United States General Accounting Office

GAO

Report to Congressional Requesters

September 1990

BUDGET DEFICIT

Appendixes on Outlook, Implications, and Choices

GAO/OCG-90-5A

GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-240983

September 28, 1990

The Honorable J. James Exon
United States Senate

The Honorable Charles E. Grassley
United States Senate

The Honorable Daniel P. Moynihan
United States Senate

The Honorable Bill Bradley
United States Senate

This is an appendix to our earlier report entitled The Budget Deficit: Outlook, Implications, and Choices (GAO/OCG-90-5, September 12, 1990). That report, issued in response to your joint request, provided our views on the dimensions of the budget problem facing the nation, the implications of the deficit for the U.S. economy, and some of the choices that must be made to attack the deficit problem. This companion volume, containing five appendixes, elaborates on selected information in that report.

Appendix I discusses the results of our simulations using macroeconomic forecasting techniques. These support our conclusion that an aggressive attack on the deficit:

- will not seriously imperil continued economic growth in the short-term, although a temporary increase in unemployment might occur;
- will yield lower interest rates, strengthened investment, and higher exports; and
- will generate a significantly higher rate of long-term economic growth by the turn of the century.

These results were conditioned on a fiscal policy shift occurring over several years, a credible deficit reduction plan backed by strong political consensus, and Federal Reserve Board action to facilitate lower interest rates.

Appendix II describes our methodology for developing the notional unit costs used in chapter 5 of the report. These estimates of the 1997 cost of

Department of Defense components such as Army divisions, Navy carrier battle groups, or Air Force tactical wings were the basis for the projected savings resulting from three illustrative levels of force reduction.

Appendix III provides further details for two strategies for reducing nondefense program outlays. The first section discusses the causes of health care expenditure growth and briefly outlines an approach to developing reforms that might bring that growth under control. The second section provides details on two illustrative scenarios for reducing grants to state and local governments. One approach entails eliminating or reducing programs considered by some to be either ineffective or poorly targeted. The other involves consolidating about 400 grants into six mega-block grants and reducing the authorized funding by certain percentages. We identify the programs that could be included in either approach.

Appendix IV provides options for reducing nondefense program outlays. The first section describes four illustrative scenarios for reducing nondefense outlays and lists specific programs that could be reduced or eliminated to generate savings ranging from $45 billion to $170 billion annually by 1997. The listings suggest the kind of choices that need to be faced. Of course, any terminations or reductions will be unpopular with beneficiaries of that program. However, assuming the need to achieve a specific outlay reduction goal, any rejected proposal would need to be replaced by another of equal magnitude. The second part of this appendix provides a menu of the outlay reductions that we assembled during the course of our review. Many of these had been identified by other federal agencies, particularly the Congressional Budget Office. We also generated an extensive list internally based on experience gained from our previous program audits and evaluations. Others were advanced by the nonprofit and private sectors.

Appendix V discusses revenue options. The first section lists potential ways of increasing annual tax revenues by $60 billion, $120 billion, and $170 billion by 1997. The second section discusses the impacts of various tax measures. Where possible, it indicates which income groups will be most affected by specific measures. In other cases, it provides more general characterizations of the effect by income group or sector of the economy. The third section provides a listing of tax options and indicates the revenue that could be realized annually for the 1992 through 1997 period.

As indicated in the earlier report, we are not suggesting any specific program choices for achieving our recommended fiscal policy shift of $300 billion by 1997. We are providing the Congress and the executive branch additional details on the options available in defense and nondefense spending, as well as on the revenue side of the equation for reaching such a fiscal target.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Figures

Abbreviations

AFDC	Aid to Families with Dependent Children
AGI	adjusted gross income
AIDS	acquired immunodeficiency syndrome
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
CFDA	Catalog for Federal Domestic Assistance
COLA	cost-of-living adjustment
CPI	consumer price index
DOD	Department of Defense
DOE	Department of Energy
EXIM	Export-Import Bank
GDP	gross domestic product
GNP	gross national product
HUD	Department of Housing and Urban Development
IRA	individual retirement account
IRS	Internal Revenue Service
NIPA	national income and product accounts
PMA	Power Marketing Administrations
SBA	Small Business Administration
SLS	Supplemental Loans for Students
VA	Department of Veterans Affairs

Detailed Analysis of Macroeconomic Issues

This appendix presents a more detailed explanation of the analysis underlying our recommended fiscal policy change, the consequences of the change, and the policy context in which the change would achieve its intended objectives. It also presents our views on some of the analytical issues related to the federal deficit and its consequences for the economy.

Fiscal Policy Objectives in Perspective

We recommend a fiscal policy shift of $300 billion, to be phased in over the 6 years 1992-97. The objective of this policy change is to strengthen the economy's long-term growth prospects. Neither this recommendation nor any recommendation that is comparably precise can be defended as exactly what is required. It is nevertheless possible to establish by a variety of tests that the goal is plausible and feasible and does not present undue risks.

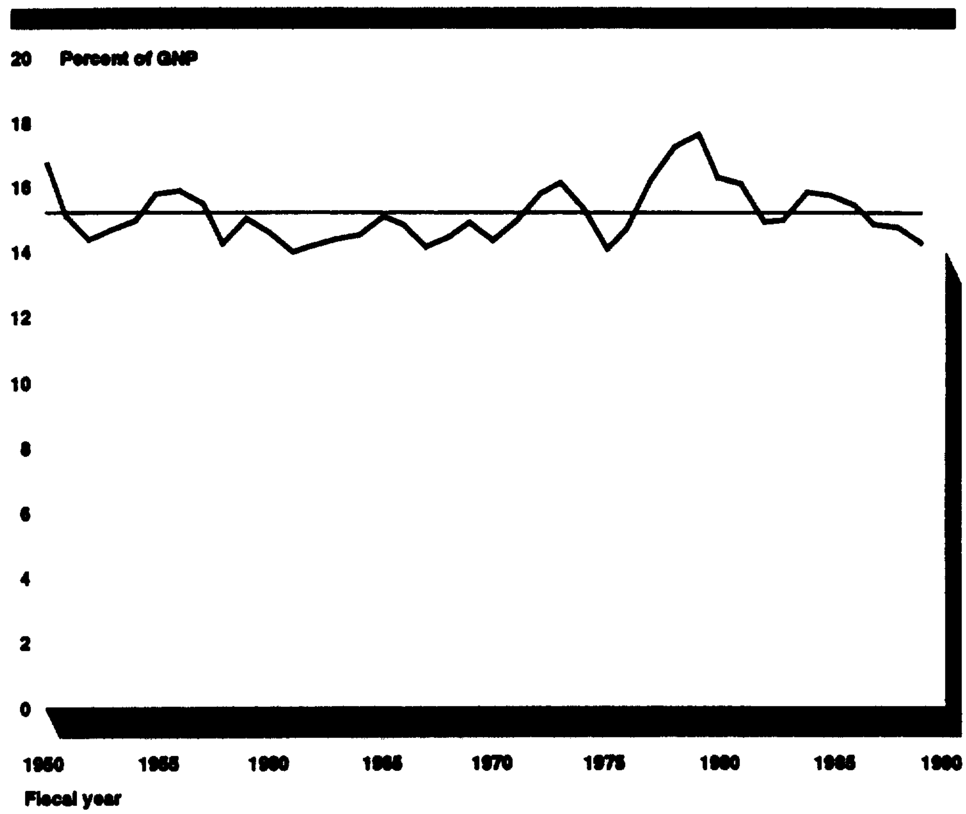
As a first step, we examine the recent investment performance of the U.S. economy. Several types of evidence show that the U.S. economy is suffering from a syndrome of low saving, consequent low investment, and resulting inadequacies in economic performance. This section presents a portion of this evidence, placing the economic events of the recent past in a wider historical perspective.

In the national income and product accounts, the economy's total output of goods and services is divided among four major categories according to how the output is used. The four categories are gross private domestic investment, personal consumption expenditures, net exports of goods and services, and government purchases of goods and services.

Gross private domestic investment comprises residential structures, nonresidential structures and producers' durable equipment, and the net change in business inventories. The last of these three components plays a different and smaller role in the long-term performance of the economy than the other components. For these reasons, this discussion focuses particularly on the other ("fixed investment") components of gross private domestic investment.

Figure I.1 shows the historical development of domestic fixed investment in relation to GNP. After reaching the highest level on the historical record in 1978, the fraction of GNP devoted to gross domestic fixed investment declined sharply to the recession year of 1982. The share increased briefly as the economy pulled out of the recession but then resumed its decline. By 1989, it stood at 14.3 percent, lower than in any year since 1975 and approaching the lowest levels seen in the post-World War II period—notwithstanding the fact that 1989 was a prosperous year while the previous lows typically marked recessions. By contrast, personal consumption expenditures have tended to rise in recent years and have been above 66 percent of GNP since 1986—higher than at any time since the postwar spending boom which was fueled by savings from the war years.

Figure I.1: Gross Private Domestic Fixed Investment as a Percent of GNP



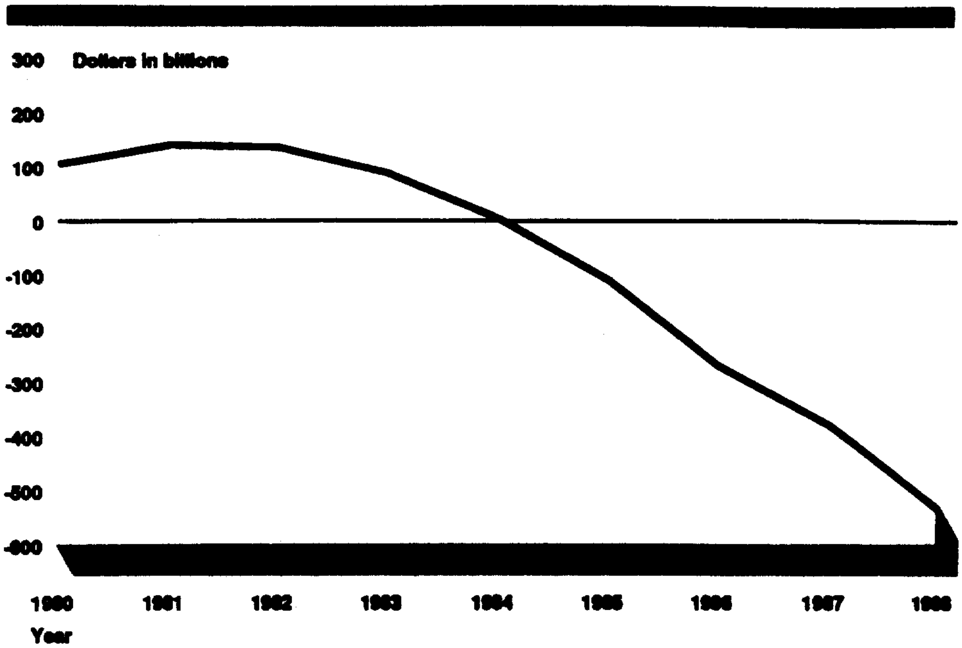
Note: The 1950 to 1989 average of gross private domestic fixed investment as a percent of GNP is 15.2.

The fact that the United States is now experiencing a combination of historically low fixed investment and historically high consumption relative to GNP strongly suggests that recent trends have been unfavorable to saving and investment, but statistical measurement problems discussed later make the case not quite conclusive. A less ambiguous and more significant aspect of these recent trends, however, is the fact that the nation as a whole has been living beyond its means. While domestic investment has fallen, the amount of goods and services devoted to consumption, investment, and government expenditure together has exceeded what the nation has produced. The difference has been made up by net imports.

To make the payments required to cover the excess of imports over exports, Americans have collectively borrowed abroad, reduced the pace of new lending and direct investment abroad, and sold to foreigners a variety of assets here and abroad. In fact, these actions have been required to finance not only the trade deficit but also net transfers to foreigners by persons and government and an increasingly significant level of net government interest payments to foreigners. Government interest paid to foreigners stood at $1 billion in 1970 and at $33.4 billion in 1989. Over the period 1985-89, it increased at the rate of 11.9 percent per year.

The overall consequence of these financial developments has been a dramatic decline in the financial claims of Americans on foreigners relative to those of foreigners on Americans. This is summarized in the U.S. net international investment position, shown in figure I.2. This change is commonly referred to as a change in the U.S. position from that of "net creditor" to "net debtor" of the rest of the world, although the balance struck covers not only outstanding loans and debt securities but also equity ownership and government asset positions.

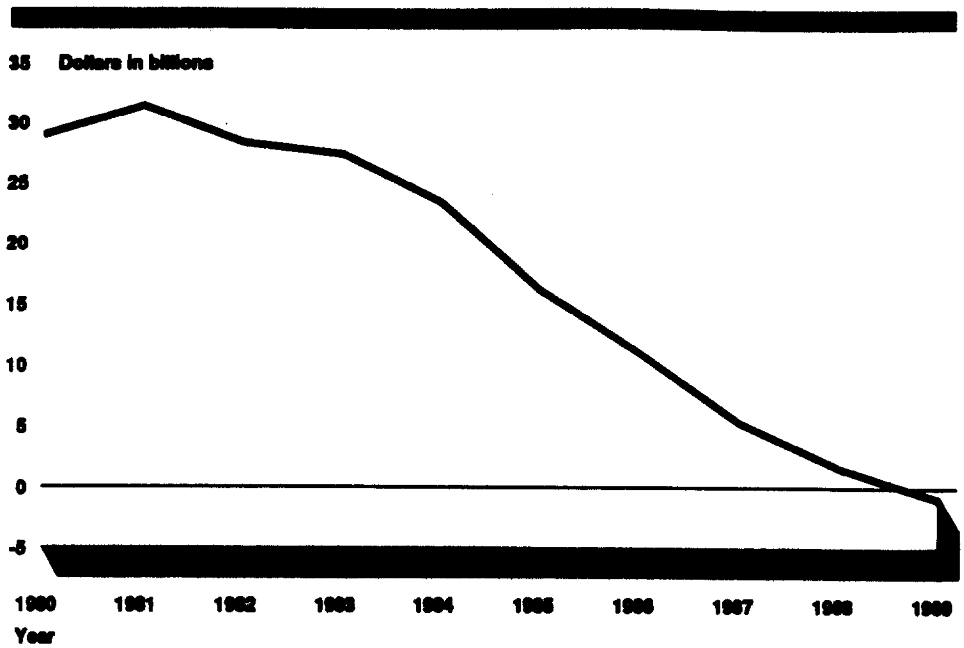
Figure I.2: U.S. Net International Investment Position



The relative valuations of asset holdings in the United States and abroad are affected by exchange rate changes as well as by the trade balance and other current payments flows. Revaluations were not, however, a significant factor in the change in the U.S. net international investment position over the 1980s as a whole. It should also be noted that actually measuring the net international investment position poses significant problems, of which the most serious is that the assets are typically recorded at face or book values rather than at current market values. This is particularly significant because foreign direct investment in the United States has been high, especially in recent years, while U.S. direct investments abroad are older on the average. This implies a relative undervaluation of the U.S.-owned assets.[1] However, it appears that correcting these measurement problems yields a picture similar to figure I.2 but shifted some years forward. This view is supported by the observation that the net flow of investment income to the United States from abroad fell from $34.1 billion in 1981 to minus $0.9 billion in 1989. (See fig. I.3.)

[1] Principally because of this measurement problem, the Bureau of Economic Analysis, Department of Commerce, has suspended publishing a figure for the U.S. net international investment position, as such. It does, however, publish the component data required to strike the usual balance. Had such a balance been struck for 1989, it would have been $663.7 billion, consistent with the trend shown in figure I.2. The Bureau has stated that the combination of the net international investment position component data may be a better indication of the annual change in that position than it is of the level.

Figure I.3: U.S. International Balance on Investment Income



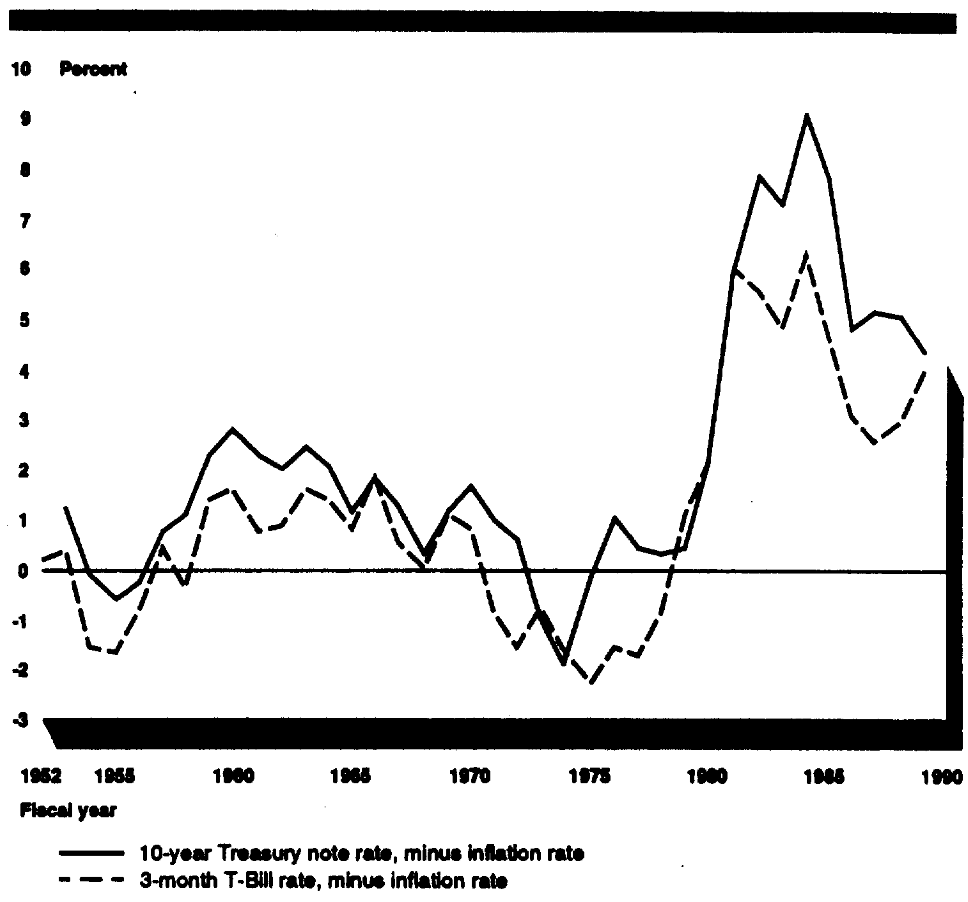
Our interpretation of these recent trends is that they reflect primarily the American economy's low overall saving rate and that the federal budget deficit has significantly contributed to the problem by absorbing much of the net saving generated by the rest of the economy. (See fig. 3.2 in our report, GAO/OCG-90-5.) Some challenge this interpretation. As discussed in more detail below, the official statistics on saving and investment do have significant limitations. Conceivably, therefore, the weakness in saving and investment might be a statistical illusion. A persuasive case to this effect would, however, have to deal with a great many pieces of evidence beyond the saving and investment figures themselves.

One particularly important indicator is the behavior of real interest rates shown in figure I.4.[2] Both short-term and long-term rates have been high relative to the inflation rate for most of the 1980s. For the early years of the decade, it can plausibly be argued that the high long-term real rates were partly the result of a hangover of inflationary expectations reflecting the very high inflation rates of 1979-81. Financial markets, in this view, were understandably slow to accept that the

[2] The real rates for a given year are defined here as the average nominal rates for that year, minus the average of the inflation rates (measured by the implicit GNP deflator) from the previous year to the given year and from the given year to the following year.

decline in inflation after 1981 would prove long lasting. This argument is far from convincing as an explanation for the persistence of high short-term real rates in the latter half of the decade and, to a lesser degree, is unconvincing regarding long-term rates. In the context of basic supply and demand theory, it seems artificial to emphasize the impact on the demand side of the securities markets of events that took place 5 or more years previously while ignoring the essentially contemporaneous supply side event of an explosion of government and private debt offerings.

Figure I.4: Real Interest Rates



That real rates have recently been high is, in any case, one of the most firmly established facts about the contemporary economy. While this fact may not reflect the economy's relatively weak saving performance, finding a plausible alternative explanation is difficult. In principle, high real rates could reflect high levels of loan demand and securities offerings arising from unusually attractive real investment opportunities. This, however, would be expected to be accompanied by unusually high actual levels of real investment. As noted, the official investment statistics show the opposite pattern, while many other indicators support the view that real investment has generally been weak.

A formidable burden of proof faces anyone who wishes seriously to dispute the proposition that the federal deficit is a significant part of a recent tendency to sacrifice America's economic future in favor of the present—namely, the challenge of identifying the areas of unusual strength in recent investment performance that might arguably compensate for the clearly visible areas of weakness and decline.

Designating a Specific Fiscal Objective

In arriving at our specific proposal for a $300 billion fiscal policy shift, we relied primarily on the historical background and diagnosis described above. The general objective is to restore the national saving rate to the middle or high end of the historically observed range, thus laying the foundation for sustained long-term growth by making the resources available for an increase in both domestic and foreign investment. To establish the connection between this general objective and the $300 billion figure, it is useful to consider what this fiscal shift postulated for 1997 would have meant if it had already been accomplished by 1989.

