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

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

NOTE: Preliminary estimates, subject to change.

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

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

NOTE: Preliminary estimates, subject to change.

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

CHANGES IN CIVIL SERVICE AND MILITARY RETIREMENT BENEFITS

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

NOTE: Preliminary estimates, subject to change.

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

The Senate in 1980 approved a proposal that would have limited the frequency of federal postretirement adjustments to once a year, but the item was dropped in conference. In reconsidering this measure, the Congress could also change the base period and index used to calculate such adjustments. If the postretirement increases were limited to one annual increase occurring in October, and the method used to make the adjustments was the same as for Social Security, the federal government would save $10.2 billion in outlays through fiscal year 1986. This estimate assumes that the annual adjustments would, beginning with October 1982, reflect the calendar-year increase in the CPI from first quarter to first quarter. The October 1981 increase, a transition adjustment, would reflect the CPI change between December 1980 and the first quarter of 1981.

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

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

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

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

TAXATION OF ALL UNEMPLOYMENT BENEFITS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

ELIMINATION OF NATIONAL TRIGGER FOR UNEMPLOYMENT INSURANCE EXTENDED BENEFITS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

CHANGE IN COMPUTING INSURED UNEMPLOYMENT RATES

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

MODIFICATION IN TRADE ADJUSTMENT ASSISTANCE

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

CHARGING OF INTEREST ON LOANS TO STATES FOR UNEMPLOYMENT COMPENSATION

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

NOTE: Preliminary estimates, subject to change.

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

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

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

REDUCED FUNDING FOR LOWER-INCOME RENTAL ASSISTANCE

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

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

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

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

NOTE: Preliminary estimates, subject to change.

Raising Tenant Rents. Increasing the maximum proportion of income that new tenants are required to pay for rent from the current 25 percent ceiling to 30 percent could reduce outlays through 1986 by $2.8 billion, as shown in the table below. Such a change would raise the typical family's monthly rent by about $30, but assisted households would still pay appreciably less than the nearly 40 percent of income now devoted to housing costs by the average unassisted lower-income renter.

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

NOTE: Preliminary estimates, subject to change.

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

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

NOTE: Preliminary estimates, subject to change.

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

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

REPEAL OF THE CASUALTY LOSS DEDUCTION

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

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

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

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

LIMITATION ON FEDERAL DISABILITY BENEFITS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

FUNDING FOR AFDC AND MEDICAID WITH A BLOCK GRANT

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

NOTE: Preliminary estimates, subject to change.

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

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

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

Proponents argue that block grant funding for welfare would allow each state to design a welfare program that would best serve the needs of its poor within the limits of its budget. This flexibility would encourage innovation. For example, states could rely more heavily upon family income in determining eligibility and less upon whether a person is aged, disabled, or a member of an AFDC family.

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

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

REDUCED FUNDING FOR CHILD NUTRITION PROGRAMS

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

FUNDING OF CHILD NUTRITION PROGRAMS WITH A BLOCK GRANT

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

Opponents of such a change argue that the states might continue to assist nonpoor children, and that the block grants would lead either to a cutback in assistance to poor children or force an increase in the federal appropriation. They also contend that some states may lack experience in planning and executing programs to meet the nutritional needs of children.

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

CHANGES IN FOOD STAMP PROGRAM

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

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

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

NOTE: Preliminary estimates, subject to change.

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

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

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

NOTE: Preliminary estimates, subject to change.

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

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

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

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

NOTE: Preliminary estimates, subject to change.

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