

services. Proponents of the LSC argue that relying on uncertain and indirect forms of assistance, rather than on a specifically targeted program of federal assistance, is insufficient protection; the inadequacy of local and private support was one of the factors that led to direct federal financing in the first place. In addition, proponents point out that criticisms of the LSC have subsided in the past few years as a result of its eliminating some of its more controversial activities. They argue that thorough oversight and clear definition of permitted activities would further curtail the activities that some observers find objectionable while still achieving the LSC's purpose.

The State Justice Institute was established in 1984 as a private, not-for-profit corporation to provide grants and undertake other activities to improve the administration of justice in the states. Although the President proposed terminating this program in 1995, the Congress appropriated \$14 million for it. According to critics, the SJI has a negligible impact on the functioning of state justice systems. Most of its grants support research on improving the administration of justice, particularly the courts, but the SJI does little to disseminate or spur implementation of the results of those studies. Critics say the SJI's funds would be more effective if they were used to

aid justice systems in implementing ideas that have been shown to work, rather than to produce more research. Opponents further argue that the institute has no effect on how justice systems function and that terminating it would cause no noticeable decline in services. Termination would, however, produce savings from the 1995 funding level of \$4 million in 1996 and \$53 million through 2000. (Measured from the 1995 funding level adjusted for inflation, savings would be \$4 million in 1996 and \$57 million through 2000.)

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

## DOM-60 LIMIT SALARY INCREASES FOR FEDERAL CIVILIAN EMPLOYEES

Savings Compared with Full Raises under Current Law	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
<b>Grant No Raises in 1996</b>						
Budget Authority	3,101	2,692	1,421	1,058	921	9,193
Outlays	2,965	2,709	1,476	1,073	927	9,150
<b>Grant Only ECI Raises</b>						
Budget Authority	1,283	2,737	4,087	5,531	7,168	20,806
Outlays	1,227	2,674	4,028	5,468	7,097	20,494
<b>Grant Only Locality Raises</b>						
Budget Authority	1,184	3,231	4,680	5,315	5,547	19,957
Outlays	1,133	3,142	4,616	5,287	5,536	19,714

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

In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. Those current-law estimates differ from projections that are not based on any programmatic assumptions and simply assume that the 1995 level of spending for this activity (or that amount adjusted for inflation) is provided in every year.

In 1995, the payroll for the government's roughly 2 million civilian employees in all three branches of government will total about \$90 billion, or roughly 6 percent of total federal outlays for the year. (Those figures do not include postal workers.) In the past, largely in response to budgetary pressures, the government has acted to reduce federal personnel costs, and the Congress could take such action again. Three of many options are described here.

The estimated budgetary impact for each option depends on assumptions about what would have happened otherwise under current law--that is, a baseline assumption. The estimates thus compare the cost of each option with the cost of granting the full raises provided for under the Federal Employees Pay Comparability Act of 1990, or FEPCA. Under FEPCA, federal white-collar workers may receive two pay adjustments at the start of each year (see Table 3-2). The first is meant to keep changes in federal salaries at about the level of changes in private-sector pay, as measured by the employment cost index (ECI). The second is intended, over a period of nine years, to

close existing gaps between federal and private-sector rates on a geographic ("locality") basis. If these raises were granted in full, they would push the federal civilian payroll to more than \$110 billion in 2000. (That estimate assumes savings from reductions in employment under the Federal Workforce Restructuring Act of 1994.) The options described below would limit the growth of payroll by the amounts indicated in the table showing annual savings. Much greater reductions in pay raises and employment than are assumed here would be needed to reduce the government's payroll below its level in 1995.

The main argument for holding down scheduled pay raises casts such action as part of a general belt-tightening necessitated by the federal budget deficit. Constraints on spending are not confined to the federal government; financially strapped firms in the private sector and local governments have been forced to cut personnel costs through layoffs, pay limits, or other measures. In the past, limits on pay would have raised major concerns about the ability of

the federal government to recruit and retain workers. But such concerns appear less urgent with personnel reductions already under way throughout government. Nonetheless, restraints on pay impair the government's ability to retain high-quality workers, although generous benefits may help offset the impact of low pay. Moreover, should agencies experience trouble in hiring and keeping the workers they need, FEPCA offers a means to provide allowances, bonuses, and special pay rates that could help agencies deal with the worst of their problems. (The savings in outlays listed above assume that those special clauses in FEPCA would not be activated.)