The first step in exploring this hypothetical situation is to adjust for inflation. Assuming that the inflation rate from 1989 to 1997 averages 4 percent per year, $300 billion in 1997 corresponds to $220 billion in 1989. If other sources of saving remained unchanged, gross saving and investment would have increased by this amount.

Table I.1 displays the 1989 saving and investment data of the actual income and product accounts and the results of hypothetical adjustments to the accounts consistent with the assumed $220 billion fiscal policy shift. With other sources of saving unchanged, gross saving would then total $911 billion. The additional saving is distributed in the investment account by first eliminating the deficit in net foreign investment (through a change in net exports) and then allocating the remainder to fixed investment.

Table I.1: Gross Saving and Investment (1989)

Dollars in billions

Gross saving	**Actual[a]**	**Hypothetical**
Gross business saving	$607.4	$607.4
Personal saving	171.8	171.8
State and local government surplus	46.4	46.4
Federal government surplus or deficit (-)[b]	−134.3	85.7
Total Gross Saving	**$691.5**	**$911.5**
Gross investment		
Gross domestic investment		
Fixed investment	$742.9	$866.1
Change in business inventories	28.3	28.3
Subtotal, gross domestic investment	$771.2	$894.4
Net foreign investment		
Net exports of goods and services	$−46.1	$50.8
Net transfer payments to foreigners	−14.8	−14.8
Interest paid by government to foreigners	−36.0	−36.0
Subtotal, net foreign investment	$−96.8	0
Total Gross Investment	**$674.4**	**$894.4**
Statistical Discrepancy	$−17.0	$−17.1

Note: Totals may not add due to rounding.

[a]Source of actual values: Bureau of Economic Analysis.

[b]U.S. national income and product accounts (NIPA) basis.

Under these hypothetical conditions, the deterioration in the U.S. net international investment position, discussed in the previous section, would have come to a halt in 1989, though at a level more than half a trillion dollars below the dead-even level of only 5 years previously. Fixed investment would rise to 16.7 percent of GNP, above the level of any year in the 1980s but still below the highs of 1978-79. By contrast, suppose that the fiscal shift were only half the suggested size—$110 billion in 1989 dollars. If the deficit in the net foreign investment account were eliminated, the amount left over would suffice to raise the share of fixed investment in GNP by only 0.4 percent—less than would be needed to restore the ratio to its 1988 level. In addition, of course, the unified budget would remain in deficit, implying the continuation of rising debt and net interest costs in 1989 and subsequent years.

Although this accounting exercise supports the plausibility of the $300 billion objective, it is obviously not an adequate substitute for detailed analysis. The real economy will not stand still while substantial changes are made in a few saving and investment accounts. Also, the 1997 economy will differ from the 1989 economy in a variety of ways, regardless of any policy package that might be adopted. Our detailed analysis of the fiscal policy change, employing macroeconomic forecasting techniques, is presented below. First, however, we address some of the questions that have been raised about the basic analysis of the national saving problem accepted by us and other observers. These questions concern, in particular, the adequacy of the statistical measures of saving and investment.

Official Measures of Saving and Investment Are Subject to Criticism

The main elements of our analysis of investment, saving, and the deficit are widely accepted among economists. In particular, they generally agree that it is important to reduce the federal deficit to reduce its adverse impact on the U.S. national saving rate. They also agree that the national saving rate is low by international standards and has been particularly low in the 1980s. However, some critics either disagree with aspects of our analysis or are concerned about possible misinterpretations that might lead astray public understanding or public policy.

The discussion that follows acknowledges the validity of many of the individual points that the critics have made. We believe, however, that our recommendation for a major shift toward surplus in the federal budget is solidly based. Many of the critics' arguments actually have little or no direct implication for the policy issues; others have important implications regarding the implementation of the policy change but do not fundamentally affect the case against the deficit.

Official Statistics Do Not Reflect All Saving and Investment

Any use of the economy's current productive powers to enhance its future productive powers is, in economic concept, an "investment." Since the current productive powers could, in principle, be devoted only to supporting current consumption, any "investment" involves an associated abstention from current consumption that is, in economic concept, "saving." U.S. national income and product accounts measure some, but definitely not all, of the activities in the economy that qualify conceptually as saving and investment.

The NIPA category "gross private domestic investment" includes producers' investments in structures and equipment, net change in business inventories, and construction of residential structures. Although these are important types of investment, the future economy would hardly function at all if only these sorts of investment were made. The principal types of domestic investment that go unmeasured in the official accounts are (1) investment by government at all levels, (2) investment in intangibles, including the creation of new productive knowledge through research and development and the imparting of productive capabilities to the labor force by education and training, and (3) investment by consumers in consumer durables. The official statistics also fail to record in a conceptually adequate way many current activities that diminish the economy's future productive power and thus should count as disinvestment—a drawing down of the nation's stock of productive wealth. Degradation of the environment by pollution and exhaustion of natural resources are important examples.

When a new building owned by a private entity is built, the official statistics capture the fact that something durable has been created that will be useful for many years in the future. But if a government entity spends dollars raised by taxes or borrowing to build a building—a school, a post office, a military command post, a hospital, or whatever—the official statistics see only "government expenditure." They do not reflect the future usefulness of these facilities or, when the construction is tax-financed, the related government saving. The same measurement issue arises in an even more emphatic form when the government makes investments not primarily for its own future use but for the private sector's use—for example, constructing highways and airport runways. Government investment in these areas directly affects the returns to important types of private sector investment. But the official statistics make the same record they would make if the same sum were spent on government purchases of fireworks for 4th of July celebrations.

In a previous report, we proposed a format for the federal budget that would highlight some of these neglected distinctions.[3] Under the proposal, subtotals would be shown separately for operating and capital budgets for the general fund, the trust funds, and government enterprises. An overall deficit in the unified budget would continue to represent a federal financing requirement, but the figures shown in the

[3] Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1, October 1989).

operating and capital budgets would provide better insight into the government's role in national saving and investment. The investment represented by constructing a building would be recognized in the capital budget, and depreciation on buildings would be charged to the operating budget. Analogous changes could be made in the treatment of the federal sector in the national income accounts. As noted below, this would bring U.S. practice into conformity with that of many other countries.

The situation is similar for other types of investment that are not recognized in the official statistics. For example, business expenditures for research and development are treated as costs of current production and private spending for education is treated as consumption. Consumer purchases of cars, television sets, furniture, and other consumer durables are also treated in the NIPA statistics as current consumption, even though they are typically used over a period of years.

It is clear that the NIPA category "gross private domestic investment" falls well short of being a full measure of the economy's investment activity. In most cases, there is a corresponding shortfall in NIPA measures of gross saving. Given the character of the various types of unaccounted investment, it is clear that most of the unaccounted saving is domestic saving.

Recognition of Other Types of Investment Is Feasible but Presents Measurement Difficulties

There are several approaches to national income accounting, of varying degrees of development, that include more comprehensive measures of investment. The differences between these more comprehensive measures and the NIPA measure can be very large.

One well-established alternative system is the United Nations System of National Accounts, which many countries follow in maintaining their national accounts. This system differs from the U.S. system primarily by treating government construction and equipment purchases (except military) as investment. The United States provides national economic data to the United Nations and the Organization for Economic Cooperation and Development in this form. (For example, the international comparison shown in fig. 3.1 of our report is based on figures provided in this form by the United States and other countries.)

The United Nations system measure of gross national saving has exceeded the NIPA measure by roughly 5 percentage points of GNP, or about 33 percent, in recent years. Incorporating consumer durables in the measure increases gross investment by a roughly similar magnitude.

On the other hand, inclusion of investment in intangibles like knowledge and "human capital" makes a much larger difference. Proposed systems that have attempted this inclusion yield estimates of saving and investment that are several times the NIPA values.

A conceptually consistent accounting treatment of any particular form of investment involves more than simply recognizing the appropriate form of expenditure as part of gross investment. It must also include an estimate of depreciation, so that a net investment figure can be generated. In addition, the services of the capital assets created by the investment must be recognized as part of total output. While good data are often available on original purchases of assets, permitting an accurate adjustment of gross investment accounts, usually no corresponding empirical basis exists for the necessary depreciation and imputed income adjustments. This difficulty is particularly serious in the case of investments in education, training, and research and development—where obsolescence plays a significant role in economic depreciation.

If a substantial level of net investment is occurring in a particular investment category, the exclusion of that category from the national accounts can make a major difference to the statistical picture of the economy. The quality of a more comprehensive statistical picture depends critically, however, on the quality of the depreciation figures—which are needed to determine whether net investment is, in fact, occurring. Systems that attempt more comprehensive treatment of investment are weakest precisely at the point that matters most in a policy context where the adequacy of national saving is the issue. They cannot provide reliable estimates of the extent to which the nation's stocks of particular types of productive wealth are increasing or decreasing over particular periods.

Moreover, comparisons based on more comprehensive measures typically show differences in the same direction as those shown by the NIPA-based measures, although the details of composition, timing, and magnitude may be different. In particular, the increase in the budget deficit during the 1980s was certainly not matched by an increase in federal government investment activity as measured by any of the proposed alternative accounting systems—with the possible exception of increased expenditures for military hardware. (As noted in our report, the large percentage increases in real expenditures during the 1980s were in defense, Social Security and Medicare, and interest.)

Of course, more comprehensive measures of gross saving and investment necessarily make the federal deficit appear less significant relative to the total, and the same tends also to be true for the (less reliable) measures of net saving. This observation does not suggest that deficit reduction is unimportant or unnecessary. In fact, it could as well be interpreted as necessitating a larger shift toward surplus, to have an appropriate relative impact on the larger total.

NIPA Measures Are Valid Indicators of Trends

The virtue of the official measures of saving and investment lies in their comparatively strong grounding in underlying observations of the economy and particularly in the consistency with which the same framework has been applied over time. While the NIPA measures are not comprehensive measures of saving and investment activity, they are generally valid as indicators of trends. Especially in light of the behavior of real interest rates, it is reasonable to assume that the forces acting on other types of investment are similar to those bearing on the types of investment recognized in the official measures. The overall result would then be to exacerbate, rather than to compensate for, the problem disclosed in the official statistics. Absent any convincing evidence of extraordinary strength in other investment categories (and we can find no such evidence), prudence demands that the warning provided by the official statistics be acknowledged and corrective action taken.

The foregoing discussion has, however, important implications regarding the character of the corrective action that should be taken. A policy whose purpose is to improve the outlook for long-term economic growth will not accomplish its goal if its detailed implementation involves major cutbacks in expenditure categories whose investment nature is not recognized. Among these types of expenditure, arguably only spending on consumer durables might logically be cut back in the pursuit of long-term growth—on the ground that if "long term" means a decade or more, other forms of investment can probably make a larger contribution. It would be particularly counterproductive, and from the economic viewpoint self-contradictory, to pursue deficit reduction at the expense of investment in education, research and development, and improvement in the public infrastructure.

Response of the Economy to Deficit Reduction

Our analysis of deficit reduction options indicates that the economy can continue to expand at the same time the deficit is reduced. It suggests, therefore, that the long-term benefits of deficit reduction can be attained without unacceptable sacrifice of short-run macroeconomic growth and employment goals.

Analytical Methods and Assumptions

Much of our analysis of the effects of deficit reduction options was based on simulations using two prominent macroeconomic forecasting models. We also compared the options with the aggregate deficit reduction assumed in the July 1990 budget "Update" by the Congressional Budget Office (CBO). Both our analysis using the macroeconomic models and CBO's assessment of the outlook contingent on major deficit reduction support our belief that a major deficit reduction program does not seriously imperil continued economic growth. The analyses suggest that while such a program may cause some short-term increase in unemployment, it offers benefits in terms of lower interest rates, strengthened investment, and higher exports. These are, of course, precisely the sorts of benefits anticipated from the program.

We examined several deficit reduction packages using two macroeconomic forecasting models, the DRI/McGraw-Hill model and the model maintained by The WEFA Group. Given the hazards of macroeconomic forecasting, it should be clear that we do not endorse either of these models as valid representations of the economy or as accurate forecasters. They are, however, well known and well regarded in the forecasting profession. The results of our simulations with these models are reported here in the spirit of relaying the results of a consultation with independent experts.

To incorporate our options, we first adjusted these models, with the assistance of DRI and WEFA, to forecast the effects of a current services budget. This adjustment was necessary because the principal forecasts offered by the two models now assume significant deficit reduction from the current services baseline. Thus, these firms' major forecasts already assume some of the fiscal restraint involved in deficit reduction and offsetting of that restraint by monetary policy. Changes such as those envisioned by our options are less dramatic when viewed as changes from the forecasters' baselines than when viewed from the current services baseline.

Similarly, it should be noted that CBO's baseline economic assumptions in its July 1990 "Update" do not reflect CBO's assumptions under a current services budget; rather, CBO assumes that the budget deficit is reduced by $400 billion to $600 billion between 1991 and 1995, a change that would enable the Federal Reserve to lower interest rates substantially.[4] So far as the economic assumptions are concerned, it is CBO's January 1990 estimates that are conceptually comparable to those used in our two current services baselines.

Since the starting point for our analysis was the private forecasters' views of the economic outlook in July 1990,[5] the assumed economic context is not fully consistent with CBO's baseline assumptions for the economy and the budget. Neither is it fully consistent with our baseline budget path, which was derived from the CBO figures in the manner explained in chapter 2 of our report.

For the most significant feature of the economic assumptions, the path of real GNP, the differences involved are quite small. The DRI version of a current services baseline projection gives a 1995 GNP that is 0.3 percent above the CBO January estimate for 1995, while the WEFA baseline is 1.4 percent above CBO's. In later years, the WEFA baseline projection runs as much as 2.9 percent above DRI's. The situation is more complex and the differences are larger for the baseline deficit path. In macroeconomic analysis, the NIPA treatment of the federal budget is conventionally used, and that convention is followed here. We did not develop an explicit NIPA counterpart for our baseline budget. However, by far the largest component of difference between our treatment of the budget and a NIPA treatment, over the period in question, is our inclusion of asset transactions of the Resolution Trust Corporation. Since these transactions are projected to have occurred before 1997, the 1997 deficit figures are reasonably comparable. It turns out that the DRI current services baseline deficit for 1997 exceeds our figure by about 5 percent, while the WEFA value is 15 percent lower than ours.

We believe that these various differences do not seriously affect our analyses that use each model individually to compare options with each

[4]In fact, the government's net interest payments in the CBO current services budget are calculated under the assumption that these lower interest rates would prevail. Thus, the deficit that would arise in a current services situation would be even larger than is projected in CBO's "Update." The assumption of lower interest rates and the associated deficit reduction was eliminated from our adjusted baseline.

[5]After Iraq's invasion of Kuwait, we did a limited amount of reanalysis incorporating the assumption of a temporary oil price increase. While the implications were unfavorable for the economy's performance in the near term, our conclusions regarding the effects of a shift to surplus over 1992-97 were not substantially affected.

other or to explore the effects of different monetary policies. Applied in this way, the two models provide us with two alternative, and largely comparable, estimates of the effects of the same policy changes. Also, the 1997 projections for the deficit are roughly comparable between our baseline and the DRI model results. These are the sorts of comparisons on which our principal conclusions are based, although we did gain helpful insights by comparing the models with each other.

To evaluate the response of the economy using the private forecasting models, we evaluated a range of options. All of the options were modeled as involving a desired total of $240 billion in noninterest deficit reduction—through combinations of revenue, defense, and nondefense spending changes—by fiscal year 1997. Most of the examples we explored involved an evenly paced phase-in of program changes over the 6 years 1992-97. As described in chapter 4 of our report, these basic program changes led to lower debt levels (compared with the baseline) and hence to further deficit reduction through interest savings. The forecasting models generated estimates of these savings in net interest payments, which would result from both decreased borrowing and lower interest rates. In some of our simulations, the forecasted decline in interest rates reflected our exploration of an assumption that the Federal Reserve would support the deficit reduction program with a policy of monetary ease that went beyond its typical behavior patterns. Overall, the estimates of net interest savings cover a range from somewhat below to well above the $60 billion value of the interest rate "bonus" discussed in chapter 4 of our report.

We investigated various mixes of defense and nondefense spending cuts and implemented revenue increases in various ways. Varying degrees of supportive monetary policy were explored. Exchange rate changes are generated automatically in the DRI model; we investigated the implications of imposing similar changes by assumption in some simulations of the WEFA model.

The forecasting models do not provide a straightforward means for describing and analyzing government expenditure and tax policies at the same level of detail at which they are treated in chapters 5 to 7 of our report. They distinguish defense and nondefense expenditures and defense personnel from defense procurement—but not tanks from aircraft and certainly not B-2s from C-17s. Similarly, they distinguish personal income taxes from indirect business taxes but do not explicitly incorporate a "sin tax" option and a value-added tax option.

Our experiments show that even the major differences among scenarios that are easily reflected in the models do not make major differences in general macroeconomic performance—although the detailed economic picture is certainly affected. According to the models, monetary policy and the value of the dollar are much more powerful determinants of macroeconomic outcomes than the differences in composition among fiscal policy shifts of the same total size.

Each of the models has as one of its components a representation of the Federal Reserve's behavior concerning monetary policy, a representation that has been quantified by reference to the Fed's actual behavior in the past. Essentially, the Fed is represented as having an antipathy to inflation and unemployment, as well as to overly rapid changes in interest rates. If the inflation rate is high and unemployment is low, the Fed may be expected to raise rates; if the reverse combination prevails, it will lower them. What happens under more difficult and ambiguous circumstances is not as easily characterized and is probably less likely to be predicted accurately by the models.

The models also provide mechanisms for exploring the implications of monetary policies different from those the models predict. In our discussion below, the phrase "extra monetary stimulus" is used in connection with scenarios that explore the consequences of lower interest rates than the models would predict the Federal Reserve to establish given the other circumstances prevailing in the economy. This does not imply, however, that the provision of extra monetary stimulus is an unreasonable prediction of the Fed's behavior in the context of a major, multiyear deficit reduction program. The Chairman of the Federal Reserve Board has repeatedly stated that monetary policy would provide support for such a program. In any case, the size of the fiscal policy change and its predictable character if an agreed multiyear plan is developed might themselves lead the monetary authority to provide more support than the models would predict based on historical data.

General Results

Several significant patterns emerge from the full range of our experimentation with the models.

Implementation of a phased deficit reduction program poses little risk of inducing a recession. To the extent that recession risks exist, they are concentrated in the near future and reflect the crisis in the Middle East and the present weakness of the economy. Assuming a successful resolution of the crisis or merely a standoff that does not further reduce oil supplies, the longer-term outlook is for an economy robust enough to withstand gradually imposed fiscal restraint without slipping into recession.

In the absence of extra monetary stimulus, deficit reduction could produce an extended period of relatively slow growth in real GNP, roughly comparable to the economy's performance since mid-1988. Slow growth would be accompanied by a rise in the civilian unemployment rate to the vicinity of 6 percent. At the completion of the deficit reduction program in 1997, real GNP would remain below the baseline figure by approximately 2 percent. This would imply a substantial shortfall in achieving the objective of increasing national savings and growth.

Just as the increase in the budget deficit was reflected particularly strongly in the trade deficit, the reduction of the budget deficit yields clear benefits in the strength of net exports. Exports may, in fact, be the key to maintaining prosperity in the context of deficit reduction. Realizing the potential strength of exports, however, requires acceptance of a decline in the dollar—a decline that the lower interest rates associated with deficit reduction will tend to bring about automatically.

With a moderate degree of extra monetary stimulus, the economy can remain on or above the baseline growth path for real GNP and can surpass the baseline in 1997. (The baseline real growth rate from 1990 to 1997 is 2.3 percent in the DRI model and 2.7 percent in the WEFA model; the models concur in predicting that their respective baselines can be surpassed in 1997 when deficit reduction is accompanied by a moderate degree of extra monetary stimulus.) The unemployment rate peaks at around 5.5 percent in these simulations. This growth performance comes at a very modest price in higher inflation relative to the baseline, producing an increase of less than 1 percent in the value of the GNP implicit price deflator in 1997.

There is a substantial degree of momentum in some economic indicators, such as the national debt, net interest paid, and net international investment position. The prevailing trends are unfavorable, and they are not reversed in the early stages of a deficit reduction program. In the case of net interest paid, the peak may come in 1994 or 1995; extra monetary stimulus adds to the interest bonus and can advance the "turnaround date" to 1993. However, in the case of the net international investment position, the turnaround date is typically after the year 2000, regardless of the monetary policy.

In general terms, deficit reduction has the sorts of effects on national saving and investment characterized above in the discussion of table I.1. Net exports turn positive, the share of fixed investment in GNP rises, and the share of consumption declines. However, the details of the changes are, as expected, more complex than table I.1 suggests. First, in the absence of extra monetary stimulus, the reallocation of total output toward investment comes at a substantial price in output foregone; note the 2-percent shortfall of real GNP from the baseline mentioned above.

