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

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

USER CHARGES FOR CERTAIN COAST GUARD ACTIVITIES

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

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

USER CHARGES FOR DEEP-DRAFT NAVIGATION

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

REDUCED FUNDING FOR URBAN DEVELOPMENT ACTION GRANTS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

ELIMINATION OF ENERGY IMPACT ASSISTANCE

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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INCREASED INTEREST RATES ON DISASTER LOANS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

REDUCED FUNDING FOR VOCATIONAL EDUCATION

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

REDUCED FUNDING FOR IMPACT AID

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

REDUCED FUNDING FOR EMERGENCY SCHOOL AID

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

REDUCED STUDENT LOAN SUBSIDIES

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

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

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

LIMIT ON PARENTAL PERSONAL EXEMPTION FOR STUDENTS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

ELIMINATION OF TWO YOUTH EMPLOYMENT AND CONSERVATION PROGRAMS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

PHASING OUT OF CETA TITLE VI

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

LIMITING OF ELIGIBILITY FOR TARGETED JOBS TAX CREDIT

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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LOWERING OF THE FEDERAL SHARE FOR STATE MEDICAID AND AFDC PROGRAMS

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

NOTE: Preliminary estimates, subject to change.

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

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

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