The main argument against limiting raises is based on concerns about fairness and worker morale, given the sacrifices that federal employees have already had to make on behalf of the budget. Before the enactment of FEPCA, federal employees were entitled to annual adjustments under procedures that compared federal and private-sector salaries nationwide. In the past decade, increases have been held well below the level needed to achieve comparability with the private sector. Moreover, restricting pay would represent a revival of the same kinds of practices that led to the need for FEPCA and would undercut that long-deliberated reform. Data collected under FEPCA continue to show that federal pay rates lag behind comparable private-sector rates: after years of pay limitation, federal workers, on average,

are paid from 20 percent to 40 percent less. (The percentage varies for different occupations, grade levels, and locations of employment.) Failing to close those gaps inevitably narrows the pool of candidates for federal work and could eventually impose unacceptable burdens on agencies that are trying to get the employees they need to get work done. Should agencies resort to special pay measures to address such problems, the fragmentation and complexity of the federal pay system would greatly increase.

**Provide No Raises in 1996.** Under this option, the government would skip both of the raises under FEPCA for 1996 only. Savings would accumulate to \$9.2 billion over five years. Relative to the other options presented here, this option represents a more temporary departure from FEPCA. Federal salaries would still eventually reach comparability, but some of the raises required to get there would occur after 1996. That outcome occurs because granting no adjustments for a year increases the pay gap in later years, resulting in higher locality raises at that time.

**Grant Only ECI Raises.** Alternatively, the government could grant only ECI-based adjustments similar to those under FEPCA. This option would save \$20.5 billion over five years. The approach essentially accepts current pay gaps: federal rates would keep pace with *changes* in salaries outside government but would never catch up. (To that end, CBO's estimate assumes that the government grants the full ECI adjustment rather than the lower amounts under FEPCA.) In abandoning the principle of comparability, the government could drop its costly, controversial annual process for determining comparability raises that it has seldom granted. The government could always reopen the question of comparability for federal salaries at a later date.

**Grant Only Locality Raises.** This approach would save \$19.7 billion over five years. (The estimate assumes that workers who are in pay plans that are not eligible for locality raises would get ECI adjustments as a substitute.) Granting only locality raises would represent less of a departure from current law--if not from actual practice--than the previous options. As under the option to skip raises in 1996, federal salaries under this plan would still eventually reach comparability, but some of the raises required to get there would shift to later years.

**Table 3-2.**  
**Pay Raises Under FEPCA (In percent)**

	1996	1997	1998	1999	2000
ECI-Based Raises	2.40	3.20	3.10	3.00	3.00
Locality Raises	3.37	2.59	2.37	2.42	2.47

SOURCE: Congressional Budget Office.

NOTE: The cost to the government of locality raises is somewhat less than the percentages listed above because employees who receive special supplements to their pay do not get full locality raises.

## DOM-61 REDUCE THE NUMBER OF POLITICAL APPOINTEES

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
Budget Authority	47	34	66	109	113	368
Outlays	45	34	65	107	112	363

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

In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. Those current-law estimates differ from projections that are not based on any programmatic assumptions and simply assume that the 1995 level of spending for this activity (or that amount adjusted for inflation) is provided in every year.

Generally, the term "political appointee" refers to employees of the federal government who are appointed by the President, some with and some without confirmation by the Senate, and to certain policy advisors hired at lower levels. For the purposes of this option, the term covers cabinet secretaries, agency heads, and other "executive-schedule" employees at the very top ranks of government; top managers and supervisors who are noncareer members of the Senior Executive Service; and confidential aides and policy advisors who are referred to as Schedule C employees. Total employment in such positions, according to CBO projections, will average about 2,800 over the next five years. If the government instead capped the number of political appointees at 2,000, savings over the 1996-2000 period would total \$363 million. (Savings measured against the 1995 funding level would be greater, because the number of political appointees projected for that year is larger than the five-year average on which CBO's estimates are based.) The average salary for political appointees in the CBO calculations is estimated to be \$86,000.