Also, in these simulations, the weakness of the economy prevents the full realization of the projected shift toward budgetary surplus. Second, the models concur in predicting a major decline in personal saving, sometimes partially compensated by an increase in gross business saving, as a consequence of deficit reduction. In some scenarios that display quite plausible behavior of other indicators, the decline in personal and business saving combined is over $100 billion. This means that the increase in gross national saving accomplished by 1997 may be approximately two-thirds of the realized shift in the federal budget. It appears that these effects reflect a high degree of inertia in real consumption, so that decreases in disposable income predominantly reduce savings rather than consumption. This view of saving behavior may be too pessimistic; it might be more plausible as a predicted response to a temporary income reduction than in the context of a multiyear and permanent fiscal shift of the kind postulated in our analysis. On the other hand, the personal saving rates in these simulations generally remain above the historical low value of 2.9 percent realized in 1987, so the forecasts are plausible enough by historical standards.

Baseline Projections

Table I.2 summarizes the key economic indicators for the two baseline projections. Since fiscal year 1990 is over, it provides a convenient common base for comparisons of growth rates to 1997. To show the size of the typical differences between the two projections in the intervening years, we also present averages over 1991-97 for some of the other indicators.

Table I.2: Economic Indicators for Current Services Baseline Projections

Economic indicator	DRI	WEFA
Growth rates, fiscal years 1990-97 (percent)		
Real GNP (1982 dollars)	2.3	2.7
Implicit GNP deflator	4.4	4.5
Money supply (M1)	5.2	5.1
Fixed investment (1982 dollars)	3.7	4.5
Exchange rate	−0.7	−2.6
Averages of annual data, fiscal years 1991-97 (percent)		
Unemployment rate	5.2	4.7
3-month Treasury bill rate	7.96	8.27
10-year government note rate	9.63	9.59

The baseline budget projections for the two series, on a NIPA basis, are shown in table I.3.

Table I.3: Baseline Budget Projections (Fiscal Years 1990-97)

Dollars in billions, NIPA basis

	1990	1991	1992	1993	1994	1995	1996	1997
Receipts								
DRI	$1,093.2	$1,188.7	$1,271.3	$1,341.8	$1,437.9	$1,550.1	$1,664.4	$1,785.4
WEFA	1,091.1	1,170.7	1,259.2	1,345.7	1,439.5	1,544.6	1,654.9	1,767.8
Expenditures								
DRI	1,248.5	1,328.4	1,416.6	1,512.0	1,616.7	1,726.7	1,844.7	1,973.6
WEFA	1,257.0	1,328.5	1,403.4	1,481.8	1,577.1	1,686.4	1,801.8	1,920.0
Deficit								
DRI	−155.3	−139.8	−145.3	−170.2	−178.8	−176.6	−180.3	−188.2
WEFA	−165.9	−157.8	−144.2	−136.1	−137.6	−141.8	−146.9	−152.2

Illustrative Results of Deficit Reduction

In tables I.4 and I.5, we show, for the two models separately, how deficit reduction produces changes from the 1997 baseline figures, both with and without extra monetary stimulus. The deficit reduction measures introduced are the same in both cases and include major changes in all three categories (defense and nondefense spending reductions and revenue increases). Since the two models offer different methods for providing the extra monetary stimulus, there is no direct way of imposing identical monetary policy assumptions on them. We did attempt, however, to bring about comparable degrees of monetary stimulus. One rough indicator of the size of the difference that actually emerged is the Treasury bill rate; another is the level of the money supply (M1).

Table I.4: Illustrative Effects of Deficit Reduction on Major Economic Indicators Based on the DRI Model

Economic indicator	Fiscal year 1997 baseline level	Effects of deficit reduction: Without extra monetary stimulus	Effects of deficit reduction: With extra monetary stimulus
Real GNP (1982 dollars in billions)	$4,922	$4,848	$4,934
Percent difference		−1.5%	0.2%
GNP implicit price deflator (1982=100)	176.1	173.1	177.9
Percent difference		−1.7%	1.0%
Money supply (dollars in billions)	$1,142	$1,119	$1,186
Percent difference		−2.0%	3.8%
Real exchange rate[a] (1980-82=100)	82.9	79.1	76.1
Percent difference		−4.6%	−8.2%
Unemployment rate	5.4%	6.0%	5.7%
Absolute difference		0.6	0.3
Interest rates			
3-month Treasury bills	7.5%	5.0%	4.1%
Absolute difference		−2.5	−3.4
10-year Treasury bonds	9.6%	6.8%	6.0%
Absolute difference		−2.8	−3.6

[a]Measured as an index of the value of the dollar in terms of the currencies of 15 other countries.

Table I.5: Illustrative Effects of Deficit Reduction on Major Economic Indicators Based on the WEFA Model

Economic indicator	Fiscal year 1997 baseline level	Effects of deficit reduction: Without extra monetary stimulus	Effects of deficit reduction: With extra monetary stimulus
Real GNP (1982 dollars in billions)	$5,048	$4,944	$5,052
Percent difference		−2.0%	0.1%
GNP implicit price deflator (1982=100)	176.8	174.6	177.2
Percent difference		−1.2%	0.2%
Money supply (dollars in billions)	$1,138	$1,128	$1,187
Percent difference		−0.8%	4.3%
Real exchange rate[a] (1980-82=100)	78.7	78.7	78.7
Percent difference		0%	0%
Unemployment rate	3.9%	5.7%	5.1%
Absolute difference		1.8	1.2
Interest rates			
3-month Treasury bills	8.7%	6.8%	5.0%
Absolute difference		−1.8	−3.7
10-year Treasury bonds	10.3%	7.1%	5.1%
Absolute difference		−3.2	−5.2

[a]Measured as an index of the value of the dollar in terms of the currencies of 40 other countries. The real exchange rate is exogenous in the WEFA model and was not changed for simulations shown here.

Finally, tables I.6 and I.7 show, for each model, how the scenarios with extra monetary stimulus produce changes from the baseline in the gross saving and investment account. As noted above, both models suggest that success in deficit reduction may translate only partially into increases in national saving, because the personal saving rate may fall. This is the most significant respect in which our analysis using the forecasting models leads to results markedly different from those of the simple exercise reflected in table I.1. We tried to determine the underlying sources of this result in the assumptions of the two models. We sought to determine the result's plausibility and permanence—that is, the extent to which the models would lead us to expect a continuation of low personal saving past 1997.

Table I.8: Gross Saving and Investment Account Based on the DRI Model (Fiscal Year 1997)

Dollars in billions

Gross Saving	Current services baseline	Deficit reduction with monetary stimulus	Difference
Gross business saving	$841	$878	$37
Personal saving	345	230	−115
State and local government surplus	144	114	−30
Federal government surplus or deficit (-) (NIPA basis)	−188	167	355
Total Gross Saving	**$1,142**	**$1,389**	**$247**
Gross Investment			
Gross domestic investment			
Fixed investment	$1,214	$1,325	$111
Change in business inventories	32	35	3
Subtotal, gross domestic investment	**$1,245**	**$1,360**	**$114**
Net foreign investment			
Net exports of goods and services	$−61	$52	$113
Net transfer payments to foreigners	−24	−24	0
Interest paid by government to foreigners	−58	−38	19
Subtotal, net foreign investment	**$−143**	**$−11**	**$133**
Total Gross Investment	**$1,102**	**$1,349**	**$247**
Statistical discrepancy	$40	$40	$0

Note: Totals may not add due to rounding.

Table I.7: Gross Saving and Investment Account Based on the WEFA Model
(Fiscal Year 1997)

Dollars in billions

Gross saving	Current services baseline	Deficit reduction with monetary stimulus	Difference
Gross business saving	$848	$977	$129
Personal saving	408	177	−231
State and local government surplus	46	40	−6
Federal government surplus or deficit (-) (NIPA basis)	−152	161	313
Total Gross Saving	**$1,151**	**$1,356**	**$205**
Gross investment			
Gross domestic investment			
Fixed investment	$1,312	$1,395	$83
Change in business inventories	49	60	11
Subtotal, gross domestic investment	**$1,361**	**$1,455**	**$94**
Net foreign investment			
Net exports of goods and services	$−140	$−32	$108
Net transfer payments to foreigners	−17	−17	0
Interest paid by government to foreigners	−53	−51	3
Subtotal, net foreign investment	**$−210**	**$−99**	**$111**
Total Gross Investment	**$1,151**	**$1,356**	**$205**
Statistical discrepancy	0	0	0

Note: Totals may not add due to rounding.

It should be noted, first, that neither model incorporates any simple, direct assumption about saving behavior. In both cases, personal saving is computed as a residual by subtracting consumption (and personal interest and transfer payments) from disposable income. Consumption, in turn, is an aggregate of a number of different types of consumption, each estimated separately. Thus, there is no simple answer to how the depressed saving rate emerges from the models.

We believe that the actual answer to the question lies in the fact that many of the detailed consumption equations incorporate lagged effects of previous consumption and income levels along with the effects of other variables, including current prices and incomes. The lagged effects lend an element of inertia to real consumption levels, category by category. In the context of the deficit reduction program, real consumption is under downward pressure. In our scenarios with extra monetary stimulus, both models show a decline relative to the baseline in real consumption expenditure from 1990 to 1997, when real consumption is measured by current-dollar consumption deflated by the personal consumption expenditure price deflator. Given this context and the lagged effects in the individual equations, it is not surprising that the personal saving rate falls. How accurately the amount of the decline is predicted is difficult to say.

More importantly, this line of reasoning suggests that the personal saving rate might well increase again after 1997. With the fiscal shift completed and the economy on a stronger growth path, the same lagged effects in consumption that dragged the saving rate down will tend to pull it back up again. Thus, personal saving is one of the economic indicators that will respond favorably to deficit reduction, but it may not display this response until some time after the fiscal shift itself is completed. The models may, however, overstate the inertia in real consumption. In that event, personal saving would increase sooner and total savings would be higher than the models suggest.

Estimating Defense Force Structure Unit Costs

To estimate the budget savings possible through the reduction in defense force structure, as set forth in chapter 5 of the report, we needed to estimate the costs associated with each force structure element being considered for reduction. This appendix explains how those "notional unit costs" were developed and applied.

The notional unit costs were developed, in principle, by allocating the Department of Defense (DOD) budget to the forces currently in existence. This started with the Five Year Defense Program cost data for fiscal year 1991, as displayed in table II.1. Since these data were to be used initially to reprice the DOD illustrative 25-percent force structure reduction, it was important to avoid any unintended distortion of DOD's priorities. This required that we (1) not allocate to specific force structure elements those components of cost that are likely to be determined by factors unrelated to force size and (2) recognize that certain elements had been excluded from DOD's illustrative force structure cuts. The following cost elements went into this "protected" category:

- Intelligence and communications: We attributed 20 percent of these costs to the general-purpose forces, while protecting the remaining 80 percent.
- Research and development: Research, development, test, and evaluation costs are included in the portion of costs allocated to the force structure, and these are assumed to be cut in proportion to the overall force structure reduction. However, this does not apply to the separate research and development budget, which would be protected under our approach, as it was in the DOD illustrative package.
- Airlift: This cost element was excluded because this element of the force structure had been completely protected by DOD.
- Selected strategic systems: Air Force B-1, B-2, and MX wings were similarly excluded because they had been completely protected in the DOD illustrative force structure reduction.
- Support of other nations: These costs were protected because there is no obvious, direct connection between the international political interests that determine the level of these activities and the U.S. force structure.
- Special operations forces: These units were protected because they operate independently of the rest of the U.S. force structure.

The portion of the DOD 1991 budget associated with these protected categories is shown at the bottom of table II.1. All other costs were allocated among the services and types of forces. These estimates were then inflated to estimated 1997 dollars using a 4-percent annual inflation factor. This was necessary because we had concluded, as discussed in chapter 5 of the report, that 1997 was the appropriate year in which to seek to achieve the fiscal policy target.

Once the portion of the DOD budget affected by the illustrative force structure reduction had been allocated among the services and types of forces, it was further allocated, on a proportional basis, to specific types of units (such as Army divisions and Air Force squadrons and wings). The results of this further allocation are displayed in table II.2.

A particular problem is involved in developing and applying the unit notional costs for Navy ships. Roughly two-thirds of all Navy ships are either part of, or provide service and support for, the carrier battle groups. But because these are the larger and more expensive ships, they represent more than two-thirds of the general-purpose naval forces costs. We adjusted for this fact by developing a separate unit cost estimate for a carrier battle group. The savings associated with DOD's illustrative reduction (option 1 in ch. 5) were estimated by applying the unit costs per ship to the number of ships assumed to be eliminated from the force. For options 2 and 3, which represent additional reductions, the savings were estimated by multiplying the unit costs per battle group times the number of carrier battle groups assumed to be eliminated and adding the product to the optional savings. A notional carrier battle group has approximately 15 ships.

Table II.1: Five Year Defense Program, 1991 Budget by Service and Category

Dollars in billions

Account	Army	Navy	Marines	Air Force	DOD-wide	Total
General-purpose forces	$33.8	$49.7	$5.6	$21.7	$1.3	**$112.1**
Intelligence and communications[a]	0.6	0.7	[b]	3.8	1.3	**6.4**
Airlift/sealift	[b]	0.5	[b]	[c]	0	**0.5**
Other costs[d]	21.6	17.0	2.7	9.0	8.1	**58.4**
Subtotal	**$56.0**	**$67.9**	**$8.3**	**$34.5**	**$10.7**	**$177.4**
1997 Dollars	**$70.9**	**$85.9**	**$10.5**	**$43.7**	**$13.5**	**$224.5**
Strategic forces[e]	$0.2	$6.7	[b]	$8.6	0	**$15.5**
Other costs	[b]	1.2	[b]	4.5	0	**5.7**
Subtotal	**$0.2**	**$7.9**	[b]	**$13.1**	**0**	**$21.2**
1997 Dollars	**$0.3**	**$10.0**	[b]	**$16.6**	**0**	**$26.9**
Guard and reserve forces	$8.7	$2.8	$0.6	$5.2	0	**$17.3**
Other costs	0.2	0.3	[b]	[b]	0	**0.5**
Subtotal	**$8.9**	**$3.1**	**$0.6**	**$5.2**	**0**	**$17.8**
1997 Dollars	**$11.3**	**$3.9**	**$0.8**	**$6.6**	**0**	**$22.5**
Protected accounts						
Intelligence and communications[a,f]	$3.4	$3.8	[b]	$17.4	$5.4	**$30.0**
Airlift	0	0	0	8.5	0	**8.5**
B-1, B-2, and MX	0	0	0	7.1	0	**7.1**
Research and development[f]	5.9	8.0	[b]	9.0	7.6	**30.5**
Support of other nations[f]	0.6	0.1	[b]	0.3	0.5	**1.5**
Special operations forces[f]	1.2	0.3	[b]	0.4	1.4	**3.3**
Subtotal	**$11.1**	**$12.2**	[b]	**$42.7**	**$14.9**	**$80.9**

(continued)

Account	Army	Navy	Marines	Air Force	DOD-wide	Total
1997 Dollars	**$14.0**	**$15.4**	[b]	**$54.0**	**$18.9**	**$102.4**
Total	**$76.2**	**$91.1**	**$8.9**	**$95.5**	**$25.6**	**$297.3**
1997 Dollars	**$96.4**	**$115.3**	**$11.3**	**$120.8**	**$32.4**	**$376.2**[g]

[a]One-fifth of intelligence and communications was allocated to general-purpose forces; the remaining four-fifths was protected.

[b]Less than $100 million.

[c]Air Force airlift was protected.

[d]Overhead costs for central supply maintenance; training, medical, and other personnel costs; and administrative and associated activities were apportioned by type of force.

[e]Air Force B-1, B-2, and MX wings were protected.

[f]Includes overhead costs for central supply maintenance; training, medical, and other personnel costs; and administrative and associated activities.

[g]The difference between this figure and the CBO baseline fiscal year figure ($399.9 billion) is that the CBO baseline includes Department of Energy defense accounts and was based on the higher fiscal year 1990 defense budget.

Table II.2: Notional Unit Costs

Service	Notional unit	Total units	1997 dollars in billions: Total budget	1997 dollars in billions: Unit cost
Army				
Active	Division	18	$70.9	$3.94
Reserve	Division	10	11.3	1.13
Navy				
Active	Carrier battle group	14	85.9	6.14
	Ship	530		0.16
	Strategic missile submarine	36	10.0	0.28
Reserve	People (thousands)	153.8	3.9	0.03
Marines	Brigade	9	10.5	1.17
Air Force				
Active	Tactical wing	24	43.7	1.82
	Airlift wing	13	10.8	0.83
	Strategic wing[a]	23	16.6	0.72
Reserve	Wing	50	6.6	0.13

[a]The figure for total units excludes 4 B-1 wings; the total budget excludes the budgets for the B-1, B-2, and MX. These elements had been protected in the DOD illustrative force structure reduction.

Two Strategies for Reducing Nondefense Spending

Chapter 6 of the main report identified 10 plausible strategies for reducing domestic program outlays. Among these were restructuring the American health care system and reducing grants to state and local governments. This appendix provides additional details on these two approaches.

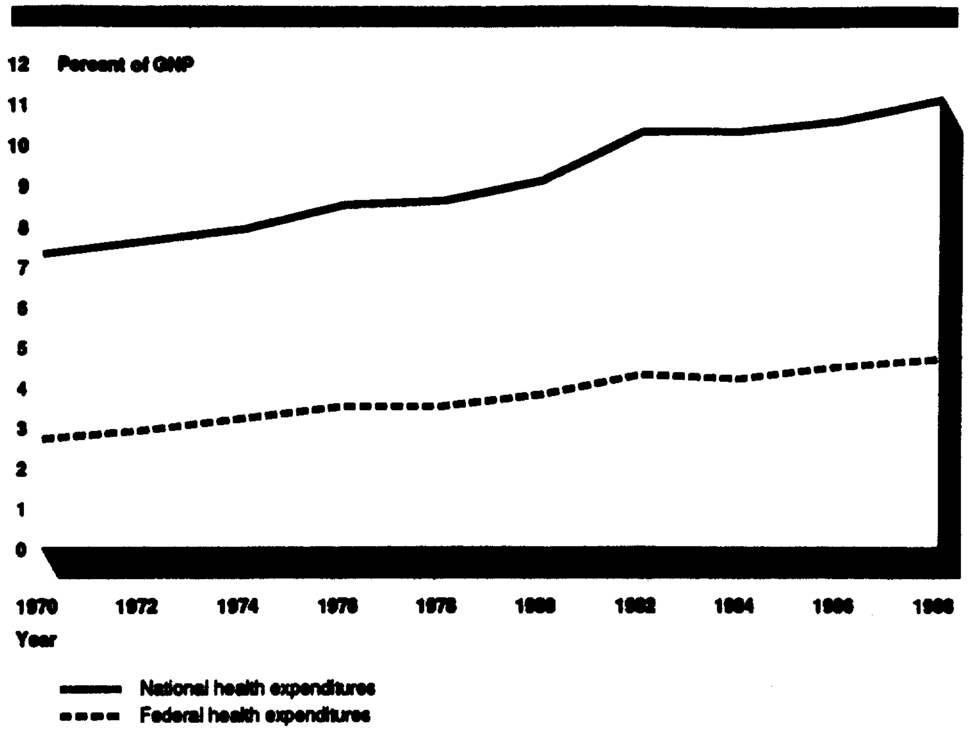
Restructuring the American Health Care System

Our report identified opportunities for substantial cuts in the federal health care budget. However, such reductions would be likely to have only a temporary effect, leaving the growth rate of federal expenditures unchecked over the long run. We believe that it will be very difficult to control the escalation of federal health care expenditures while ensuring good quality care to federal beneficiaries without controlling the expenditure growth rate in the American health care delivery system as a whole. Achieving this goal is likely to require major structural changes to that system. This section briefly reviews the causes of the health care cost spiral and outlines an approach to developing reforms that might control that spiral.

American Health Care Cost Growth Outpaces Economy

American health care expenditures have been increasing faster than spending in the rest of the economy. As figure III.1 shows, nominal health care costs as a share of GNP rose from 7.3 percent in 1976 to 11.1 percent in 1988. This corresponds to a rise in health care expenditures from $74 billion to $540 billion—a 7-fold increase. During the same period, federal health care expenditures rose from 2.7 to 4.7 percent of GNP. By the year 2000, it is estimated that under the current system, national health care costs will consume almost 15 percent of GNP.

Figure III.1: Nominal National and Federal Health Care Costs as a Percent of GNP



In addition, the United States spends more on health care and, in some important respects, gets less from its expenditures than other western industrialized nations. The United States has the highest level of per capita health care expenditures, one of the highest rates of medical care cost inflation, and the largest share of gross domestic product (GDP) spent on health care.[1]

Despite these expenditures, approximately 15 percent of the population is currently without health insurance coverage, either public or private. Moreover, notwithstanding its vast medical resources, the United States performs relatively poorly, as compared with other major industrialized countries on some commonly accepted measures of public health, such as infant mortality and life expectancy. While differences in public health outcomes also reflect the different economic and demographic makeup of the United States and other countries and not simply differences in their health care systems, this poor performance leads many to question whether we are getting good value for our money.

