflation Thereafter													
On-Budget Surplus	1	23	69	112	126	136	151	199	231	258	298	339	1,918
Off-Budget Surplus	<u>124</u>	<u>153</u>	<u>166</u>	<u>182</u>	<u>195</u>	<u>209</u>	<u>225</u>	<u>239</u>	<u>254</u>	<u>268</u>	<u>281</u>	<u>295</u>	<u>2,314</u>
Total Surplus	124	176	235	294	321	345	376	438	485	526	579	633	4,232

SOURCE: Congressional Budget Office.

also linked to how lawmakers respond to projected surpluses.⁶

Saving the surplus by paying off debt does not come without costs. Government debt, which would be essentially eliminated with currently projected surpluses, may serve a special function in the economy by providing an asset free of default risk. The loss of such an asset could increase costs for some financial intermediaries and could impose a burden on private investors. Yet despite those concerns, saving the surplus would yield significant benefits. The main gains from higher national saving would be a modestly higher level of income and wealth over the next 10 years and a larger stock of capital and wealth, all of which would help finance the coming costs of the baby

boomers' retirement consumption and health care coverage. The effects of saving the surplus depend on the balance between those current costs and future benefits.

Complying with Budget Enforcement Procedures

The Budget Enforcement Act of 1990 established limits on total discretionary spending and a pay-as-you-go (PAYGO) requirement for new legislation affecting mandatory spending or revenues. Under those procedures, legislation that would increase baseline deficits or lower baseline surpluses generally must be offset. The discretionary spending limits and PAYGO requirement, which were extended most recently in the Balanced Budget Act of 1997, are scheduled to expire after 2002.

6. For a discussion of the long-term budget outlook, see Congressional Budget Office, *The Long-Term Budget Outlook: An Update* (December 14, 1999), available at www.cbo.gov.

For fiscal years 1999 and 2000, lawmakers have enacted total appropriations well in excess of the caps that were set in 1997. For example, they have enacted record amounts of emergency appropriations—about \$30 billion each year—for which the caps are adjusted automatically. Because emergency spending, advance appropriations, and other devices have been used to enact higher levels of discretionary spending, many lawmakers question whether the caps are still an effective budgetary discipline. For example, CBO estimates that discretionary outlays for 2000 exceed the outlay caps for 2001 by about \$25 billion.⁷ The CBO baseline variation that projects total discretionary spending at capped levels implies deep cuts in current discretionary spending programs.

Some lawmakers are proposing that a portion of the projected on-budget surpluses be used to increase the current caps and to set new caps for future years. For example, the President has proposed in his fiscal year 2001 budget to increase the current caps and set new caps through 2010.⁸ Regardless of whether or how the discretionary caps are revised, proposals that would produce budgetary savings are still likely to be needed to meet those caps or to hold discretionary spending within any of the three alternative versions of CBO's baseline. In particular, proposals to substantially increase funding for high-priority discretionary programs, such as education and defense, may have to be offset with savings elsewhere in the budget.

Reordering Priorities and Improving Federal Programs

Budgeting involves making choices among competing priorities. Although large surpluses may widen the policy options available to lawmakers, they do not by themselves justify more resources for federal programs or other activities that are ineffective, inefficient, or unnecessary. For example, under GPR (the Government Performance and Results Act of 1993), federal agencies must now report on their strategic

goals and program performance as part of the President's budget. Lawmakers may use that information to help reorder priorities and improve federal programs.

Options to cut spending may also help achieve policy or programmatic goals for which enacting savings is not the only or even the primary concern. For example, some options in this volume could be used to reduce the size of government, limit its rate of growth, or scale back activities for which a federal role is questioned. Other options would enable lawmakers to eliminate programs that may have outlived their usefulness, may have achieved the purposes for which they were created, or might be better performed outside the federal government.

Using This Volume

Part One of this volume provides background on and a general discussion of a range of major policy initiatives for increasing spending or cutting taxes that have been considered by lawmakers and that have been prominent in the public debate. Part Two summarizes specific options for reducing spending or increasing revenues. A companion CBO volume discusses options to increase funding for defense programs. That report also includes the options for defense savings that appear in Part Two of this volume.