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

Commission, called for a limit on the number of political appointees similar to the one described here. In addition to the problem of excess organizational layering, the commission described concerns associated with the lack of expertise in government operations and programs that characterizes many appointees. In political appointments, the commission noted, more weight is often given to political loyalties than to knowledge of government. Moreover, few appointees are in office long enough to acquire the necessary skills and experience to master their job. That lack of experience, wrote the commission, means that political appointees in many instances are not effective in carrying out the policies of the President they serve and can disrupt the day-to-day operations of agencies. Another consequence is that career managers become frustrated and demoralized, making recruitment and retention difficult at the top ranks of the career civil service.

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

## DOM-62 ELIMINATE THE ONE-DOLLAR BILL AND REPLACE IT WITH A NEW DOLLAR COIN

	Annual Added Revenues (Millions of dollars)					Cumulative Five-Year Addition
	1996	1997	1998	1999	2000	
Additions to Current-Law Revenues	0	0	20	30	50	100

NOTE: In order to show the effect of the specific programmatic changes in this option, savings (shown here as added revenues) are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. Those current-law estimates differ from projections that are not based on any programmatic assumptions and simply assume that the 1995 level of spending for this activity (or that amount adjusted for inflation) is provided in every year.

The United States is one of the few industrialized countries that continues to use paper bills for sums as small as the equivalent of one dollar. Each year, the Bureau of Engraving and Printing within the Department of the Treasury manufactures billions of currency notes of all denominations, which are purchased by the Federal Reserve at cost. Depending on demand, dollar bills constitute approximately 45 percent to 50 percent of all notes produced annually. So many one-dollar notes must be printed and purchased because they lack durability: they circulate on average only 18 months before they must be retired. By contrast, the life-cycle costs of coins are substantially lower because they have lower handling expenses and may remain in circulation for up to 30 years. Eliminating the one-dollar note and replacing it with a new dollar coin would lower the costs of the Federal Reserve System and increase its earnings, which are remitted to the Treasury as miscellaneous receipts, reducing the deficit. Implementing this proposal would increase revenues by \$100 million over the next five years. (Although savings here represent an increase in revenues, this option was not included in the chapter on revenues because it does not involve changes to tax policy.)

CBO's revenue estimate covers reductions at the Federal Reserve System in both purchasing and processing costs. Purchasing costs would decline because the Federal Reserve could forgo annual purchases of billions of one-dollar notes (although its purchases of two-dollar notes would increase). Processing costs would also drop because coins would

not require the careful inspection for counterfeiting and fitness for circulation that notes now receive.

In addition to savings in costs, proponents of this option argue that a new dollar coin would have other benefits. Dollar coins would be easier for the visually impaired to distinguish and easier to use in most coin-accepting machines. They would also increase the speed of many cash register transactions.

However, some new costs would also be associated with a dollar coin. The U.S. Mint would require an additional appropriation to cover the costs of research and development, expansion of its coin production capacity, and a public awareness campaign to increase acceptability of the new coins.

Based on the government's unsuccessful efforts with the Susan B. Anthony dollar, critics of a new dollar coin argue that the United States would need to take certain strong measures to ensure the coin's acceptance. According to that view, the government would have to be prepared to eliminate the one-dollar note completely, ensure that the new coin's form was distinct from that of other coins, and promote it vigorously. Even so, critics contend that there is no guarantee that a new dollar coin would gain public acceptance. Coins are bulky, and commercial banks, which shoulder the majority of coin processing costs, would incur higher expenses. In addition, because coins are more expensive than bills to transport, the users of armored car services would sustain higher costs.

Nonetheless, most major European countries have overcome these obstacles. Valued at the current exchange rates, the smallest paper note denominations in Spain (500 peseta/\$3.80), France (50 franc/

\$9.25), Germany (10 mark/\$6.35), Switzerland (10 franc/\$7.50), and Great Britain (5 pound/\$7.80) are significantly more valuable than the one-dollar bill.