[1]Further GAO work is underway to explain these differences in spending between the United States and other countries and to explore their implications for attempts at restructuring U.S. health care.

Furthermore, there is a perception that Americans are not very happy with their health care system. A recent study found that Americans, who in 1986 spent $1,926 per capita on health care, were significantly less happy with their health care system than either the Canadians ($1,370) or the British ($711).[2] Eighty-nine percent of Americans believe that their health care system needs fundamental change, compared with 42 percent of Canadians and 69 percent of Britons. Although only limited conclusions can be drawn from such surveys, these results suggest that our high expenditures on health care have not translated into consumer satisfaction.

The American Health Care Market Has Failed to Control Costs

A rapidly growing health care sector would be of less concern if we could be sure that rising utilization reflected only medically necessary procedures desired by patients and that the system kept price increases to the lowest practical level. However, analysis of the American health care system gives us no such assurance and suggests that consumer dissatisfaction may have a rational basis.

The U.S. health care system operates as a set of decentralized markets. Under certain conditions, such markets can function effectively to ensure the provision of desired goods and services at the lowest practical prices. These conditions include the following:

- Both buyers and sellers must know reasonably well the prices and quality of the goods offered for sale in the market.
- The consumer must be the buyer; that is, the person who is to use the good or service must be the person who decides whether to buy it.
- The consumer must be the payer; that is, the person who is to use the good or service must be the person who pays for it.

In the U.S. health care market, none of these conditions is fulfilled even approximately. Consumers—that is, patients—are typically

- unaware of the prices of medical services;
- without sufficient medical knowledge to judge the need for, and quality of, the medical services they consume;
- in no position to make rational judgments among treatment modes; and

[2]Robert J. Blendon, "Three Systems: A Comparative Survey," Health Management Quarterly, First Quarter (1989), pp. 2-10.

- shielded from the financial consequences of their decisions by the presence of third-party payers in the form of either private health insurers or government programs, such as Medicare and Medicaid.[3]

Because of the consumer's lack of knowledge, most decisions regarding medical treatment are made by physicians, who also provide many medical services. This dual role means that physicians have an inherent conflict of interest. They are acting as the patient's agent in choosing medical services while providing some of the same services. At the same time, third-party payment creates little incentive for the patient to refuse any service that he or she believes may have the slightest benefit, because at the point of service the patient pays little or nothing for it. As a result, the U.S. health care market, as currently structured, provides little economic incentive to patients or providers to be cost conscious and to contain costs.

In addition, physicians may lack adequate information on the usefulness of some of the services they provide. Recent research indicates that physicians often do not agree on the relative efficacy of alternative treatment modes for many diseases. In the absence of scientifically valid information on outcomes and effectiveness of treatments, Americans' tendency to prefer action over inaction may incline physicians to choose more rather than less treatment.[4]

Piecemeal Reforms Have Had Limited Success in Controlling Costs

The past two decades have seen numerous and diverse efforts to slow the rate of increase of American health care expenditures. Such attempts included the Medicare hospital prospective payment system; various state cost containment initiatives;[5] and federal efforts to

[3]The federal tax code has increased the extent and breadth of third-party payment by exempting from income taxes compensation paid in the form of employer contributions to health benefits. This encourages employees to bargain for as much health coverage as possible and, where employers offer a choice between plans, provides limited incentive to choose the less expensive over the more expensive plan.

[4]The Congress has begun to address this problem. The Omnibus Budget Reconciliation Act of 1989 created and funded a program for expanded research into the effectiveness of care. This new program also included an increased emphasis on evaluating the efficacy and diffusion of new health care technologies.

[5]Most of these were intended to control Medicaid costs, but some, such as the New York and Maryland programs, included all other payers as well.

encourage the growth of capitated care systems, such as health maintenance organizations.[6] Although some of these reforms have succeeded in controlling costs in a limited sector of the health care system, none has succeeded in controlling the rise of national health care costs. Between 1970 and 1988, when most of these efforts were implemented, the share of GNP devoted to health care rose from 7.3 to 11.1 percent.

This experience provides ample evidence that reforms affecting only a small part of the national health care financing and delivery system are ineffective. Attempts to control one part of the system have usually resulted in shifting costs into another part. For example, physicians and hospital administrators have reacted to attempts to control inpatient hospital expenditures by moving as many procedures as possible into the outpatient setting, where they are free of cost controls. Attempts at piecemeal cost control may be likened to poking a balloon; applying pressure at one spot merely causes it to bulge in another.

Other Nations' Experiences

Most other western industrialized democracies have some form of national health system that explicitly sets out to control costs. In some of these systems, such as the Canadian, the government acts as the sole payer of most health care, while others, such as the German, have managed to retain considerable pluralism in both the financing and the provision of care. These major industrialized countries all dedicate a lower portion of GDP to health care than does the United States while providing health care coverage for their entire populations.

Although the health care systems in these industrial democracies are quite different and are imposed on cultural contexts differing from both those of each other and that of the United States, most have certain common elements. They cover virtually all health care settings, including inpatient and ambulatory care. Most also provide for controlling the distribution of capital stocks, such as hospitals and costly equipment, and the diffusion of new and expensive technologies. They also exert more financial control over both health care providers and payers, while permitting providers considerable freedom in the clinical practice of medicine. These characteristics do not appear to have resulted in adverse health outcomes when compared with the United States.

[6] Such capitated systems attempt to control costs by transmitting the cost awareness of the purchaser of care to the provider of care. Because providers are paid a fixed premium per enrollee, they will make money if the average cost of care provided is less than the capitated rate but lose money if it is greater.

Finally, the health care systems in most of these countries have lower overall administrative costs than the American system. These lower costs may be ascribed to two main factors. First, these countries do not pay for health insurance companies' marketing budgets and duplicative administrative and managerial structures. Second, health care providers' costs are lower due to reductions in the number of payers and standardization and simplification of billing and other forms. These differences can result in substantial savings compared with the American system. For example, the Canadian system's overall administrative costs are estimated at about 1.5 to 2.5 percent of total health care costs, compared with 6 to 8 percent in the United States.

Requirements for Effective Health Reform

There are several possible ways to reform the American health care system to control costs while continuing to meet the needs of Americans for high-quality health care. However, from both our experience and that of other nations, we have developed a list of minimum requirements that a reform plan must meet if it is to have any likelihood of meeting these goals. Such a plan must

- ensure that essentially all persons in the population can obtain at least minimal coverage at a price they can afford;
- cover all aspects of health care, including community-based services and ambulatory care;
- control the distribution and growth of capital stocks (such as hospital beds, outpatient facilities, and expensive equipment) to ensure their efficient and effective use and adequate coverage of the beneficiary population and, as part of this, control the spread of new technologies until they are shown to be cost beneficial;
- support continued research into outcomes and effectiveness of health care modalities and technologies to provide health care providers and payers with information necessary for them to provide and pay for only care of demonstrated efficacy; and
- address the burden of administrative costs on both payers and providers.

Budgetary Consequences of Health Care Reform

Any systemic health care reform would almost certainly significantly change the scope of federal responsibility for financing health care. The exact effects of such reform on the federal budget cannot be predicted because they depend on the details of the chosen reform methodology. To give some notion of the potential budget savings resulting from health care reform, we have calculated the effects of constraining the growth of health care prices and utilization on the assumption that such a reform would not change federal responsibilities.

Constraining cost and utilization growth would yield major savings. The government would save $295 billion cumulatively from 1992 to 1997 (compared with estimates derived from CBO projections) if utilization rates did not rise and if health care prices did not increase faster than prices in the rest of the economy. Lesser, but still substantial, savings would flow from achieving more realistic goals. Constraining the utilization growth rate to 1 percent and health price inflation to 2 percentage points above the general inflation rate would save $161 billion.

Terminating or Reducing Grant Programs

Another approach to reducing nondefense spending involves the termination or reduction of certain grant programs. This section discusses the savings possible by reducing federal grants to state and local governments.

Federal Grant Programs

Under the first approach, we identified 29 federal grant programs that could be terminated or scaled back for a savings of $7.3 billion in 1997 (or a total savings of $26.5 billion between 1991 and 1997). Table III.1 identifies these programs and, based on estimated 1990 spending levels, projects their expenditures through 1997 using CBO-projected growth rates. It also shows the total savings possible for each year. Additional details for each program—such as budget function codes, legislative authorizations, and agency contacts—are provided in the Catalog of Federal Domestic Assistance (CFDA) prepared by the General Services Administration.

The 29 programs were selected on the grounds that some regard them as ineffective or as having outlived their original purposes. The larger programs were identified earlier by CBO in its budget options report. The others are smaller programs that may also meet many of the criteria CBO used in identifying its candidates for reduction or termination. These programs fall into five functional areas: energy assistance and conservation, community development, area and regional development, education, and health and social services.

Table III.1: Grant Programs That Could Be Terminated or Reduced

Dollars in millions

Budget function code	CFDA code	Program	Projected expenditures 1990	1991	1992	1993	1994	1995	1996	1997
270	81.041	State Energy Conservation	$9	$9	$8	$6	$5	$3	$2	$0
270	81.050	Energy Extension Service	4	4	3	3	2	1	1	0
272	81.052	Energy Conservation for Schools and Hospitals	37	37	31	25	18	12	6	0
451	14.218	Community Development: Entitlements	1,972	1,972	1,808	1,644	1,479	1,315	1,151	986
451	14.227	Community Development: Discretionary	25	25	21	17	13	8	4	0
451	14.228	Community Development: Small Cities	809	809	741	674	607	539	472	404
452	23.002	Appalachian Supplemental Grants	a	a	a	a	a	a	a	a
452	23.003	Appalachian Regional Highways	100	100	83	67	50	33	17	0
452	23.004	Appalachian Health Programs	1	1	1	1	0	0	0	0
452	23.005	Appalachian Housing Projects	a	a	a	a	a	a	a	a
452	23.008	Appalachian Regional Projects (Roads)	2	2	2	2	1	1	0	0
452	23.009	Appalachian Local Development	3	3	3	2	2	1	1	0
452	23.011	Appalachian Regional Development: Research	1	1	1	1	1	0	0	0
452	23.012	Appalachian Vocational Education Facilities	6	6	5	4	3	2	1	0
452	23.013	Appalachian Child Development	a	a	a	a	a	a	a	a
501	84.040	Federal Impact Aid: Construction	15	15	13	10	8	5	3	0
501	84.041	Federal Impact Aid: Maintenance and Operations	717	717	646	574	502	430	359	287
501	84.048	Vocational Education: Basic State Grants	844	844	784	723	663	602	542	481
501	84.049	Vocational Education: Consumer and Homemaking	34	34	29	23	17	11	6	0
501	84.053	Vocational Education: State Councils	8	8	7	5	4	3	1	0
501	84.123	Law-Related Education	5	5	4	3	2	2	1	0
501	84.151	State Education Block Grant (chapter 2)	521	521	434	347	260	174	87	0
501	84.164	Math and Science Education Grants	133	133	111	89	66	44	22	0

(continued)

Budget function code	CFDA code	Program	Projected expenditures 1990	1991	1992	1993	1994	1995	1996	1997
501	84.203	Star Schools Program	15	15	12	10	7	5	2	0
506	13.792	Community Services Block Grant	323	323	269	215	162	108	54	0
506	13.793	Community Services Block Grant: Discretionary Award Grants	38	38	32	25	19	13	6	0
550	13.150	Mental Health Services for the Homeless	28	28	23	19	14	9	5	0
609	13.789	Low-Income Home Energy Assistance	1,393	1,393	1,161	929	697	464	232	0
999	81.042	Weatherization Aid for Low Income Persons	162	162	135	108	81	54	27	0
Total			**$7,206**	**$7,206**	**$6,364**	**$5,523**	**$4,682**	**$3,841**	**$3,000**	**$2,159**
Estimated CBO baseline			$7,217	$7,505	$7,806	$8,118	$8,443	$8,780	$9,131	$9,497
Savings over estimated CBO baseline			$0	$300	$1,441	$2,594	$3,760	$4,939	$6,131	$7,338

[a]Less than $25,000.

Energy Assistance and Conservation

Some would argue that the five energy programs listed have outlived their original purposes and should be terminated. Created in the late 1970s, they were designed to help states mitigate rising energy costs caused by the energy crisis of the mid-1970s. But despite the recent events in the Middle East, the real costs of energy have returned to the level of the early 1970s, before these programs were created. This suggests that the programs' original purpose no longer exists.

Community Development

The entitlement and small cities community development block grant programs could be reduced by restricting eligibility and targeting benefits to projects that benefit the poor. In addition, the discretionary fund of the Secretary of Housing and Urban Development could be terminated, as requested by the administration in its fiscal year 1991 budget request.

The Community Development Block Grant program directly assists all cities and counties with populations over 50,000 and indirectly assists communities under 50,000 through state programs (which typically use competitive grants). Given the need to reduce the deficit, it is not clear that the national interest is served by supporting jurisdictions with above-average abilities to fund projects themselves. Accordingly, eligibility could be restricted to only communities with per capita incomes below the national average, thus reducing the adverse effects of the funding cuts on the most vulnerable populations. Requiring these jurisdictions to use the funds only for projects benefiting the poor would lessen the practice of using federal funds to attract businesses from other jurisdictions (thereby subsidizing the private sector).

Area and Regional Development

These nine programs and their administering agency, the Appalachian Regional Commission, could be eliminated. Many believe that they have outlived their usefulness and are no longer of sufficient size to have a substantive impact on their targeted goals—the amelioration of poverty and increasing economic development in Appalachia.

In the 30 years since these programs were created, other national programs have been developed to promote these goals. Today, these newer programs are the primary service delivery vehicles in Appalachia. For example, in addition to the Appalachian Regional Commission's Local Development Districts are Regional Councils of Government and the Economic Development Administration's Economic Development Districts. Most of the funding for these districts comes from local or public sector sources; therefore, the need for continued federal support is unclear. The largest of the 10 programs, the Highway System, could be funded by redirecting funds from the Highway Trust Fund. Further, why Appalachian highways should be treated differently from other regions of the country is unclear.

Education Aid

Seven of the nine programs generally do not target disadvantaged or at-risk populations and could be terminated. Some would argue that even if these programs are seen as worthwhile, states should support them with their own funds because education is primarily a state and local responsibility. The other two programs—Vocational Education Basic Grants to States and Impact Aid—are not well targeted to disadvantaged persons, which is often cited as a general criterion for the federal role in providing education aid. They could be scaled back to the extent their aid is not targeted.

Vocational Education Basic Grants are partly targeted to at-risk populations, but about 43 percent of total funding is for general education support.[7] The program funding could be reduced by this amount. The Impact Aid program for maintenance and operations is divided into two subcomponents—payments for children whose parents live <u>and</u> work on federal property and payments for children whose parents live <u>or</u> work

[7] This percentage will change by an undetermined amount as a result of the recently enacted vocational education legislation (Public Law 101-392, signed September 27, 1990).

on federal property. About 80 percent of Impact Aid is equivalent to payments in lieu of taxes for children who live on locally tax-exempt federal property. However, these payments are made without regard to the wealth of the school districts relative to the state. In some cases, the federal installations benefit surrounding communities. In others, they create economic hardships on surrounding communities. Benefits could be targeted only to districts adversely affected by federal installations, thereby allowing program funding to be substantially reduced. The second part of the program, which comprises about 20 percent of total funding, provides school districts with funding for children who live in homes on local property but whose parents work at federal installations. There is no clear rationale for federal funding of this program component, and it could be eliminated.

Health and Social Services

Three programs could be eliminated. First, funds for mental health services for the homeless are distributed nationwide in amounts sometimes spread so wide that the overall impact is unmeasurable. For example, the Massachusetts fiscal year 1989 allotment allowed the hiring of 19 caseworkers for the entire state, and some counties in California receive annual allocations of about $2,000. Also, the rationale for continued funding of the Community Services Block Grant and its companion discretionary grant appears to be weak. Community action agencies have been around for 25 years and have diversified their revenue sources to the point where this block grant comprises about 13 percent of total funding, mainly for overhead costs. Losing these funds should not result in widespread program closures. Presumably, if these programs cannot survive after 25 years of support and if local communities and states will not try to assist those that would fail absent federal support, their usefulness is open to serious question.

Creating Six Mega-Block Grants

Under the second approach, we classified about 400 state and local grant programs, totaling $47.2 billion in fiscal year 1990, into six "mega-block" grants. Reducing or terminating these grant programs could generate annual savings of up to $64.5 billion by 1997. We premised this approach on the following three factors:

- Because federal aid to poor people is a higher national priority than other kinds of intergovernmental aid, income security should remain a shared federal-state responsibility. Therefore, these types of programs—as defined by Gramm-Rudman-Hollings—were excluded from the mega-block proposal.

- States as a whole have become more capable of responding to public service demands and initiating innovation and should be the primary vehicle for making domestic policy and administering programs.
- Federal mandates on state and local governments have increased during a period of declining federal aid, and any restructuring should provide them maximum flexibility to pursue national objectives.

In addition, we excluded trust funds from the mega-block proposals because the focus of deficit reduction in our report is on the budget's general fund.

The six mega-blocks, the number of programs consolidated, and their 1990 funding levels are shown in table III.2.

Table III.2: Mega-Block Grants

Dollars in billions

Block grant	Number of categorical grants	Estimated 1990 outlays
Social and health services	138	$22.3
Environment	64	3.6
Transportation	11	2.7
Employment and training	11	3.2
Economic development	25	4.1
Education	135	11.3
Total	**384**	**$47.2**

Using CBO's estimated growth rates for the programs covered by the six mega-block grants, we developed annual outlay estimates for 1992-97. Table III.3 provides the growth rates, and table III.4 shows the approximate CBO baseline spending levels for each year. These spending levels are the basis for the savings calculations shown in tables III.5 through III.10.

Table III.3: Projected Grant Growth Rates

Percent

Block grant	1991	1992	1993	1994	1995	1996	1997	Average 1992-97
Social and health services	6.6	5.8	5.8	6.9	5.5	5.5	5.5	5.9
Environment	5.8	5.6	5.3	0	5.0	5.0	5.0	4.5
Transportation	3.1	3.0	6.0	2.8	5.6	5.6	5.6	4.5
Employment and training	2.4	2.4	2.3	4.5	4.4	4.4	4.4	3.6
Economic development	0	0	0	0	0	0	0	0
Education	2.4	2.4	2.3	4.5	4.4	4.4	4.4	3.6

Source: CBO.

Table III.4: Approximate CBO Baselines

Dollars in billions

Block grant	1990	1991	1992	1993	1994	1995	1996	1997	Total 1992-97
Social and health services	$22.3	$23.7	$25.1	$26.6	$28.4	$29.9	$31.6	$33.3	**$174.9**
Environment	3.6	3.8	4.1	4.3	4.3	4.5	4.7	4.9	**26.8**
Transportation	2.7	2.7	2.8	3.0	3.1	3.3	3.4	3.6	**19.2**
Employment and training	3.2	3.3	3.4	3.5	3.6	3.8	3.9	4.1	**22.3**
Economic development	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	**24.8**
Education	11.3	11.5	11.8	12.1	12.6	13.2	13.8	14.4	**77.9**
Total	**$47.2**	**$49.3**	**$51.3**	**$53.5**	**$56.1**	**$58.8**	**$61.6**	**$64.5**	**$345.8**

We identified three outlay reduction scenarios that could be achieved by 1997 for the six mega-block grants. They involve (1) reducing estimated 1991 outlays by 10 percent, (2) reducing estimated 1991 outlays by 50 percent, or (3) phasing out funding for these programs.

The projected growth rates indicate 1997 outlays of about $64.5 billion for the six block grants. Tables III.5 and III.6 demonstrate a 10-percent reduction ($4.9 billion) from the 1991 funding level, to be phased in by 1997, which would yield savings of about $20 billion in 1997 (projected baseline outlays of $64.5 billion less $44.4 billion). Tables III.7 and III.8, using the same methodology, show that a 50-percent reduction would generate savings of about $40 billion. Phasing out these grants, as illustrated in tables III.9 and III.10, would allow savings of $64.5 billion by 1997.