Part One

The set of proposals outlined in Part One is not comprehensive. Rather, it includes major proposals that have been actively debated and that would significantly change federal spending or taxes and be relatively complicated to carry out. Proposals for increasing spending, which are discussed in Chapter 1, include expanding and reforming Medicare, subsidizing the purchase of health insurance for people under age 65, increasing the adequacy of financing for long-term care services, and expanding federal funding for all levels of education. The chapter also discusses ways to increase retirement income and maintain adequate financing for Social Security. Proposals for cutting taxes, which are discussed in Chapter 2, include

7. Congressional Budget Office, *Sequestration Preview Report for Fiscal Year 2001* (February 4, 2000), p. 5.

8. See, for example, *Budget of the United States Government, Fiscal Year 2001: Analytical Perspectives*, p. 286.

broad-based reductions; more narrowly focused cuts intended to reduce existing disincentives or to create or strengthen incentives affecting work, saving, and marriage; and changes that would simplify the tax system or encourage greater compliance.

Part One provides background and perspective on the various proposals, evaluates their possible scope and effect, and indicates the magnitude of possible budgetary effects. Unlike Part Two, which presents specific options, Part One does not include detailed cost estimates. Instead, it is intended to provide context for lawmakers and others as the budget debate proceeds.

Part Two

Part Two presents specific spending and revenue options (in Chapters 3 and 4, respectively) that would produce budgetary savings. Spending options are categorized according to the functional categories of the budget—national defense (050), international affairs (150), general science, space, and technology (250), and so on. Each spending option is further identified as affecting either mandatory or discretionary spending. For each function, an introductory page provides summary information and data for the past 10 years on overall trends in mandatory and discretionary spending within that function.

The options are numbered individually and include, where appropriate, references to related options in the volume and to relevant CBO publications. Spending options are numbered beginning with the number for the functional category within which they are grouped. For example, defense spending options are numbered 050-01, 050-02, and so on. Closely related options are grouped together under a single number, with individual options identified by a letter suffix. (For example, 050-01-A and 050-01-B both cut strategic nuclear force levels.)

For each option, the volume provides some general background, discusses the pros and cons of the proposal, and estimates the annual budgetary savings (that is, the cut in spending or the increase in revenues) for the 2001-2005 period. Cumulative savings

are summed both for that five-year period and for the 10-year period that ends in 2010.

The projected savings for mandatory spending and revenue options are computed from baseline levels estimated to occur under current law.⁹ Savings for discretionary spending options are calculated from two baseline levels: the level appropriated for 2000 (the so-called freeze level) and the 2000 level adjusted for inflation. Savings for most defense options are estimated relative to program levels that are assumed to be roughly the same under the freeze or the inflation-adjusted baseline variation. Therefore, only one set of savings estimates appears with each defense option.

In the nondefense spending options, the freeze variation is referred to as WODI (without discretionary inflation) and the inflation-adjusted version as WIDI (with discretionary inflation). The narrative discussion of each option uses the savings from the freeze (WODI) level as the basis for analysis. New or increased fees may be classified as offsets to spending (offsetting receipts or collections) or as new revenues (governmental receipts).¹⁰

The Interactive Volume

An interactive version of this volume is available on CBO's Web site (www.cbo.gov) in HTML. That version allows users to search the specific spending and revenue options in Part Two in four ways, singly or in combination:

-
9. For cost estimates of legislation that amends the Internal Revenue Code, CBO is required by law to use estimates provided by the Joint Committee on Taxation. JCT estimated the increased revenue that would be collected as a result of all but two of the options in Chapter 4 (REV-18 and REV-19). CBO prepared the estimates for those two options. In addition, the estimated reductions in revenue proposals described in Chapter 2 were developed by CBO and should be viewed as approximate.
 10. The term "user fee" is not a formal budget category. It is an informal term that generally refers to collections from individuals or entities that benefit from or are regulated by some federal program, and the collections are used solely to support that program. In general, if the fee supports a business-type activity, it is classified as an offset to spending. If it is based on the government's sovereign power to tax, it is classified as a revenue. User fees classified as spending offsets may be further classified as either mandatory or discretionary, depending generally on the type of spending legislation in which the fee is included.