## DOM-63 REDUCE THE OVERHEAD RATE ON FEDERALLY SPONSORED UNIVERSITY RESEARCH

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
<b>From the 1995 Funding Level</b>						
Budget Authority	398	398	398	398	398	1,990
Outlays	179	358	398	398	398	1,731
<b>From the 1995 Funding Level Adjusted for Inflation</b>						
Budget Authority	529	665	804	951	1,102	4,051
Outlays	238	537	714	856	1,005	3,350

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

To calculate the overhead expenses that can be allocated to federal research, universities typically take most, but not all, of their direct costs (known as modified direct costs) and apply a prenegotiated payment rate to them in each of several categories. The sum of the rates from all of those categories is the overall payment rate for overhead expenses. Overall overhead payment rates could be set and frozen for all universities at 90 percent of their 1995 level. If that option was implemented, it would save \$179 million in 1996 and \$1.7 billion over the 1996-2000 period relative to the 1995 funding level. Relative to the 1995 level adjusted for inflation, this option would result in savings of \$238 million in 1996 and \$3.3 billion over the 1996-2000 period. (The two sets of savings estimates differ because the inflation-adjusted level of funding for university R&D grants

would have to be reduced to maintain the program at the 1995 funding level. Both sets of cuts would reduce the grant programs to the same level of funding in 2000.) To capture the savings from this option, the Congress must reduce the appropriations for university research by an amount corresponding to the mandated reduction in overhead costs.

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

Overhead payments related to facilities have led the increase in costs, contrary to the impression given by well-publicized instances of questionable charges by universities to overhead payment accounts. Those charges have not been a major factor in the long-term growth of the share of overhead costs; in fact, auditors estimate that they account for only about 1 per-

cent of those costs. Increases in the costs of operating and maintaining facilities--utilities, repairs, and janitorial services--have been the major component of the escalation in facilities costs in the past decade. And growth has continued even in the face of substantial drops in the price of energy. Higher costs for new buildings as a result of higher real estate prices, construction inflation, and interest costs have not been as significant.

Given the leveling off of overhead rates since the late 1980s, many analysts have questioned the need for a special consideration of them. But that leveling has only been possible because of the pressure on administrative overhead expenses. Overhead rates for facilities costs have continued to rise throughout the 1990s.

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

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

head payment rates would supply the discipline that the market has been unable to provide and motivate some institutions to become more efficient and cost-conscious.

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

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

Other types of organizations in many cases charge even higher indirect rates than do universities on federal R&D grants. In 1994, for example, the NIH paid 51 percent in indirect costs to colleges and universities, but it paid 63 percent to research institutes, 57 percent to hospitals, and 56 percent to for-profit organizations. Not-for-profit organizations, by contrast, received 45 percent. In 1994, organizations other than colleges and universities accounted for 20 percent of NIH research grants.

An alternative to freezing overhead cost payments to colleges and universities is to reduce such

payments to other types of organizations to 90 percent of their 1995 levels adjusted for inflation. Because data on R&D grants are not collected for all federal agencies in the requisite detail, it is difficult to estimate savings with precision. However, if one assumes that other agencies spread grants among different types of recipients in patterns similar to those

of the NIH, then capping the overhead rate on all federal grants at 90 percent of 1995 levels would save roughly \$224 million in 1996 and \$2.2 billion over the 1996-2000 time frame relative to the 1995 funding level. Relative to the 1995 level adjusted for inflation, this option would save \$4.1 billion over the 1996-2000 period.

DOM-64 REDUCE SPENDING FOR THE HIGH PERFORMANCE COMPUTING  
AND COMMUNICATIONS PROGRAM

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
<b>From the 1995 Funding Level</b>						
Budget Authority	381	381	381	381	381	1,905
Outlays	147	292	364	381	381	1,565
<b>From the 1995 Funding Level Adjusted for Inflation</b>						
Budget Authority	419	460	503	548	594	2,524
Outlays	161	336	448	508	553	2,006

The High Performance Computing Act of 1991 established the multiagency High Performance Computing and Communications (HPCC) program to further the development of technology for supercomputers and high-speed computer networks and to increase their use throughout the U.S. economy. The program started with a base of preexisting individual efforts spread across several agencies. It has grown by increasing the funding levels of those base programs, by reclassifying other preexisting programs as part of the HPCC effort, and by starting new programs. At present, the HPCC program represents a large fraction of federal activities in high-speed computing and data communications. The multiagency effort costs a little more than \$1 billion yearly. Cutting the program by 33 percent relative to the 1995 funding level would save \$147 million in 1996 and \$1.6 billion over the 1996-2000 period measured against that same level. Relative to the 1995 level adjusted for inflation, the option would save \$161 million in 1996 and \$2.0 billion in the 1996-2000 period. (The two sets of savings estimates differ because program services would have to be cut just to maintain the program at the 1995 funding level. Both sets of cuts would reduce the program to the same level of funding in 2000.)