Table III.5: Grant Outlays After 10-Percent Cut

Dollars in billions

Block grant	1990	1991	1992	1993	1994	1995	1996	1997
Social and health services	$22.3	$23.7	$23.3	$22.9	$22.5	$22.1	$21.7	$21.3
Environment	3.6	3.8	3.8	3.7	3.7	3.6	3.5	3.5
Transportation	2.7	2.7	2.7	2.7	2.6	2.6	2.5	2.5
Employment and training	3.2	3.3	3.2	3.2	3.1	3.1	3.0	3.0
Economic development	4.1	4.1	4.1	4.0	3.9	3.9	3.8	3.7
Education	11.3	11.5	11.3	11.2	11.0	10.8	10.6	10.4
Total	**$47.2**	**$49.3**	**$48.5**	**$47.6**	**$46.8**	**$46.0**	**$45.2**	**$44.4**

Table III.6: Annual Savings From CBO Baseline After 10-Percent Cut

Dollars in billions

Block grant	1991	1992	1993	1994	1995	1996	1997	Total savings
Social and health services	$0.4	$1.8	$3.6	$5.8	$7.8	$9.8	$12.0	**$40.9**
Environment	0.1	0.3	0.6	0.6	0.9	1.2	1.5	**5.0**
Transportation	0	0.1	0.3	0.5	0.7	0.9	1.2	**3.7**
Employment and training	0.1	0.1	0.3	0.5	0.7	0.9	1.1	**3.6**
Economic development	0.1	0.1	0.1	0.2	0.3	0.3	0.4	**1.4**
Education	0.2	0.5	0.9	1.7	2.4	3.2	4.0	**12.7**
Total	**$0.8**	**$2.9**	**$5.9**	**$9.3**	**$12.8**	**$16.4**	**$20.2**	**$67.4**

Table III.7: Grant Outlays After 50-Percent Cut

Dollars in billions

Block grant	1990	1991	1992	1993	1994	1995	1996	1997
Social and health services	$22.3	$23.7	$21.7	$19.8	$17.8	$15.8	$13.8	$11.9
Environment	3.6	3.8	3.5	3.2	2.9	2.6	2.2	1.9
Transportation	2.7	2.7	2.5	2.3	2.1	1.8	1.6	1.4
Employment and training	3.2	3.3	3.0	2.8	2.5	2.2	1.9	1.7
Economic development	4.1	4.1	3.8	3.4	3.1	2.8	2.4	2.1
Education	11.3	11.5	10.6	9.6	8.7	7.7	6.7	5.8
Total	**$47.2**	**$49.3**	**$45.2**	**$41.1**	**$37.0**	**$32.9**	**$28.7**	**$24.6**

Table III.8: Annual Savings From CBO Baseline After 50-Percent Cut

Dollars in billions

Block grant	1991	1992	1993	1994	1995	1996	1997	Total savings
Social and health services	$2.0	$3.4	$6.8	$10.6	$14.1	$17.8	$21.5	$74.1
Environment	0.3	0.5	1.1	1.4	1.9	2.5	3.0	10.4
Transportation	0.2	0.3	0.7	1.0	1.4	1.8	2.3	7.5
Employment and training	0.3	0.4	0.7	1.1	1.6	2.0	2.5	8.3
Economic development	0.3	0.3	0.7	1.0	1.4	1.7	2.1	7.2
Education	1.0	1.2	2.5	4.0	5.5	7.0	8.6	28.9
Total	**$4.1**	**$6.1**	**$12.4**	**$19.2**	**$25.9**	**$32.8**	**$39.9**	**$136.4**

Table III.9: Grant Outlays After 100-Percent Cut

Dollars in billions

Block grant	1990	1991	1992	1993	1994	1995	1996	1997
Social and health services	$22.3	$23.7	$19.8	$15.8	$11.9	$7.9	$4.0	$0
Environment	3.6	3.8	3.2	2.6	1.9	1.3	0.6	0
Transportation	2.7	2.7	2.3	1.8	1.4	0.9	0.5	0
Employment and training	3.2	3.3	2.8	2.2	1.7	1.1	0.6	0
Economic development	4.1	4.1	3.4	2.8	2.1	1.4	0.7	0
Education	11.3	11.5	9.6	7.7	5.8	3.8	1.9	0
Total	**$47.2**	**$49.3**	**$41.1**	**$32.9**	**$24.6**	**$16.4**	**$8.2**	**$0**

Table III.10: Annual Savings From CBO Baseline After 100-Percent Cut

Dollars in billions

Block grant	1991	1992	1993	1994	1995	1996	1997	Total savings
Social and health services	$4.0	$5.3	$10.7	$16.5	$22.0	$27.6	$33.3	$115.6
Environment	0.6	0.9	1.7	2.4	3.2	4.1	4.9	17.1
Transportation	0.5	0.5	1.2	1.7	2.3	3.0	3.6	12.3
Employment and training	0.6	0.6	1.3	2.0	2.7	3.4	4.1	14.0
Economic development	0.7	0.7	1.4	2.1	2.8	3.4	4.1	14.5
Education	1.9	2.2	4.4	6.9	9.3	11.8	14.4	49.0
Total	**$8.2**	**$10.2**	**$20.6**	**$31.5**	**$42.4**	**$53.4**	**$64.5**	**$222.6**

Tables III.11 through III.16 list the 384 programs included in the six block grants as well as 1990 funding levels for the larger grant programs. Within each block grant, programs are organized by budget function codes. The five-digit reference number to the left of each program is the same one used by the CFDA, which also provides additional details on these programs.

Table III.11: 138 Programs Included in the Health and Social Services Block Grant

Dollars in millions

Budget function codes	CFDA code	Program	Estimated fiscal year 1990 funding
	Thirteen of the larger programs totaling $13.4 billion		
506	13.600	Headstart Programs: Program Grants	$1,386
506	13.645	Child Welfare Services: State Grants	253
506	13.658	Foster Care: Title IV-E	1,200
506	13.667	Social Services Block Grant	2,762
506	13.786	State Legalization Impact Assistance	301
506	13.792	Community Services Block Grant	323
609	13.781	Job Opportunities and Basic Skills Training	443
609	13.783	Child Support Enforcement	1,059
609	13.789	Low-Income Home Energy Assistance Program	1,393
550	13.992	Alcohol, Drug Abuse, and Mental Health Services	1,133
550	13.994	Maternal and Child Health Services	471
453	83.516	Disaster Assistance	1,196
506	84.126	Rehabilitation Services: Basic Support	1,525
	Remaining 125 programs totaling $8.9 billion		
451		Community Development	
	14.231	Emergency Shelter	
	14.510	Supplemental Assistance for Facilities to Assist the Homeless	
453		Disaster Relief and Insurance	
	83.505	State Disaster Preparedness Grants	
500		Education, Training, Employment and Social Services—General	
	13.635	Special Programs for the Aging: Nutrition Services	
506		Social Services	
	13.600	Headstart Program	
	13.608	Child Welfare Research and Demonstration	
	13.612	Native Americans Programs: Financial Assistance	
	13.614	Child Development Associate Scholarships	
	13.623	Runaway and Homeless Youth	
	13.630	Development Disabilities: Basic Support and Advocacy Grant	
	13.631	Developmental Disabilities: Special Projects	
	13.633	Special Programs for the Aging: Supportive Services	
	13.641	Special Programs for the Aging: In-Home Services for Frail Older Individuals	
	13.647	Social Services Research and Demonstration	
	13.652	Adoption Opportunities	
	13.656	Temporary Child Care and Crisis Nurseries	
	13.657	Drug Abuse Prevention and Education for Runaway and Homeless Youth	

(continued)

Budget function codes	CFDA code	Program	Estimated fiscal year 1990 funding
	13.659	Adoption Assistance	
	13.660	Drug Abuse Prevention and Education Relating to Youth Gangs	
	13.666	Comprehensive Child Development Centers	
	13.668	Special Programs for the Aging: Training, Research and Discretionary Projects and Programs	
	13.669	Administration for Children, Youth and Families: Child Abuse and Neglect: State Grants	
	13.670	Administration for Children, Youth and Families: Child Abuse and Neglect: Discretionary Activities	
	13.671	Family Violence Prevention and Services	
	13.672	Child Abuse Challenge Grants	
	13.673	Planning and Development of Dependent Care Programs	
	13.674	Independent Living	
	13.793	Community Services: Discretionary Awards	
	13.795	Community Services Block Grant Discretionary Awards—Community Food and Nutrition	
	13.796	Emergency Community Services for the Homeless	
	13.797	Community Services Block Grant Discretionary Awards—Demonstration Partnership	
	14.169	Housing Counseling Assistance Program	
	72.001	Foster Grandparent Program	
	72.002	Retired Senior Volunteer Program	
	72.005	Service-Learning Programs	
	72.008	Senior Companion Program	
	72.010	Mini-Grant Program	
	72.011	State Office of Voluntarism	
	72.012	Volunteer Demonstration Program	
	72.013	Technical Assistance Program (ACTION)	
	72.014	Drug Alliance	
	84.128	Rehabilitation Services: Service Projects	
	84.129	Rehabilitation Training	
	84.132	Centers for Independent Living	
	84.133	National Institute on Disability and Rehabilitation Research	
	84.160	Training Interpreters for Deaf Individuals	
	84.161	Client Assistance for Handicapped Individuals	
	84.169	Comprehensive Services for Independent Living	
	84.177	Rehabilitation Services and Facilities: Independent Living Services for Older Blind Individuals	
	84.187	Supported Employment Services for Individuals With Severe Handicaps	
550		Health	
	13.111	Adolescent Family Life Research	

(continued)

Budget function codes	CFDA code	Program	Estimated fiscal year 1990 funding
	13.116	Tuberculosis Control	
	13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	
	13.120	Mental Health Services for Cuban Entrants	
	13.125	Mental Health Planning and Demonstration Projects	
	13.133	Health Services Delivery to AIDS Victims: Demonstration Grants	
	13.136	Applied Methods in Surveillance and State and Community-Based Injury Control Projects	
	13.137	Minority Community Health Coalition Demonstration	
	13.138	Protection and Advocacy for Mentally Ill Individuals	
	13.144	Drug and Alcohol Abuse: High-Risk Youth	
	13.145	AIDS Education and Training Centers	
	13.150	Mental Health Services for the Homeless	
	13.152	Community Demonstration Grant Projects for Alcohol and Drug Abuse of Homeless Individuals	
	13.153	Pediatric AIDS Health Care Demonstration Program	
	13.155	Rural Health Policy/Research Centers	
	13.158	State Comprehensive Mental Health Service Planning Development	
	13.159	Health Care Services in the Home	
	13.167	Research Facilities Improvement (AIDS)	
	13.168	Human Immunodeficiency Virus Services Planning	
	13.169	Model Projects for Pregnant and Postpartum Women and Their Infants (Substance Abuse)	
	13.170	Community Youth Activity Demonstration	
	13.171	Community Youth Activity	
	13.174	Conference Grant (Substance Abuse)	
	13.175	Drug Abuse Treatment Waiting List Reduction	
	13.217	Family Planning Services	
	13.224	Community Health Centers	
	13.226	Health Services Research and Development	
	13.242	Mental Health Research	
	13.244	Mental Health: Clinical or Service-Related Training	
	13.246	Migrant Health Centers Grants	
	13.260	Family Planning Personnel Training	
	13.262	Occupational Safety and Health: Research	
	13.263	Occupational Safety and Health: Training	
	13.268	Childhood Immunization	
	13.273	Alcohol Research Programs	
	13.279	Drug Abuse Research Programs	
	13.283	Centers for Disease Control—Investigations and Technical Assistance	
	13.298	Nurse Practitioner and Nurse Midwife Education and Traineeships	

(continued)

Budget function codes	CFDA code	Program	Estimated fiscal year 1990 funding
	13.766	Health Financing Research, Demonstrations, and Evaluations	
	13.777	Survey and Certification of Health Care Providers and Suppliers	
	13.864	Population Research	
	13.865	Research for Mothers and Children	
	13.866	Aging Research	
	13.886	Physician Assistant Training Program	
	13.891	Alcohol Research Center Grants	
	13.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	
	13.974	Family Planning: Services Delivery Improvement Research	
	13.977	Preventive Health Services: Sexually Transmitted Diseases Control	
	13.978	Sexually Transmitted Diseases: Research, Demonstration, and Public Information and Education	
	13.982	Mental Health Disaster Assistance and Emergency Mental Health	
	13.987	Health Programs for Refugees	
	13.988	State-Based Diabetes Control Programs	
	13.991	Preventive Health and Health Services	
	13.995	Adolescent Family Life Demonstration Projects	
551		Health Care Services	
	13.127	Emergency Medical Services for Children	
	13.129	Community Health Centers Technical and Nonfinancial Assistance	
	13.130	Primary Care Services: Planning and Development	
	13.146	AIDS Drug Reimbursements	
	13.151	Health Services to the Homeless	
	13.165	Grants for State Loan Repayment	
605		Food and Nutrition Assistance	
	83.523	Federal Emergency Management Food and Shelter Program	
609		Other Income Security	
	13.782	Assistance Payments: Research	
	13.784	Child Support Enforcement: Research	
	13.787	Refugee and Entrant Assistance: State-Administered Programs	
999		Multiple Functions	
	81.042	Weatherization Assistance for Low-Income Persons	
	83.503	Civil Defense: State and Local Emergency Management Assistance	
	83.504	Other State and Local Direction, Control, and Warning	
	83.512	State and Local Emergency Operating Centers	
	83.513	State and Local Warning and Communication Systems	
	83.514	Population Protection Planning	
	83.515	Emergency Broadcast System Guidance and Assistance	
	83.519	Hazard Mitigation Assistance	
	83.820	Hurricane Preparedness	

(continued)

Budget function codes	CFDA code	Program	Estimated fiscal year 1990 funding
	83.521	Earthquake Hazards Reduction	
	83.522	Radiological Defense	

Table III.12: 64 Programs Included in the Environment Protection Block Grant

Dollars in millions

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	Five of the larger programs totaling $1.3 billion		
452	10.418	Water and Waste Disposal Systems for Rural Communities	$350
301	10.904	Watershed Protection and Flood Prevention	92
554	17.500	Occupational Safety and Health	60
304	66.418	Construction Grants for Waste Water Treatment Works	766
304	66.801	Hazardous Waste Management State Program Support	68
	Remaining 59 programs totaling $2.3 billion		
270		Energy	
	81.041	State Energy Conservation	
	81.050	Energy Extension Service	
271		Energy Supply	
	81.065	Nuclear Waste Disposal Siting	
	81.079	Biofuels and Municipal Waste Technology and Regional Programs	
	81.086	Conservation Research and Development	
	81.087	Renewable Energy Research and Development	
	81.089	Fossil Energy Research and Development	
	81.092	Remedial Action and Waste Technology	
	81.096	Innovative Clean Coal Technology	
272		Energy Conservation	
	81.052	Energy Conservation Projects for Schools and Hospitals	
276		Energy Information and Regulation	
	77.003	Enhance Technology Transfer and Dissemination of Nuclear Energy Process and Safety Information	
301		Water Resources	
	15.503	Small Reclamation Projects	
302		Conservation and Land Management	
	10.652	Forestry Research	
	10.664	Cooperative Forestry Assistance	
	10.901	Resource Conservation and Development	
	11.419	Coastal Zone Management Program Administration	
	15.219	Wildlife Habitat Management Technical Assistance	
	15.221	Cooperative Agreements for Research in Public Lands Management	
	15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	
	15.252	Abandoned Mine Land Reclamation	
303		Recreational Resources	
	15.600	Anadromous Fish Conservation	
	15.611	Wildlife Restoration	

(continued)

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	15.612	Endangered Species Conservation	
	15.904	Historic Preservation Fund	
	15.916	Outdoor Recreation: Acquisition, Development, and Planning	
304		Pollution Control and Abatement	
	13.161	Health Program for Toxic Substances and Disease Registry	
	66.001	Air Pollution Control Program Support	
	66.419	Water Pollution Control: State and Interstate Program Support	
	66.432	State Public Water System Supervision	
	66.433	State Underground Water Source Protection	
	66.435	Water Pollution Control: Lake Restoration	
	66.438	Construction Management Assistance	
	66.454	Water Quality Management Planning	
	66.455	Construction Grants for Abatement of Combined Sewer Overflow Pollution in Marine Bays and Estuaries	
	66.456	National Estuary Program	
	66.458	Capitalization Grants for State Revolving Funds	
	66.459	Nonpoint Source Reservation	
	66.700	Pesticides Enforcement Program	
	66.702	Asbestos School Hazards Abatement	
	66.704	Pesticides Certification Program	
	66.804	State Underground Storage Tanks Program	
306		Other Natural Resources	
	11.405	Anadromous and Great Lakes Fisheries Conservation	
	11.407	Interjurisdictional Fisheries Act of 1986	
	11.417	Sea Grant Support	
	11.420	Coastal Zone Management Estuarine Research Reserves	
	11.426	Financial Assistance for Marine Pollution Research	
	11.428	Intergovernmental Climate Programs	
	11.429	Marine Sanctuary Program	
	11.430	Undersea Research	
	11.431	Climate and Atmospheric Research	
	15.308	Mining and Mineral Resources and Research Institutes	
554		Consumer and Occupational Health and Safety	
	10.475	Intrastate Meat and Poultry Inspection	
	17.600	Mine Health and Safety	
999		Multiple Functions	
	66.501	Air Pollution Control Research	
	66.502	Pesticides Control Research	
	66.504	Solid Waste Disposal: Research	
	66.505	Water Pollution Control: Research, Development, and Demonstration	
	66.506	Safe Drinking Water Research and Demonstration	
	66.507	Toxic Substances Research	

Table III.13: 11 Programs Included in the Transportation Block Grant

Dollars in billions

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
401	20.507	Urban Mass Transportation Capital and Operating Assistance	$1.8
		Remaining 10 programs totaling $0.9 billion	
401		Ground Transportation	
	20.303	Railroad Safety—State Participation	
	20.308	Local Rail Service Assistance	
	20.500	Urban Mass Transportation: Capital Improvement Grants	
	20.503	Urban Mass Transportation: Managerial Training	
	20.505	Urban Mass Transportation: Technical Studies	
	20.509	Public Transportation for Nonurbanized Areas	
	20.511	Urban Mass Transportation: Human Resource Program	
	20.512	Urban Mass Transportation: Technical Assistance	
	20.600	Highway Safety: Basic Grants	
407		Other Transportation	
	20.700	Gas Pipeline Safety	

Table III.14: 11 Programs Included in the Employment and Training Block Grant

Dollars in millions

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	Two of the larger programs totaling $2.8 billion		
504	17.250	Job Training Partnership Act	$2,454
504	17.235	Senior Community Service Employment	357
	Remaining 9 programs totaling $0.4 billion		
504		Training and Employment	
	13.790	Work Incentive Program	
	17.207	Employment Services	
	17.246	Employment and Training Assistance for Dislocated Workers	
	17.247	Migrant and Seasonal Farmworkers	
	17.248	Employment and Training Research and Development Projects	
	17.249	Employment Services and Job Training: Pilot and Demonstration Programs	
	17.802	Veterans Employment Program	
505		Other Labor Services	
	17.002	Labor Force Statistics	
	34.002	Labor-Management Cooperation	

Table III.15: 25 Programs Included in the Economic Development Block Grant

Dollars in millions

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	Two of the larger programs totaling $2.8 billion		
451	14.218	Community Development: Entitlement	$1,972
451	14.228	Community Development: States' Program	808
	Remaining 23 programs totaling $1.3 billion		
451		Community Development	
	14.174	Housing Development Grants	
	14.227	Secretary's Discretionary Fund: Community Development and Technical Assistance	
	14.230	Rental Housing Rehabilitation	
	14.232	Community Development Block Grant: Secretary's Discretionary Fund: Special Projects	
	14.234	Community Development Work-Study Program	
	14.506	General Research and Technology Activity (Housing and Urban Development)	
452		Area and Regional Development	
	10.424	Industrial Development	
	11.300	Economic Development: Grants for Public Works and Development Facilities	
	11.302	Economic Development: Support for Planning Organizations	
	11.303	Economic Development: Technical Assistance	
	11.304	Economic Development: Public Works Impact Projects	
	11.305	Economic Development: State and Local Economic Development Planning	
	11.307	Special Economic Development and Adjustment Assistance	
	23.002	Appalachian Supplemental Grants (Community Development)	
	23.003	Appalachian Regional Development: Highway System	
	23.004	Appalachian Health Programs	
	23.005	Appalachian Housing Projects	
	23.008	Appalachian Regional Projects: Local Access Roads	
	23.009	Appalachian Local Development: District Assistance	
	23.010	Appalachian Mine Area Restoration	
	23.011	Appalachian Regional Development: State Research, Technical Assistance, and Demonstration Projects	
	23.012	Appalachian Vocational and Other Education Facilities and Operations	
	23.013	Appalachian Child Development	

Table III.16: 135 Programs Included in the Education Block Grant

Dollars in millions

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	Six of the larger programs totaling $8.5 billion		
501	84.009	Education of Handicapped Children in State Operated or Supported Schools	$146
501	84.010	Educationally Deprived Children: Local Educational Agencies	4,768
501	84.027	Handicapped: State Grants	1,543
501	84.041	School Assistance in Federally-Affected Areas: Maintenance and Operations	717
501	84.048	Vocational Education: Basic Grants to States	844
501	84.151	State Education Chapter 2 Block Grants	521
	Remaining 129 programs totaling $2.8 billion		
501		Elementary, Secondary, and Vocational Education	
	84.002	Adult Education: State Administered Programs	
	84.003	Bilingual Education	
	84.004	Civil Rights Technical Assistance and Training	
	84.011	Migrant Education: Basic State Formula Grant Program	
	84.012	Educationally Deprived Children: State Administration	
	84.013	Neglected and Delinquent Children	
	84.014	Follow Through	
	84.023	Handicapped: Innovation and Development	
	84.024	Handicapped: Early Childhood Education	
	84.025	Handicapped Education—Deaf-Blind Centers	
	84.026	Handicapped Media Services and Captioned Films	
	84.028	Handicapped: Regional Resource and Federal Centers	
	84.029	Handicapped Education—Special Education Personnel Development	
	84.030	Clearinghouses for the Handicapped	
	84.040	School Assistance in Federally-Affected Areas: Construction	
	84.049	Vocational Education: Consumer and Homemaking Education	
	84.051	National Vocational Education Research	
	84.053	Vocational Education: State Councils	
	84.060	Indian Education: Local Educational Agencies and Tribal Schools	
	84.061	Indian Education: Special Programs and Projects	
	84.062	Indian Education: Adult Indian Education	
	84.072	Indian Education: Grants to Indian Controlled Schools	
	84.073	National Diffusion Program (National Diffusion Network)	
	84.077	Bilingual Vocational Training	
	84.083	Women's Educational Equity	
	84.086	Handicapped Education—Severely Handicapped Program	
	84.099	Bilingual Vocational Instructor Training	
	84.100	Bilingual Vocational Materials, Methods, Techniques	