- o By type of option (spending—by budget function—or revenue),
- o By spending category (discretionary or mandatory),
- o By agency (the federal agency whose programs would be affected by the option), and
- o By word or phrase.

For example, a user could search for all options related to natural resources and the environment (budget function 300) that affect discretionary spending; all options that would produce savings in mandatory spending within the Department of Health and Human Services; all options that deal with submarines; or all options that eliminate something (a program, some kind of assistance, or some other key factor).

Exclusions and Limitations

The broad budgetary proposals and specific options discussed in this volume stem from various sources. They are derived from legislative proposals, the President's budget, past CBO options volumes, Congressional and CBO staff, other government entities, and private groups. The proposals and options are intended to reflect a range of possibilities; they are neither ranked nor comprehensive. The inclusion or exclusion of a particular proposal or option does not represent an endorsement or rejection by CBO. As a non-partisan Congressional staff agency, CBO does not make policy recommendations.

The specific options in Chapters 3 and 4 exclude policy changes that are not counted under the Budget Enforcement Act (BEA). For example, options that would affect off-budget programs (Social Security and the Postal Service), fully fund existing commitments for deposit insurance, or provide for the sale of federal assets that result in net costs to the federal government are not included.¹¹

The savings options are also intended to facilitate the case-by-case review of individual programs. They therefore exclude certain types of governmentwide options that would produce savings in many programs or agencies. Such options would, for example, freeze spending across the board, eliminate an entire department or major agency, or make an across-the-board cut in federal salaries. Savings for such options cannot always be reliably estimated because the options may affect numerous programs and may simply result in a shift in spending among programs or accounts. Moreover, such options cut effective and ineffective programs alike.

Some of the options affecting states, localities, or the private sector may involve federal mandates. The Unfunded Mandates Reform Act of 1995 establishes procedures that are intended to control such mandates. It also requires CBO to estimate the costs to states and localities of any mandates imposed by new legislation that the Congress is considering. Individual options in this volume do not include estimates of any potential mandates.

The calculations of savings for individual options do not include savings in federal interest costs. Interest savings are typically estimated as part of a comprehensive budget plan, such as the Congressional budget resolution, but such adjustments are usually not made for individual options of the type discussed in this volume.

Subsequent CBO cost estimates, which generally accompany any bill reported by a Congressional committee, may not match the savings estimates shown in this report. The policy proposals on which the cost estimates are based may differ slightly from the specifications used in developing the options. Further, the budget baseline estimates or levels against which the proposals ultimately are measured may have been updated and thus would differ from those used here.

11. The Balanced Budget Act of 1997 (BBA) changed the treatment of asset sales under the Budget Enforcement Act. Previously, asset sales were not counted for any purpose under the BEA. Guidelines for cal-

culating the net cost of an asset sale are included in the BEA scorekeeping guidelines set forth most recently in the BBA conference report; see U.S. House of Representatives, *Balanced Budget Act of 1997*, conference report to accompany H.R. 2015, Report 105-217 (July 30, 1997), p. 1012.

Scorekeeping Guidelines

The Budget Enforcement Act included scorekeeping guidelines to ensure that the budgetary effects of legislation are measured consistently and in accord with standard conventions. Those guidelines are revised and updated periodically and were printed most recently in the conference report accompanying the Balanced Budget Act of 1997. (The scorekeeping guidelines are reprinted in the appendix of this volume.) Among other things, they specify how to score asset

sales and lease purchases and how to treat legislation that crosses between the discretionary spending and PAYGO enforcement categories.

The guidelines, however, are subject to interpretation, and CBO and the Office of Management and Budget (OMB) sometimes view them differently. Those differing interpretations may affect how certain options are counted under BEA procedures. OMB estimates are final for the purpose of BEA enforcement. CBO estimates are advisory under the BEA but generally are used in the Congressional budget process.