The HPCC program is divided into five areas: supercomputer hardware, supercomputer software, high-speed computer networking, information infrastructure applications, and basic research and human

resource development within the four previous areas. The reduction in the program under this option would cut across all categories and affect several agencies, most notably the Advanced Research Projects Agency (ARPA) of the Department of Defense, the Department of Energy (DOE), the National Aeronautics and Space Administration (NASA), and the National Science Foundation. To realize savings from the reduction, the Congress would have to decrease the appropriations for the agencies by the amount of the reduction.

The HPCC program is currently an amalgam of two types of projects: first, efforts to develop new computer and communications technology and second, end-user applications. Both types of projects appear in all of the program's technology areas. In the software area, for example, new algorithms and software concepts would be considered technology developments. By contrast, end-user applications would include NASA's funding of the development of software to help aircraft manufacturers design new airplanes more quickly and more cheaply. Not all of the end-user applications are commercial, but they are all specific uses of a particular technology. Some are demonstration projects.

The HPCC program had its origins in the technology development area. By refocusing its resources within that area, the program can make a unique contribution. End-user applications are an-

other matter. High-performance computing and computer communications markets continue to grow rapidly. Computer companies are competing fiercely to provide new and better products to meet demand. Given those dynamic market forces, proponents of program cuts would argue that the need for federal stimulation at the user end is greatly reduced, below the level needed even a few years ago.

This division of labor between federal and private efforts that such proponents would advocate follows from the government's previous experience in trying to move computer technology forward. Federal agencies under earlier policy initiatives made substantial contributions to high-performance computing and communications by funding the development of early proof-of-concept prototypes and components and supporting applied research at universities. Major advances by federal agencies in the high-performance computing arena included underwriting the research that led to the development of the first engineering workstation and high-speed, or RISC, computer architecture. Federal agencies also participated in the research leading to the use of high-performance computers to create visual images of scientific data to help scientists further understand data patterns. By contrast, the government's efforts to develop products for immediate end use, mainly hardware, have met with less success.

In some markets, the federal government is the major client--for example, for software to model the global climate. In those markets, programs responsible for tracking changes in the global climate may be the more appropriate source of funding for the development of the requisite software, rather than the federal technology development program. In some instances, reducing HPCC funds for end-user applications may result in increased costs in other program areas. Nevertheless, the value of those new applications and their true costs are probably best assessed

within the programs that will use them. Restricting what the HPCC program pays for would help ensure that funds earmarked for technology development are actually devoted to that end and not funneled into other activities.

Opponents of reductions in the HPCC program argue that the field of computing advances by the use of specific applications. Cutting programs for developing applications might therefore slow the pace of development of computer technology. In addition, a strict distinction between technology development and applications development may be difficult to maintain in actual practice, especially for the first applications in a given area. Moreover, withdrawal of federal support may increase the commercial riskiness of developing new types of applications. Supporters of the HPCC program also argue that many institutional, regulatory, and historical obstacles are impeding the rapid development of markets for this technology; consequently, eliminating federal efforts in this area would slow its adoption. Proponents of program cuts counter that such obstacles might be best addressed directly. They further contend that any effort to develop end-user applications that does not address those obstacles could result in underutilized "prestige" projects.

As noted above, much of the recent growth in the HPCC program has not come from additional funds for new projects. In many cases, agencies took existing programs that had elements related to high-performance computing and began classifying them as part of the HPCC program, hoping to capitalize on the popularity of the field. In other instances, major programs with large components related to high-performance computing are not included in the HPCC program. Obviously, those outside programs, most notably in ARPA, DOE, and NASA, should be taken into account when deciding about reductions in the HPCC program.

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**DOM-65 MODIFY THE SERVICE CONTRACT ACT BY ELIMINATING  
THE SUCCESSORSHIP PROVISION**


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	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
Budget Authority	200	210	220	220	230	1,080
Outlays	190	210	210	220	230	1,060

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NOTE: In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. Those current-law estimates differ from projections that are not based on any programmatic assumptions and simply assume that the 1995 level of spending for this activity (or that amount adjusted for inflation) is provided in every year.