(continued)

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	84.122	Secretary's Discretionary Program	
	84.123	Law Related Education	
	84.144	Migrant Education: Interstate and Intrastate Coordination Program	
	84.146	Transition Program for Refugee Children	
	84.155	Removal of Architectural Barriers to the Handicapped	
	84.158	Secondary Education and Transitional Services for Handicapped Youth	
	84.159	Handicapped: Special Studies	
	84.162	Emergency Immigrant Education Assistance	
	84.164	Math and Science Education	
	84.165	Magnet Schools Assistance	
	84.168	National Programs for Strengthening Teaching and Administration in Mathematics and Science	
	84.173	Handicapped: Preschool Grants	
	84.174	Vocational Education: Community-Based Organizations	
	84.178	Leadership in Educational Administration Development	
	84.180	Technology, Educational Media and Materials for the Handicapped	
	84.181	Handicapped Infants and Toddlers	
	84.184	National Programs for Drug-Free Schools and Communities	
	84.186	Drug-Free Schools and Communities: State Grants	
	84.188	Drug-Free Schools and Communities: Regional Centers	
	84.192	Adult Education for the Homeless	
	84.193	Demonstration Centers for Retraining Dislocated Workers	
	84.194	Bilingual Education Support Services	
	84.195	Bilingual Education Training	
	84.196	State Activities: Education of Homeless Children and Youth	
	84.198	Workplace Literacy Partnership	
	84.199	Vocational Education Cooperative Demonstration	
	84.201	School Dropout Demonstration Assistance	
	84.204	School, College, and University Partnership	
	84.206	Jacob K. Javits Gifted and Talented Students	
	84.211	First Schools and Teachers	
	84.212	First Family School Partnerships	
	84.213	Even Start—Local Education	
	84.214	Even Start—Migrant Education	
	84.215	Innovation in Education: Secretary's Fund	
	84.216	Private School—Capital Expenses	
	84.218	State Improvement	
	84.222	National School Volunteer Program	
	84.223	State-Administered English Literacy	
	84.224	State Grants for Technology-Related Assistance to Individuals With Disabilities	

(continued)

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
502		Higher Education	
	84.017	International Research and Studies	
	84.021	Fulbright-Hays Training Grants: Group Projects Abroad	
	84.044	Talent Search	
	84.047	Upward Bound	
	84.066	Educational Opportunity Centers	
	84.069	Grants to States for State Student Incentives	
	84.176	Paul Douglas Teacher Scholarships	
	84.185	Robert C. Byrd Honors Scholarships	
	84.203	Star Schools Program	
503		Research and General Education Aids	
	45.001	Promotion of the Arts: Design Arts	
	45.002	Promotion of the Arts: Dance	
	45.003	Promotion of the Arts: Arts in Education	
	45.004	Promotion of the Arts: Literature	
	45.005	Promotion of the Arts: Music	
	45.006	Promotion of the Arts: Media Arts: Film/Radio/Television	
	45.007	Promotion of the Arts: States Program	
	45.008	Promotion of the Arts: Theater	
	45.009	Promotion of the Arts: Visual Arts	
	45.010	Promotion of the Arts: Expansion Arts	
	45.011	Promotion of the Arts: Inter-Arts	
	45.012	Promotion of the Arts: Museums	
	45.013	Promotion of the Arts: Challenge Grants	
	45.014	Promotion of the Arts: Opera-Musical Theater	
	45.015	Promotion of the Arts: Folk Arts	
	45.021	Promotion of the Arts: Arts Administration Fellows Program	
	45.022	Promotion of the Arts: Advancement Grants	
	45.023	Promotion of the Arts: Locals Program	
	45.104	Promotion of the Humanities: Humanities Projects in Media	
	45.113	Promotion of the Humanities: Public Humanities Projects	
	45.115	Promotion of the Humanities: Younger Scholars	
	45.116	Promotion of the Humanities: Summer Seminars for College Teachers	
	45.121	Promotion of the Humanities: Summer Stipends	
	45.122	Promotion of the Humanities: Centers for Advanced Study	
	45.124	Promotion of the Humanities: Reference Materials/Access	
	45.125	Promotion of the Humanities: Humanities Projects in Museums and Historical Organizations	
	45.127	Promotion of the Humanities: Elementary and Secondary Education in the Humanities	
	45.129	Promotion of the Humanities: State Programs	

(continued)

Budget function code	CFDA code	Program	Estimated fiscal year 1990 funding
	45.130	Promotion of the Humanities: Challenge Grants	
	45.132	Promotion of the Humanities: Texts/Publication Subvention	
	45.133	Promotion of the Humanities: Interpretive Research/Humanities, Science and Technology	
	45.134	Promotion of the Humanities: Conferences	
	45.137	Promotion of the Humanities: Humanities Projects in Libraries and Archives	
	45.140	Promotion of the Humanities: Interpretive Research/Projects	
	45.142	Promotion of the Humanities: Fellowships for University Teachers	
	45.143	Promotion of the Humanities: Fellowships for College Teachers and Independent Scholars	
	45.145	Promotion of the Humanities: Reference Materials/Tools	
	45.146	Promotion of the Humanities: Texts/Editions	
	45.147	Promotion of the Humanities: Texts/Translations	
	45.148	Promotion of the Humanities: International Research	
	45.149	Promotion of the Humanities: Office of Preservation	
	45.150	Promotion of the Humanities: Higher Education in the Humanities	
	45.151	Promotion of the Humanities: Summer Seminars for School Teachers	
	45.152	Promotion of the Humanities: Travel to Collections	
	45.153	Promotion of the Humanities: Selected Areas	
	45.301	Institute of Museum Services	
	84.034	Library Services	
	84.035	Interlibrary Cooperation and Resource Sharing	
	84.039	Library Research and Demonstration	
	84.091	Strengthening Research Library Resources	
	84.117	Educational Research and Development	
	84.154	Public Library Construction	
	84.167	Library Literacy	

Options for Reducing Nondefense Program Spending

Tables IV.1 through IV.4 identify the specific programs that might be eliminated or reduced to achieve four illustrative scenarios for lowering nondefense program outlays. These scenarios, as discussed on pages 89 through 93 of the report, depict potential savings ranging from $45 billion to $170 billion by 1997 and are grouped according to the 10 strategies discussed in chapter 6 of the report. Assuming a desire to achieve a specific level of spending reductions, rejecting a particular program reduction would require replacing it with another of equal savings value.

These packages show the potential savings for the 6-year period 1992 through 1997. We pointed out that depending on the amount of deficit reduction planned in the defense and revenue components of the budget and the pace at which these amounts are to be achieved, the amount required in the nondefense component in 1992 may be less than is indicated in the packages. This amount can be adjusted as necessary by phasing in specific reduction items.

Table IV.5 lists the individual program choices from which we selected candidate cuts for the four illustrative packages. While this menu could be contracted or expanded, it represents a range of choices from which difficult decisions must be made.

Table IV.1: Option 1—User Charge and Subsidy Emphasis

Dollars in billions

Program change	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Nonmeans-tested retirement and disability						
Social Security	$0	$0	$0	$0	$0	$0
Subtotal, Social Security	**0**	**0**	**0**	**0**	**0**	**0**
Federal retirees						
Eliminate cost-of-living adjustments (COLA) for federal retirees under age 62	$0.5	$1.1	$1.8	$2.6	$3.3	$4.1
End Department of Veterans Affairs (VA) disability benefit for low-rated disabilities	1.5	1.6	1.7	1.7	1.7	1.7
Subtotal, Federal Retirees	**$2.0**	**$2.7**	**$3.5**	**$4.3**	**$5.0**	**$5.8**
Subtotal, Nonmeans-Tested Retirement and Disability	**$2.0**	**$2.7**	**$3.5**	**$4.3**	**$5.0**	**$5.8**
Restructure health care						
Targeted reduction of Medicare's disproportionate share and teaching adjustments	$2.3	$2.6	$3.0	$3.4	$3.8	$4.2
Collect 20-percent coinsurance on home health and skilled nursing facility services (Medicare)	0.2	0.2	0.2	0.3	0.3	0.3
Increase Medicare safeguard funding (net savings)	1.1	1.0	1.0	1.1	1.2	1.3
Require states to impose asset transfer restrictions and estate recovery programs for Medicaid nursing home programs	0.6	0.6	0.7	0.7	0.7	0.7
Require states to expand/improve Medicaid efforts to identify and recover payments for recipient/provider abuse	0.4	0.5	0.5	0.5	0.6	0.6
Require states to establish effective third-party recovery programs for Medicaid	0.9	1.0	1.0	1.0	1.1	1.1
Expand Medicaid income verification system to include access to Treasury bondholder information	0.1	0.1	0.1	0.1	0.1	0.1
Close/convert inefficient veterans' hospital facilities	0.3	0.3	0.3	0.3	0.3	0.3
Improve management and delivery of veterans' health care	0.2	0.3	0.5	0.7	0.9	1.1
Subtotal, Health Care	**$6.1**	**$6.5**	**$7.3**	**$8.1**	**$8.9**	**$9.6**
Improve efficiency of federal workforce						
Reduce federal workforce costs	$2.2	$2.3	$2.4	$2.4	$2.6	$2.6
Subtotal, Federal Workforce	**$2.2**	**$2.3**	**$2.4**	**$2.4**	**$2.6**	**$2.6**

(continued)

Program change	1992	1993	1994	1995	1996	1997
Farm price supports						
Eliminate honey program	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
End wool and mohair program	0.1	0.1	0.1	0.1	0.1	0.1
Make crop insurance coverage mandatory for Commodity Credit Corporation (CCC) participants	0.1	0.1	0.1	0.2	0.2	0.2
Eliminate dairy program	1.0	1.0	1.0	1.0	1.0	1.0
Restrict price support eligibility and reduce payment limitation to $40,000	0.5	0.5	0.5	0.5	0.5	0.5
Reduce Farmers Home Administration lending authority	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Farm Price Supports	**$2.0**	**$2.0**	**$2.0**	**$2.1**	**$2.1**	**$2.1**
Reduce subsidies to business						
End the Export-Import (EXIM) Bank	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3
Reduce Rural Electrification Administration lending	0.2	0.3	0.4	0.5	0.7	0.8
Reform Power Marketing Administrations (PMA) debt policies	0.3	0.3	0.3	0.3	0.3	0.3
Eliminate further funding for clean coal technology	0.4	0.2	0.3	0.5	0.5	0.5
Shift funding of the Fast Flux Test Facility to the private sector	0.1	0.1	0.1	0.1	0.1	0.1
Purchase natural gas from wellhead	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue not-for-profit postal subsidies	0.4	0.4	0.4	0.4	0.5	0.5
Subtotal, Subsidies to Business	**$1.6**	**$1.6**	**$1.9**	**$2.1**	**$2.4**	**$2.5**
Reduce subsidies to individuals						
Improve correlation between school lunch program subsidies and family income	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Eliminate health professions' education subsidies	0.2	0.2	0.3	0.3	0.3	0.3
Require guaranty agencies to participate in Internal Revenue Service (IRS) tax refund offset program	0	0.1	0.1	0.1	0.1	0.1
Subtotal, Subsidies to Individuals	**$0.5**	**$0.6**	**$0.7**	**$0.7**	**$0.7**	**$0.7**
Increase user charges						
Special benefits						
Share in profits of irrigated land sales	a	a	a	a	a	a
Increase Department of Housing and Urban Development (HUD) user fees	a	a	a	a	a	a
Refinance high-interest-rate section 235 mortgage	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Increase borrowers' interest rates on Stafford and consolidated student loans	0	0	0.1	0.2	0.2	0.2
Charge borrowers in Loan Consolidation, Supplemental Loans for Students (SLS), and PLUS programs a loan origination fee	0.2	0.2	0.2	0.2	0.2	0.2

(continued)

Program change	1992	1993	1994	1995	1996	1997
Increase taxes to cover costs imposed by aviation users	4.7	5.0	5.4	5.9	6.3	6.7
Charge for use of Corps of Engineers recreation projects	a	a	a	a	a	a
Increase Corps of Engineers fees for flood plain management planning assistance	a	a	a	a	a	a
Increase Corp of Engineers fees for navigation and wetland permits	a	a	a	a	a	a
Raise National Park Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Raise Forest Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Impose a 3-percent tax on the commercial fish and shellfish catch	0.1	0.1	0.1	0.1	0.1	0.1
Recover 100 percent of costs for Coast Guard Services provided to commercial and pleasure boats	0.7	0.8	0.8	0.8	0.8	0.8
Extend Bureau of Customs passenger and merchandise fees	0.8	0.8	0.9	0.9	1.0	1.0
Universally charge for laboratory accreditation services	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Special Benefits	**$7.1**	**$7.5**	**$8.1**	**$8.7**	**$9.2**	**$9.6**
Regulatory and inspection costs	$2.7	$2.8	$2.9	$3.1	$3.2	$3.3
Market pricing for private use of federal assets						
Naval Petroleum Reserve leasing reforms	0.3	0.3	0.6	0.6	0.6	0.6
User fees for special weather services	a	a	a	a	a	a
Improve pricing from federal water sales	a	a	a	a	a	a
Improve pricing of grazing fees	a	a	a	a	a	a
Revise pricing of timber sales	a	0.1	0.1	0.1	0.1	0.1
Increase harbor maintenance tax	0.3	0.3	0.4	0.4	0.4	0.4
Raise crop insurance premiums	0.2	0.3	0.4	0.6	0.6	0.6
Impose a royalty payment on communications users of electromagnetic spectrum	1.8	1.9	2.1	2.2	2.2	2.2
Raise fees to cover 100 percent of Inland Water System Operations and Maintenance	0.3	0.4	0.4	0.4	0.4	0.4
Charge user fee for prescriptions filled by VA	0.1	0.1	0.1	0.1	0.1	0.1
Raise maximum VA loan origination fee from 1.25 to 4 percent	0.3	0.4	0.3	0.3	0.3	0.3
Raise mining claim fees and eliminate the patenting of hardrock mining claims	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, Market Pricing for Private Use of Federal Assets	**$3.4**	**$3.9**	**$4.5**	**$4.7**	**$4.7**	**$4.7**
Subtotal, User Charges	**$13.2**	**$14.2**	**$15.5**	**$16.5**	**$17.1**	**$17.6**
Curtail international activities	0	0	0	0	0	0
Subtotal, International Activities	**0**	**0**	**0**	**0**	**0**	**0**

(continued)

Program change	1992	1993	1994	1995	1996	1997
Restrict scientific and medical research						
Cancel the space station	$0.9	$1.5	$1.9	$2.0	$2.1	$2.2
Cut Department of Energy (DOE) labs' discretionary research and development activities	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, Scientific and Medical Research	**$1.0**	**$1.6**	**$2.0**	**$2.1**	**$2.2**	**$2.3**
Restructure grants to states and localities						
Eliminate low-income home energy assistance program	$1.5	$1.6	$1.6	$1.7	$1.7	$1.7
Subtotal, Grants to States and Localities	**$1.5**	**$1.6**	**$1.6**	**$1.7**	**$1.7**	**$1.7**
Total Reductions	**$30.1**	**$33.1**	**$36.9**	**$40.0**	**$42.8**	**$45.0**

[a]Less than $50 million.

Table IV.2: Option 2—Health Care, User Charge, Subsidy, and State Grant Emphasis

Dollars in billions

Program change	1992	1993	1994	1995	1996	1997
Nonmeans-tested retirement and disability						
Social Security						
Tax 85 percent of Social Security and Railroad Retirement with current income threshold	$1.2	$4.4	$5.0	$5.7	$6.4	$7.1
Subtotal, Social Security	**$1.2**	**$4.4**	**$5.0**	**$5.7**	**$6.4**	**$7.1**
Federal retirees						
Eliminate COLAs for federal retirees under age 62	$0.5	$1.1	$1.8	$2.6	$3.3	$4.1
End lump-sum payments for civilian retirees	1.4	1.9	1.9	1.9	2.0	2.0
End VA disability benefit for low-rated disabilities	1.5	1.6	1.7	1.7	1.7	1.7
End dependents' allowances for veterans with low-rated disabilities	0.3	0.3	0.3	0.3	0.3	0.3
End VA disability and death compensation for disabilities unrelated to military duties	0.1	0.1	0.2	0.3	0.4	0.5
Reduce VA dependency and indemnity compensation payments to surviving spouses	0.3	0.5	0.6	0.8	1.0	1.2
Subtotal, Federal Retirees	**$4.0**	**$5.5**	**$6.5**	**$7.5**	**$8.7**	**$9.8**
Subtotal, Nonmeans-Tested Retirement and Disability	**$5.3**	**$9.9**	**$11.5**	**$13.2**	**$15.1**	**$16.9**
Restructure health care						
Gradually increase Medicare premium to cover 30 percent of costs for physicians' services	$1.2	$2.8	$4.8	$7.3	$10.7	$13.1
Collect 20-percent coinsurance on home health and skilled nursing facility services (Medicare)	0.2	0.2	0.3	0.3	0.3	0.3
Increase Medicare deductible for physicians' services (indexed $100)	0.8	1.0	1.4	1.8	2.2	2.6
Targeted reduction of Medicare's disproportionate share and teaching adjustments	2.3	2.6	3.0	3.4	3.8	4.2
Reduce direct payments for medical education (Medicare)	0.1	0.1	0.2	0.2	0.2	0.3
Increase Medicare safeguard funding (net savings)	1.1	1.0	1.0	1.1	1.2	1.3
Eliminate annual update in physician fees for 1 year (Medicare)	0.9	0.9	1.0	1.0	1.0	1.0
Reduce Medicare payments to physicians for overvalued services	0.9	1.1	1.3	1.4	1.5	1.6
Require states to impose asset transfer restrictions and estate recovery programs for Medicaid nursing home programs	0.6	0.6	0.7	0.7	0.7	0.7
Require states to expand/improve Medicaid efforts to identify and recover payments caused by recipient/provider abuse	0.4	0.5	0.5	0.5	0.6	0.6
Require states to establish effective third-party recovery programs for Medicaid	0.9	1.0	1.0	1.0	1.1	1.1

(continued)

Program change	1992	1993	1994	1995	1996	1997
Expand Medicaid income verification system to include access to Treasury bondholder information	0.1	0.1	0.1	0.1	0.1	0.1
Close/convert inefficient VA hospital facilities	0.3	0.3	0.3	0.3	0.3	0.3
Improve management and delivery of veterans' health care	0.2	0.3	0.5	0.7	0.9	1.1
Expand VA's insurance recoveries to include nonservice-connected conditions	0.1	0.2	0.2	0.2	0.2	0.2
Modify way hospitals are paid under federal employees health benefits program	0	0.1	0.4	0.7	1.0	1.3
Reduce VA health care for nonservice-connected illnesses by 50 percent	3.8	4.1	4.3	4.6	4.9	5.2
Subtotal, Health Care	**$13.9**	**$16.8**	**$20.9**	**$25.3**	**$30.6**	**$34.9**
Improve efficiency of federal workforce						
Reduce federal workforce costs	$2.2	$2.3	$2.4	$2.4	$2.6	$2.6
Subtotal, Federal Workforce	**$2.2**	**$2.3**	**$2.4**	**$2.4**	**$2.6**	**$2.6**
Farm price supports						
Eliminate honey program	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
End wool and mohair program	0.1	0.1	0.1	0.1	0.1	0.1
Make crop insurance coverage mandatory for CCC participants	0.1	0.1	0.1	0.2	0.2	0.2
Eliminate dairy program	1.0	1.0	1.0	1.0	1.0	1.0
Reduce deficiency payments by lowering target prices	0.3	1.2	2.3	3.4	4.1	4.8
Subtotal, Farm Price Supports	**$1.6**	**$2.5**	**$3.6**	**$4.8**	**$5.5**	**$6.2**
Reduce subsidies to business						
End EXIM Bank	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3
Reduce Rural Electrification Administration lending	0.2	0.3	0.4	0.5	0.7	0.8
Reform PMA debt policies	0.3	0.3	0.3	0.3	0.3	0.3
End further funding for clean coal technology	0.4	0.2	0.3	0.5	0.5	0.5
Shift funding of the Fast Flux Test Facility to the private sector	0.1	0.1	0.1	0.1	0.1	0.1
Purchase natural gas from wellhead	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue not-for-profit postal subsidies	0.4	0.4	0.4	0.4	0.5	0.5
Eliminate Stafford loan eligibility for students attending schools with default rates over 40 percent	0.3	0.3	0.3	0.3	0.3	0.3
Require lenders to share in the risk of guaranteed student loan defaults	0	0.1	0.2	0.2	0.2	0.2
Increase guaranty agencies' risk in guaranteed student loans that default	0	0.1	0.1	0.1	0.1	0.1
Increase developers' interest rate to 5 percent—rural rental housing assistance program	0	0	0	0.1	0.1	0.1
Eliminate administrative cost allowances paid to guaranteed student loan guaranty agencies	a	a	a	a	a	a