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The McNamara-O'Hara Service Contract Act of 1965 sets basic labor standards for employees on government contracts whose principal purpose is to furnish labor, such as laundry, custodial, and guard services. Contractors covered by this act generally must provide those employees with wages and fringe benefits that are at least equal to those prevailing in their locality or those contained in a collective bargaining agreement of the previous contractor. The latter provision applies to successor contractors, regardless of whether their employees are covered by a collective bargaining agreement.

The cost of services procured by the federal government could be reduced by permitting successor contractors to pay lower wage rates or to provide less costly fringe benefits than those provided by their predecessors. Under this option, successor contractors would still be subject to the rules on prevailing wages and fringe benefits. This change in requirements would reduce outlays by about \$190 mil-

lion in 1996 and by about \$1.1 billion over the 1996-2000 period, provided federal agency appropriations are reduced to reflect the anticipated reduction in costs.

Federal procurement costs would fall because this option would promote greater competition among contractors. The current rule discourages potential successors from bidding on contracts in which the existing provider has a collective bargaining agreement, unless they have similar agreements.

The provision for successor contractors is intended, however, to prevent bidders from undermining existing collective bargaining agreements. Eliminating this provision would reduce the compensation of workers in some firms that provide services to the government. Some supporters of keeping the provision argue that a reduction in compensation would, in turn, reduce the quality of such services.

## DOM-66 REPEAL OR MODIFY THE DAVIS-BACON ACT

	Annual Savings (Millions of dollars)					Cumulative Five-Year Savings
	1996	1997	1998	1999	2000	
<b>Repeal Davis-Bacon</b>						
Budget Authority	390	410	420	430	440	2,090
Outlays	150	430	600	690	770	2,640
<b>Raise Threshold to \$1 Million</b>						
Budget Authority	140	140	150	150	160	740
Outlays	40	110	160	190	210	710
<b>Raise Threshold to \$250,000</b>						
Budget Authority	60	60	70	70	70	330
Outlays	20	40	60	80	90	290
<b>Change from Weekly to Monthly Wage Reporting</b>						
Budget Authority	30	30	30	30	40	160
Outlays	10	30	50	60	60	210

NOTE: In order to show the effect of the specific programmatic changes in this option, savings are calculated relative to spending that has been projected under the assumption that current laws and policies affecting this activity remain unchanged. Those current-law estimates differ from projections that are not based on any programmatic assumptions and simply assume that the 1995 level of spending for this activity (or that amount adjusted for inflation) is provided in every year.

Since 1935, the Davis-Bacon Act has required that "prevailing wages" be paid on all federally funded or federally assisted construction projects with contracts of \$2,000 or more. The procedures for determining prevailing wages in the area of a construction project, as well as the classifications of workers who receive them, favor union wage rates in some cases.

The federal government could reduce outlays for construction by repealing the Davis-Bacon Act or by modifying it. Repealing the act would reduce outlays by about \$150 million in 1996 and by about \$2.6 billion over the 1996-2000 period. Raising the threshold for determining which projects are to be covered by Davis-Bacon from \$2,000 to \$1 million would exclude about 31 percent of the value of all contracts currently covered by the act. Savings in that case would total about \$40 million in 1996 and about \$710 million over the five-year period. Raising the

threshold to \$250,000 would exclude about 12 percent of the value of all contracts and save about \$290 million over the five-year period. Changing the requirements for wage-and-hour reporting for contracts covered by Davis-Bacon from a weekly to a monthly basis would reduce compliance costs for contractors by about \$210 million over the five years. Each of these estimates assumes that the Congress would reduce federal appropriations for agencies to reflect the anticipated reduction in their costs of construction.

Repealing Davis-Bacon or raising the threshold for projects that it covers would reduce the cost of federal construction. In addition, either action would probably increase the opportunities for employment that federal projects might offer to less skilled workers. Such changes would, however, lower the earnings of some construction workers. Opponents of these options also argue that eliminating or relaxing

Davis-Bacon requirements could jeopardize the quality of federally funded or federally assisted construction projects. Reducing the requirements for wage-and-hour reporting would lessen the paperwork re-

quired of employers, but at the same time it might diminish the effectiveness of the Davis-Bacon Act by reducing the government's ability to detect noncompliance.