(continued)

Program change	1992	1993	1994	1995	1996	1997
Reduce interest subsidy payments to lenders making and/or holding federally guaranteed student loans	0.1	0.1	0.1	0.1	0.1	0.1
Partially replace new construction for elderly (section 202) with certificate	0.1	0.1	0.2	0.2	0.2	0.2
Subtotal, Subsidies to Business	**$2.1**	**$2.3**	**$2.8**	**$3.2**	**$3.5**	**$3.5**
Reduce subsidies to individuals						
Eliminate health professions' education subsidies	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3
Allow Department of Education to recall defaulted student loans when guarantor collection efforts are ineffective	0.1	0.1	0.1	0.1	0.1	0.1
Extend current eligibility requirements for SLS program	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue federal funding of the Perkins loan program	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate reimbursement of veterans for travel costs to VA facilities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate "shoppers incentive" from housing voucher program	0.2	0.2	0.2	0.2	0.2	0.2
Require certification of assisted household income through employer wage data	0.2	0.2	0.2	0.2	0.2	0.2
Reduce cost and increase borrower payments to 28 percent of income—rural housing program	0.2	0.3	0.3	0.4	0.5	0.5
Housing assistance—replace new construction with vouchers	0	0.2	0.4	0.5	0.6	0.6
Require guaranty agencies to participate in IRS tax refund offset program	0	0.1	0.1	0.1	0.1	0.1
Reduce subsidy in child nutrition programs for higher-income families	0.4	0.5	0.5	0.5	0.5	0.5
Subtotal, Subsidies to Individuals	**$1.7**	**$2.1**	**$2.5**	**$2.7**	**$2.9**	**$2.9**
Increase user charges						
Special benefits						
Increase taxes to cover costs imposed by aviation users	$4.7	$5.0	$5.4	$5.9	$6.3	$6.7
Recover 100 percent of costs for Coast Guard services provided to commercial and pleasure boats	0.7	0.8	0.8	0.8	0.8	0.8
Extend Bureau of Customs passenger and merchandise fees	0.8	0.8	0.9	0.9	1.0	1.0
Subtotal, Special Benefits	**$6.2**	**$6.6**	**$7.1**	**$7.6**	**$8.1**	**$8.5**
Regulatory and inspection costs	0	0	0	0	0	0
Market pricing for private use of federal assets						
Impose a royalty payment on communications users of electromagnetic spectrum	$1.8	$1.9	$2.1	$2.2	$2.2	$2.2
Subtotal, Market Pricing for Private Use of Federal Assets	**$1.8**	**$1.9**	**$2.1**	**$2.2**	**$2.2**	**$2.2**
Subtotal, User Charges	**$8.0**	**$8.5**	**$9.2**	**$9.8**	**$10.3**	**$10.7**

(continued)

Program change	1992	1993	1994	1995	1996	1997
Curtail international activities						
Eliminate the P.L. 480, title 1 Food Aid Program	$0.9	$0.9	$0.9	$0.9	$0.9	$0.9
Cut Economic Support Fund by 10 percent	0.2	0.4	0.4	0.4	0.4	0.4
Subtotal, International Activities	**$1.1**	**$1.3**	**$1.3**	**$1.3**	**$1.3**	**$1.3**
Slow growth of selected scientific and medical research						
Cancel the space station	$0.9	$1.5	$1.9	$2.0	$2.1	$2.2
Cancel the supercollider	0.1	0.1	0.2	0.2	0.2	0.2
Cut DOE labs' discretionary research and development activities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate medical and prosthetic research funding	0.2	0.2	0.2	0.2	0.3	0.3
Subtotal, Scientific and Medical Research	**$1.3**	**$1.9**	**$2.4**	**$2.5**	**$2.7**	**$2.8**
Restructure grants to states and localities						
Change revenue-sharing formula to a net receipt basis for commercial activity on federal lands	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
Eliminate airport grants-in-aid	1.4	1.5	1.6	1.6	1.7	1.8
Block grant option with 10-percent cut	5.1	5.3	5.5	5.7	6.0	6.2
Subtotal, Grants to States and Localities	**$6.8**	**$7.1**	**$7.3**	**$7.6**	**$7.9**	**$8.2**
Total Reductions	**$44.0**	**$54.6**	**$64.0**	**$72.8**	**$82.3**	**$90.0**

[a]Less than $50 million.

Table IV.3: Option 3—Entitlement, Health Care, User Charge, Subsidy, and State Grant Emphasis

Dollars in billions

Program change	1992	1993	1994	1995	1996	1997
Nonmeans-tested retirement and disability						
Social Security						
Tax 85 percent of Social Security & Railroad retirement benefits without income threshold	$12.8	$21.2	$22.5	$24.0	$25.6	$27.3
Improve targeting of SSA audits -state determinations of Social Security disability eligibility	a	a	0.1	0.1	0.1	0.1
Increase waiting period for Social Security disability benefits from 5 to 6 months	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Social Security	**$13.0**	**$21.4**	**$22.7**	**$24.3**	**$25.9**	**$27.6**
Federal retirees						
Eliminate COLAS for federal retirees under age 62	$0.5	$1.1	$1.8	$2.6	$3.3	$4.1
Freeze COLAs 1 year for other federal retirees	1.5	2.1	2.1	2.3	2.4	2.5
End lump-sum payments for civilian retirees	1.4	1.9	1.9	1.9	2.0	2.0
End VA disability benefit for low-rated disability	1.5	1.6	1.7	1.7	1.7	1.7
End dependents' allowances for veterans with low-rated disabilities	0.3	0.3	0.3	0.3	0.3	0.3
End VA disability & death compensation for disabilities unrelated to military duties	0.1	0.1	0.2	0.3	0.4	0.5
Reduce VA dependency and indemnity compensation (DIC) payments to surviving spouses	0.3	0.5	0.6	0.8	1.0	1.2
Subtotal, Federal Retirees	**$5.5**	**$7.5**	**$8.6**	**$9.8**	**$11.0**	**$12.2**
Subtotal, Nonmeans-Tested Retirement and Disability	**$18.5**	**$28.9**	**$31.3**	**$34.1**	**$36.9**	**$39.8**
Restructure health care						
Set premium to cover 25 percent of costs in all years for physicians' services—Medicare	$1.0	$2.5	$4.0	$5.8	$7.1	$9.2
Collect 20 percent coinsurance on clinical lab services—Medicare	0.8	0.9	1.1	1.3	1.5	1.7
Collect 20 percent coinsurance on home health and skilled nursing facility services—Medicare	0.2	0.2	0.3	0.3	0.3	0.3
Increase Medicare safeguard funding (net savings)	1.1	1.2	1.2	1.3	1.3	1.3
Move immediately to a prospective reimbursement system for capital expenditures under Medicare	0.2	0.4	0.6	0.8	1.2	1.4
Reduce Medicare's direct payments for medical education	0.1	0.1	0.2	0.2	0.2	0.3
Cap payments for durable medical equipment at fee schedule median, and related proposals—Medicare	0.3	0.3	0.3	0.3	0.3	0.3
Discontinue coverage of eyeglasses following cataract surgery—Medicare	0.1	0.1	0.1	0.1	0.1	0.1

(continued)

Program change	1992	1993	1994	1995	1996	1997
Eliminate annual update in physician fees for 1 year—Medicare	0.9	0.9	1.0	1.0	1.0	1.0
Reduce Medicare payments to physicians for overvalued services	0.9	1.1	1.3	1.4	1.5	1.6
Require states to impose asset transfer restrictions and estate recovery programs for Medicaid nursing home programs	0.6	0.6	0.7	0.7	0.7	0.7
Require states to expand/improve Medicaid efforts to identify and recover payments caused by recipient/provider abuse	0.4	0.5	0.5	0.6	0.6	0.6
Require states to establish effective third-party recovery programs for Medicaid	0.9	1.0	1.0	1.1	1.1	1.1
Expand Medicaid income verification system to include access to Treasury bondholder information	0.1	0.1	0.1	0.1	0.1	0.1
Close/convert inefficient VA hospital facilities	0.3	0.3	0.3	0.3	0.3	0.3
Improve management and delivery of veterans' health care	0.2	0.3	0.5	0.7	0.9	1.1
Modify way hospitals are paid under federal employees health benefits program	0	0.1	0.4	0.7	1.0	1.3
Increase VA's collection from third-party insurers for inpatient and outpatient care	0.3	0.3	0.4	0.4	0.4	0.4
Expand VA's insurance recoveries to include nonservice-connected conditions	0.1	0.2	0.2	0.2	0.2	0.2
Subtotal, Health Care	**$8.5**	**$11.0**	**$14.1**	**$17.4**	**$19.7**	**$22.9**
Improve efficiency of federal workforce						
Reduce federal workforce costs	$2.2	$4.5	$6.9	$7.1	$7.4	$7.6
Repeal the Davis Bacon Act	0.3	0.8	1.1	1.2	1.3	1.4
Subtotal, Federal Workforce	**$2.5**	**$5.3**	**$8.0**	**$8.3**	**$8.7**	**$9.0**
Farm price supports						
Eliminate honey program	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Eliminate wool and mohair program	0.1	0.1	0.1	0.1	0.1	0.1
Make crop insurance coverage mandatory for CCC participants	0.1	0.1	0.1	0.2	0.2	0.2
Eliminate dairy program	1.0	1.0	1.0	1.0	1.0	1.0
Reduce deficiency payments by lowering target prices	0.3	1.2	2.3	3.4	4.1	4.8
Subtotal, Farm Price Supports	**$1.6**	**$2.5**	**$3.6**	**$4.8**	**$5.5**	**$6.2**
Reduce subsidies to business						
Eliminate EXIM Bank	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3
Reduce Rural Electrification Administration lending	0.2	0.3	0.4	0.5	0.7	0.8
Reform PMA debt policies	0.3	0.3	0.3	0.3	0.3	0.3
End further funding for clean coal technology	0.4	0.2	0.3	0.5	0.5	0.5
Shift funding of the Fast Flux Test Facility to the private sector	0.1	0.1	0.1	0.1	0.1	0.1
Purchase natural gas from wellhead	0.1	0.1	0.1	0.1	0.1	0.1

(continued)

Program change	1992	1993	1994	1995	1996	1997
Discontinue not-for-profit postal subsidies	0.4	0.4	0.4	0.4	0.5	0.5
Eliminate Stafford loan eligibility for students attending schools with default rates over 40 percent	0.3	0.3	0.3	0.3	0.3	0.3
Require lenders to share in the risk of guaranteed student loan defaults	0	0.1	0.2	0.2	0.2	0.2
Increase guaranty agencies' risk in guaranteed student loans that default	0	0.1	0.1	0.1	0.1	0.1
Increase developers' interest rate to 5 percent—rural rental housing assistance program	a	a	a	0.1	0.1	0.1
Eliminate administrative cost allowances paid to guaranteed student loan guaranty agencies	a	a	a	a	a	a
Reduce interest subsidy payments to lenders making and/or holding federally guaranteed student loans	0.1	0.1	0.1	0.1	0.1	0.1
Partially replace new construction for elderly (section 202) with certificate	0.1	0.1	0.2	0.2	0.2	0.2
End Small Business Administration (SBA) loans and loan guarantees (except minority & disaster programs)	0	0.1	0.3	0.3	0.4	0.4
Subtotal, Subsidies to Business	**$2.1**	**$2.4**	**$3.2**	**$3.5**	**$3.9**	**$3.9**
Reduce subsidies to individuals						
Eliminate health professions' education subsidies	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3
Allow Department of Education to recall defaulted student loans when guarantor collection efforts are ineffective	0.1	0.1	0.1	0.1	0.1	0.1
Extend current eligibility requirements for SLS program	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue federal funding of the Perkins loan program	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate reimbursement of veterans for travel costs to VA facilities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate "shoppers incentive" from housing voucher program	0.2	0.2	0.2	0.2	0.2	0.2
Require certification of assisted household income through employer wage data	0.2	0.2	0.2	0.2	0.2	0.2
End VA home loan program	0.9	0.9	1.0	1.0	1.0	1.0
Require guaranty agencies to participate in IRS tax refund offset program	0	0.1	0.1	0.1	0.1	0.1
Verify data on income for VA pension recipients through match with IRS records	0.1	0.1	0.1	0.2	0.2	0.2
Housing assistance—replace new construction with vouchers	0	0.2	0.4	0.5	0.6	0.6
Subtotal, Subsidies to Individuals	**$2.0**	**$2.4**	**$2.8**	**$3.0**	**$3.1**	**$3.1**
User charges						
Special benefits						
Share in profits of irrigated land sales	a	a	a	a	a	a
Increase HUD user fees	a	a	a	a	a	a
Refinance high-interest-rate section 235 mortgage	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Increase borrowers' interest rates on Stafford & Consolidated Student loans	0	0	0.1	0.2	0.2	0.2
Charge borrowers in Loan Consolidation, SLS, and PLUS programs a loan origination fee	0.2	0.2	0.2	0.2	0.2	0.2

(continued)

Program change	1992	1993	1994	1995	1996	1997
Increase taxes to cover costs imposed by aviation users	4.7	5.0	5.4	5.9	6.3	6.7
Charge for use of Corps of Engineers recreation projects	a	a	a	a	a	a
Increase Corps of Engineers fees for flood plain management planning assistance	a	a	a	a	a	a
Increase Corps of Engineers fees for navigation and wetland permits	a	a	a	a	a	a
Raise National Park Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Raise Forest Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Impose a 3-percent tax on the commercial fish and shellfish catch	0.1	0.1	0.1	0.1	0.1	0.1
Recover 100 percent of costs for Coast Guard Services provided to commercial and pleasure boats	0.7	0.8	0.8	0.8	0.8	0.8
Extend Bureau of Customs passenger and merchandise fees	0.8	0.8	0.9	0.9	1.0	1.0
Universally charge for laboratory accreditation services	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Special Benefits	**$7.1**	**$7.5**	**$8.1**	**$8.7**	**$9.2**	**$9.6**
Regulatory and inspection costs	$2.7	$2.8	$2.9	$3.1	$3.2	$3.3
Market pricing for private use of federal assets						
Naval Petroleum Reserve leasing reforms	$0.3	$0.3	$0.6	$0.6	$0.6	$0.6
Revise excess land sales	a	a	a	a	a	a
User fees for special weather services	a	a	a	a	a	a
Improve pricing from federal water sales	a	a	a	a	a	a
Improve pricing of grazing fees	a	a	a	a	a	a
Revise pricing of timber sales	a	0.1	0.1	0.1	0.1	0.1
Increase harbor maintenance tax	0.3	0.3	0.4	0.4	0.4	0.4
Raise crop insurance premiums	0.2	0.3	0.4	0.6	0.6	0.6
Impose a royalty payment on communications users of electromagnetic spectrum	1.8	1.9	2.1	2.2	2.2	2.2
Raise fees to cover 100 percent of operations and maintenance for the Inland Water System	0.3	0.4	0.4	0.4	0.4	0.4
Charge user fee for prescriptions filled by VA	0.1	0.1	0.1	0.1	0.1	0.1
Raise mining claim fees and eliminate the patenting of hardrock mining claims	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, Market Pricing for Private Use of Federal Assets	**$3.2**	**$3.5**	**$4.2**	**$4.4**	**$4.4**	**$4.4**
Subtotal, User Charges	**$13.0**	**$13.8**	**$15.2**	**$16.2**	**$16.8**	**$17.3**
Curtail international activities	0	0	0	0	0	0
Subtotal, International Activities	**0**	**0**	**0**	**0**	**0**	**0**

(continued)

Program change	1992	1993	1994	1995	1996	1997
Restrict scientific and medical research						
Cancel the space station	$0.9	$1.5	$1.9	$2.0	$2.1	$2.2
Cancel supercollider	0.1	0.1	0.2	0.2	0.2	0.2
Cut DOE labs' discretionary research and development activities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate VA medical and prosthetic research funding	0.2	0.2	0.2	0.2	0.3	0.3
Subtotal, Scientific and Medical Research	**$1.3**	**$1.9**	**$2.4**	**$2.5**	**$2.7**	**$2.8**
Restructure grants to states and localities						
Change revenue-sharing formula to a net receipt basis for commercial activity on federal lands	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
Eliminate low-income home energy assistance program	1.5	1.6	1.6	1.7	1.7	1.7
Block grant option with 10-percent cut	4.9	5.1	5.3	5.6	5.8	6.0
Reduce new highway spending to level of receipts	0.3	1.4	1.9	2.3	2.7	3.1
Eliminate airport grants-in-aid	1.4	1.5	1.6	1.6	1.7	1.8
Reduce rental subsidies—shift costs to states or tenants	0.5	0.8	1.1	1.4	1.7	2.0
Subtotal, Grants to States and Localities	**$8.9**	**$10.7**	**$11.7**	**$12.9**	**$13.8**	**$14.8**
Total Reductions	**$58.5**	**$78.9**	**$92.3**	**$102.6**	**$111.1**	**$120.0**

[a]Less than $50 million.

Table IV.4: Option 4—Minimal Federal Involvement Except for Self-Financed Programs

Dollars in billions

Program change	1992	1993	1994	1995	1996	1997
Nonmeans-tested retirement and disability						
Social Security						
Tax 85 percent of Social Security and Railroad Retirement benefits without income threshold	$12.8	$21.2	$22.5	$24.0	$25.6	$27.3
Improve targeting of Social Security Administration audits—state determinations of Social Security disability eligibility	a	a	0.1	0.1	0.1	0.1
Increase waiting period for Social Security disability benefits from 5 to 6 months	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Social Security	**$13.0**	**$21.4**	**$22.7**	**$24.3**	**$25.9**	**$27.6**
Federal retirees						
Eliminate COLAs for federal retirees under age 62	$0.5	$1.1	$1.8	$2.6	$3.3	$4.1
Freeze COLAs 1 year for federal retirees	1.5	2.1	2.1	2.3	2.4	2.5
End lump-sum payments for civilian retirees	1.4	1.9	1.9	1.9	2.0	2.0
End VA disability benefit for low-rated disability	1.5	1.6	1.7	1.7	1.7	1.7
End dependents' allowances for veterans with low-rated disabilities	0.3	0.3	0.3	0.3	0.3	0.3
End VA disability and death compensation for disabilities unrelated to military duties	0.1	0.1	0.2	0.3	0.4	0.5
Subtotal, Federal Retirees	**$5.2**	**$7.1**	**$8.0**	**$9.1**	**$10.1**	**$11.1**
Subtotal, Nonmeans-Tested Retirement and Disability	**$18.3**	**$28.5**	**$30.8**	**$33.3**	**$36.0**	**$38.7**
Restructure health care						
Gradually increase premium to cover 50 percent of costs for physicians' services under Medicare	$3.2	$7.5	$12.8	$19.4	$27.7	$32.4
Targeted reduction of disproportionate share and teaching adjustments—Medicare	2.3	2.6	3.0	3.4	3.8	4.2
Increase Medicare safeguard funding (net savings)	1.1	1.0	1.0	1.1	1.2	1.3
Move immediately to a prospective reimbursement system for capital expenditures under Medicare	0.2	0.4	0.6	0.8	1.2	1.4
Continue Medicare transition to prospective rates for outpatient facility costs	0.4	0.6	0.7	0.8	0.9	1.0
Reduce Medicare's direct payments for medical education	0.1	0.1	0.2	0.2	0.2	0.3
Cap Medicare payments for durable medical equipment at fee schedule median and related proposals	0.6	0.6	0.6	0.6	0.6	0.6
Discontinue Medicare coverage of eyeglasses following cataract surgery—Medicare	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate annual update in physician fees for 1 year—Medicare	0.9	0.9	1.0	1.0	1.0	1.0

(continued)

Program change	1992	1993	1994	1995	1996	1997
Reduce Medicare payments to physicians for overvalued services	0.9	1.1	1.3	1.4	1.5	1.6
Require states to impose asset transfer restrictions and estate recovery programs for Medicaid nursing home programs	0.6	0.6	0.7	0.7	0.7	0.7
Require states to expand/improve Medicaid efforts to identify and recover payments caused by recipient/provider abuse	0.4	0.5	0.5	0.5	0.6	0.6
Require states to establish effective third-party recovery programs for Medicaid	0.9	1.0	1.0	1.0	1.1	1.1
Expand Medicaid income verification system to include access to Treasury bondholder information	0.1	0.1	0.1	0.1	0.1	0.1
Close/convert inefficient VA hospital facilities	0.3	0.3	0.3	0.3	0.3	0.3
Improve management and delivery of veterans' health care	0.2	0.3	0.5	0.7	0.9	1.1
Modify way hospitals are paid under federal employees health benefits program	0	0.1	0.4	0.7	1.0	1.3
Reduce VA services for non-service-connected illnesses by 50 percent	3.8	4.1	4.3	4.6	4.9	5.2
Increase VA's collection from third-party insurers for inpatient and outpatient care	0.3	0.3	0.4	0.4	0.4	0.4
Subtotal, Health Care	**$16.4**	**$22.1**	**$29.4**	**$37.9**	**$48.1**	**$54.6**
Improve efficiency of federal workforce						
Reduce federal workforce costs	$2.2	$4.5	$6.9	$7.1	$7.4	$7.6
Repeal the Davis Bacon Act	0.3	0.8	1.1	1.2	1.3	1.4
Subtotal, Federal Workforce	**$2.5**	**$5.3**	**$8.0**	**$8.3**	**$8.7**	**$9.0**
Farm price supports						
Eliminate farm price supports	$1.9	$3.5	$5.0	$6.2	$7.5	$8.0
Subtotal, Farm Price Supports	**$1.9**	**$3.5**	**$5.0**	**$6.2**	**$7.5**	**$8.0**
Reduce subsidies to business						
Eliminate EXIM Bank	$0.2	$0.3	$0.3	$0.3	$0.3	$0.3
Reduce Rural Electrification Administration lending	0.2	0.3	0.4	0.5	0.7	0.8
Reform PMA debt policies	0.3	0.3	0.3	0.3	0.3	0.3
Eliminate further funding of clean coal technology	0.4	0.2	0.3	0.5	0.5	0.5
Shift funding of the Fast Flux Test Facility to the private sector	0.1	0.1	0.1	0.1	0.1	0.1
Purchase natural gas from wellhead	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue not-for-profit postal subsidies	0.4	0.4	0.4	0.4	0.5	0.5
Eliminate Stafford loan eligibility for students attending schools with default rates over 40 percent	0.3	0.3	0.3	0.3	0.3	0.3
Require lenders to share in the risk of guaranteed student loan defaults	0	0.1	0.2	0.2	0.2	0.2
Increase guaranty agencies' risk in guaranteed student loans that default	0	0.1	0.1	0.1	0.1	0.1

(continued)

Program change	1992	1993	1994	1995	1996	1997
Increase developers' interest rate to 5 percent—rural rental housing assistance program	a	a	a	0.1	0.1	0.1
Eliminate administrative cost allowances paid to guaranteed student loan guaranty agencies	a	a	a	a	a	a
Reduce interest subsidy payments to lenders making and/or holding federally guaranteed student loans	0.1	0.1	0.1	0.1	0.1	0.1
Partially replace new construction for elderly (section 202) with certificate	0.1	0.1	0.2	0.2	0.2	0.2
End SBA loans and loan guarantees (except minority and disaster programs)	0	0.1	0.3	0.3	0.4	0.4
Subtotal, Subsidies to Business	**$2.1**	**$2.4**	**$3.1**	**$3.5**	**$3.9**	**$3.9**
Reduce subsidies to individuals						
Eliminate health professions' education subsidies	$0.2	$0.2	$0.3	$0.3	$0.3	$0.3
Allow Department of Education to recall defaulted student loans when guarantor collection efforts are ineffective	0.1	0.1	0.1	0.1	0.1	0.1
Extend current eligibility requirements for SLS program	0.1	0.1	0.1	0.1	0.1	0.1
Discontinue federal funding of the Perkins loan program	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate reimbursement of veterans for travel costs to VA facilities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate "shoppers incentive" from housing voucher program	0.2	0.2	0.2	0.2	0.2	0.2
Require certification of assisted household income through employer wage data	0.2	0.2	0.2	0.2	0.2	0.2
End VA home loan program	0.9	0.9	1.0	1.0	1.0	1.0
Require guaranty agencies to participate in IRS tax refund offset program	0	0.1	0.1	0.1	0.1	0.1
Improve correlation between school lunch program subsidies and family income	0.3	0.3	0.3	0.3	0.3	0.3
Reduce cost and increase borrower payments to 28 percent of income—rural housing program	0.2	0.3	0.3	0.4	0.5	0.5
Subtotal, Subsidies to Individuals	**$2.4**	**$2.7**	**$2.9**	**$3.0**	**$3.1**	**$3.1**
User charges						
Special benefits						
Share in profits of irrigated land sales	a	a	a	a	a	a
Increase HUD user fees	a	a	a	a	a	a
Refinance high-interest-rate section 235 mortgage	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Increase borrowers' interest rates on Stafford and consolidated student loans	0	0	0.1	0.2	0.2	0.2
Charge borrowers in Loan Consolidation, SLS, and PLUS programs a loan origination fee	0.2	0.2	0.2	0.2	0.2	0.2
Increase taxes to cover costs imposed by aviation users	4.7	5.0	5.4	5.9	6.3	6.7
Charge for use of Corps of Engineers recreation projects	a	a	a	a	a	a
Increase Corps of Engineers fees for flood plain management planning assistance	a	a	a	a	a	a

(continued)

Program change	1992	1993	1994	1995	1996	1997
Increase Corps of Engineers fees for navigation and wetland permits	a	a	a	a	a	a
Raise National Park Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Raise Forest Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Impose a 3-percent tax on the commercial fish and shellfish catch	0.1	0.1	0.1	0.1	0.1	0.1
Recover 100 percent of costs for Coast Guard services provided to commercial and pleasure boats	0.7	0.8	0.8	0.8	0.8	0.8
Extend Bureau of Customs passenger and merchandise fees	1.0	1.0	1.0	1.0	1.0	1.0
Universally charge for laboratory accreditation services	0.2	0.2	0.2	0.2	0.2	0.2
Subtotal, Special Benefits	**$7.3**	**$7.7**	**$8.2**	**$8.8**	**$9.2**	**$9.6**
Regulatory and inspection costs	$2.7	$2.8	$2.9	$3.1	$3.2	$3.3
Market pricing for private use of federal assets						
Naval Petroleum Reserve leasing reforms	0.3	0.3	0.6	0.6	0.6	0.6
Revise excess land sales	a	a	a	a	a	a
User fees for special weather services	a	a	a	a	a	a
Improve pricing from federal water sales	a	a	a	a	a	a
Improve pricing of grazing fees	a	a	a	a	a	a
Revise pricing of timber sales	a	0.1	0.1	0.1	0.1	0.1
Increase harbor maintenance tax	0.3	0.3	0.4	0.4	0.4	0.4
Raise crop insurance premiums	0.2	0.3	0.4	0.6	0.6	0.6
Impose a royalty payment on communications users of electromagnetic spectrum	1.8	1.9	2.1	2.2	2.2	2.2
Raise fees to cover 100 percent of operations and maintenance for the Inland Water System	0.3	0.4	0.4	0.4	0.4	0.4
Charge user fee for prescriptions filled by VA	0.1	0.1	0.1	0.1	0.1	0.1
Raise mining claim fee and eliminate the patenting of hardrock mining claims	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal, Market Pricing for Private Use of Federal Assets	**$3.2**	**$3.5**	**$4.2**	**$4.4**	**$4.4**	**$4.4**
Subtotal, User Charges	**$5.9**	**$6.3**	**$7.1**	**$7.5**	**$7.6**	**$7.7**
Curtail international activities						
Eliminate the P.L. 480, title 1 Food Aid Program	$0.9	$0.9	$0.9	$0.9	$0.9	$0.9
Cut Economic Support Fund by 10 percent	0.2	0.4	0.4	0.4	0.4	0.4
Cut foreign military financing program by 5 percent	0.1	0.1	0.1	0.2	0.2	0.2
Subtotal, International Activities	**$1.2**	**$1.4**	**$1.4**	**$1.5**	**$1.5**	**$1.5**

(continued)

Program change	1992	1993	1994	1995	1996	1997
Restrict scientific and medical research						
Cancel the space station	$0.9	$1.5	$1.9	$2.0	$2.1	$2.2
Cancel supercollider	0.1	0.1	0.2	0.2	0.2	0.2
Cut DOE labs' discretionary research and development activities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate VA medical and prosthetic research funding	0.2	0.2	0.2	0.2	0.3	0.3
Subtotal, Scientific and Medical Research	**$1.3**	**$1.9**	**$2.4**	**$2.5**	**$2.7**	**$2.8**
Restructure grants to states and localities						
Block grant option with 50-percent cut	$25.5	$26.5	$27.6	$28.7	$29.9	$31.1
Subtotal, Grants to States and Localities	**$25.5**	**$26.5**	**$27.6**	**$28.7**	**$29.9**	**$31.1**
Total Reductions	**$84.8**	**$108.3**	**$125.8**	**$141.3**	**$158.2**	**$170.0**

[a]Less than $50 million.

Table IV.5: Potential Nondefense Outlay Options

Dollars in billions

Program change	1992	1993	1994	1995	1996	1997
Retirement benefits						
Social Security/Railroad Retirement COLA options						
One-year COLA freeze	$7.0	$9.6	$9.7	$9.6	$9.3	$9.0
Limit COLAs to one-half of consumer price index (CPI) for 1 year	3.5	4.8	4.9	4.8	4.7	4.5
Limit COLAs to two-thirds of CPI (all years)	2.5	5.9	9.5	13.3	17.2	21.2
Limit COLAs to CPI minus 1 percent (all years)	1.8	4.3	6.9	9.5	12.3	15.0
Limit COLAs to CPI minus 2 percent (all years)	3.6	8.6	13.7	19.1	24.6	30.1
Pay full COLA on monthly benefits below $500 and 50 percent of COLA on benefits above that level (all years)	0.9	2.1	3.5	4.8	6.1	7.4
Other Social Security options						
Reduce replacement rate for each bracket of Social Security benefit formula by 5 percent	0.6	1.2	1.8	2.7	4.1	6.1
Eliminate Social Security benefits for children of retirees aged 62-64	0.1	0.3	0.4	0.6	0.6	0.7
Lengthen Social Security benefit computation period by 3 years	0	0.1	0.3	0.6	0.9	1.2
Improve targeting of Social Security Administration audits—state determinations of eligibility for Social Security disability benefits	0	0.1	0.1	0.1	0.1	0.1
Restrict Social Security disability benefits to medical factors alone for those under 55	0.4	0.6	0.8	1.0	1.2	1.4
Increase waiting period for Social Security disability benefits from 5 to 6 months	0.2	0.2	0.2	0.2	0.2	0.2
Federal retirement COLA options						
Freeze COLAs 1 year for federal retirees	2.0	2.8	2.8	3.0	3.1	3.2
Cap COLAs at CPI minus 0.5 percent (all years)	0.1	0.2	0.3	0.5	0.6	0.8
Limit COLAs to two-thirds of CPI (all years)	0.7	1.7	2.7	3.9	5.0	6.0
Limit COLAs to CPI minus 1 percent (all years)	0.5	1.2	1.9	2.7	3.5	4.3
Limit COLAs to CPI minus 2 percent (all years)	1.0	2.4	3.8	5.5	7.1	8.7
Eliminate COLA for federal retirees under age 62	0.5	1.1	1.8	2.6	3.3	4.1
Cap COLAs at CPI minus 1 percent for federal retirees under age 62	0.1	0.3	0.4	0.6	0.8	1.0
One-year Supplemental Security Income COLA freeze	0.5	0.5	0.6	0.6	0.6	0.6
Other federal retirement options						
End lump-sum payments for civilian retirees	1.4	1.9	1.9	1.9	1.9	1.9
Base initial retirement benefit on 4-year average annual salary for civilian retirees	a	a	0.1	0.1	0.2	0.2
Terminate reserve retirement program for new reservists	0	0	0	0	0	0
End VA disability benefit for low-rated disabilities	1.5	1.6	1.7	1.7	1.7	1.7
End dependents' allowances for veterans with low-rated disabilities	0.3	0.3	0.3	0.3	0.3	0.3

(continued)

Program change	1992	1993	1994	1995	1996	1997
End VA disability and death compensation for disabilities unrelated to military duties	0.1	0.1	0.2	0.3	0.4	0.5
Reduce VA dependency and indemnity compensation payments to surviving spouses	0.3	0.5	0.6	0.8	1.0	1.2
Verify reported income for VA pension recipients through match with IRS records	0.1	0.1	0.1	0.2	0.2	0.2
Health programs						
Medicare						
Eliminate annual prospective payment system update for 1 year	5.8	6.0	6.2	6.5	6.8	7.1
Rebase prospective payment system by immediately reducing rates to 1983 level	2.9	3.2	3.5	3.8	4.1	4.4
Rebase prospective payment system by gradually reducing rates to real 1983 level less 10 percent	3.1	4.8	6.3	8.1	10.2	12.6
Gradually eliminate the disproportionate share adjustment in prospective payment system	0.3	0.6	1.1	1.6	2.1	2.5
Eliminate the disproportionate share adjustment in prospective payment system	1.7	1.8	2.0	2.2	2.4	2.6
Targeted reduction of disproportionate share and teaching adjustments	2.3	2.6	3.0	3.4	3.8	4.2
Extend 15-percent reduction for capital expenditures and move slowly to prospective reimbursement system	0.9	0.9	1.0	1.2	1.4	1.6
Move immediately to a prospective reimbursement system for capital expenditures	0.2	0.4	0.6	0.8	1.2	1.4
Extend 15-percent reduction for capital expenditures	1.0	1.2	1.3	1.4	1.5	1.6
Continue transition to prospective rates for outpatient facility costs	0.4	0.6	0.7	0.8	0.9	1.0
Reduce payments for hospitals' teaching programs to 4 percent	1.3	1.5	1.6	1.8	2.0	2.2
Reduce payments for hospitals' teaching programs to 6 percent	0.6	0.7	0.7	0.8	0.8	0.9
Reduce direct payments for medical education	0.1	0.1	0.2	0.2	0.2	0.3
Cap payments for durable medical equipment at fee schedule median and related proposals	0.6	0.6	0.6	0.6	0.6	0.6
Discontinue coverage of eyeglasses following cataract surgery	0.1	0.1	0.1	0.1	0.1	0.1
Increase safeguard funding (net savings)	1.1	1.0	1.0	1.1	1.2	1.3
Eliminate annual update in physician fees for 1 year	0.9	0.9	1.0	1.0	1.0	1.0
Reduce payments to physicians for overvalued services	0.9	1.1	1.3	1.4	1.5	1.6
Gradually increase premium to cover 30 percent of costs for physicians' services	2.0	3.7	5.9	8.5	11.6	14.2
Set premium to cover 25 percent of costs in all years for physicians' services	1.0	2.5	4.0	5.8	7.1	9.2
Increase deductible for physicians' services—fixed $100	0.6	0.6	0.7	0.7	0.8	0.8
Increase deductible for physicians' services—indexed $100	0.8	1.0	1.4	1.8	2.2	2.6
Collect 20-percent coinsurance on clinical lab services	0.8	0.9	1.1	1.3	1.5	1.7
Collect 20-percent coinsurance on home health and skilled nursing facility services	0.2	0.2	0.3	0.3	0.3	0.3

(continued)

Program change	1992	1993	1994	1995	1996	1997
Veterans' medical care						
Close/convert inefficient VA hospital facilities	0.3	0.3	0.3	0.3	0.3	0.3
Improve management and delivery of veterans' health care	0.2	0.3	0.5	0.7	0.9	1.1
Increase VA's collection from third-party insurers for inpatient and outpatient care	0.3	0.3	0.4	0.4	0.4	0.4
Expand VA's insurance recoveries to include non-service-connected conditions	0.1	0.2	0.2	0.2	0.2	0.2
Eliminate reimbursement of veterans for travel costs to VA facilities	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate medical and prosthetic research funding	0.2	0.2	0.2	0.2	0.3	0.3
Reduce services for non-service-connected illnesses by 50 percent	3.8	4.1	4.3	4.6	4.9	5.2
End services for non-service-connected illnesses	7.7	8.3	8.8	9.3	9.8	10.4
Other health programs						
Eliminate federal matching in Medicaid of state payments of Medicare premiums	0.7	0.7	0.8	0.8	0.8	0.9
Reduce maternal and child health care block grant and preventive health services block grant	0.3	0.3	0.4	0.4	0.4	0.4
Eliminate health professions' education subsidies	0.2	0.2	0.3	0.3	0.3	0.3
Prefund government's share of federal retirees' health insurance costs	0.3	0.4	0.4	0.5	0.5	0.5
Modify way hospitals are paid under federal employees health benefits program	0	0.1	0.4	0.7	1.0	1.3
Require states to impose asset transfer restrictions and estate recovery programs for Medicaid nursing home programs	0.6	0.6	0.7	0.7	0.7	0.7
Require states to expand/improve Medicaid efforts to identify and recover improper payments caused by recipient/provider abuse	0.4	0.5	0.5	0.6	0.6	0.6
Require states to establish effective third-party recovery programs for Medicaid	0.9	1.0	1.0	1.0	1.1	1.1
Reduce federal funding for state Medicaid management information systems	0.1	0.1	0.1	0.1	0.1	0.1
Expand Medicaid income verification system to include access to Treasury bondholder information	0.1	0.1	0.1	0.1	0.1	0.1
Low-income assistance						
Improve correlation between school lunch program subsidies and family income	0.3	0.3	0.3	0.3	0.3	0.3
Require states to pay a portion of food stamp benefits	0.7	0.8	0.8	0.8	0.8	0.8
Reduce subsidy in child nutrition programs for higher-income families	0.4	0.5	0.5	0.5	0.5	0.5
Reduce cost and increase borrower payments to 28 percent of income—rural housing program	0.2	0.3	0.3	0.4	0.5	0.5
Eliminate new lending—rural housing loan program	1.3	1.4	1.3	1.3	1.3	1.3
Reduce new lending by 50 percent—rural housing loan program	0.7	0.7	0.7	0.7	0.7	0.7
Slow expansion of rural rental housing program	a	a	a	0.1	0.1	0.1
Stop expansion of rural rental housing program	0.4	0.6	0.7	0.7	0.7	0.7
Increase developers' interest rate to 5 percent —rural rental housing assistance program	a	a	a	0.1	0.1	0.1

(continued)

Program change	1992	1993	1994	1995	1996	1997
Modify fee structure for local and state agencies administering federal housing programs	0.1	0.1	0.1	0.1	0.1	0.1
Housing assistance—replace new construction with vouchers	0	0.2	0.4	0.5	0.6	0.6
Housing assistance—partially replace new construction with vouchers	[a]	0.1	0.2	0.3	0.3	0.3
Reduce rental subsidies—shift costs to states or tenants	0.5	0.8	1.1	1.4	1.7	2.0
Eliminate "shoppers incentive" from housing voucher program	0.2	0.2	0.2	0.2	0.2	0.2
Require certification of assisted household income through employer wage data	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate funding of social services block grants	2.8	2.8	2.8	2.8	2.8	0.3
Reduce funding of social services block grants 50 percent	1.4	1.4	1.4	1.4	1.4	1.4
Reduce floor on Aid to Families With Dependent Children (AFDC) and Medicaid matching rate to 45 percent—increase state's share of cost	3.0	3.3	3.5	3.9	4.2	4.5
Reduce matching rate to 50 percent for administrative costs—AFDC, Medicaid, and food stamps	0.3	0.4	0.4	0.4	0.5	0.5
Reduce matching rate to 45 percent for administrative costs—AFDC, Medicaid, and food stamps	0.8	0.8	0.9	0.9	1.0	1.1
Reduce federal match for state administrative costs in AFDC	0.2	0.2	0.2	0.3	0.3	0.3
Eliminate $50 child support payments to AFDC families	0.1	0.1	0.2	0.2	0.2	0.2
Reduce federal matching rate for child support enforcement costs	0.4	0.4	0.4	0.4	0.4	0.4
Decrease funding for the Job Opportunities in the Business Sector program (excluding administrative costs)	0.1	0.1	0.1	0.1	0.1	0.1
Reduce funding for Office of Human Development Services programs (excluding Head Start)	[a]	0.1	0.1	0.1	0.1	0.1
Eliminate low-income home energy assistance program	1.5	1.6	1.6	1.7	1.7	1.7
Scale back low-income home energy assistance program	0.8	0.8	0.8	0.9	0.9	0.9
End funding for Legal Services Corporation	0.3	0.4	0.4	0.4	0.4	0.4
Eliminate Job Training Partnership Act, title IIB—Summer Youth Employment and Training Program	0	0.5	0.7	0.7	0.7	0.7
Agriculture programs						
Eliminate honey program	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate wool and mohair program	0.1	0.1	0.1	0.1	0.1	0.1
Reduce deficiency payments by lowering target prices	0.3	1.2	2.3	3.4	4.1	4.8
Reduce deficiency payments by reducing crop yield calculation	0.5	0.5	0.5	0.5	0.5	0.5
Replace deficiency payments—volume based	0.4	0.3	0.3	0.3	0.3	0.4
Reduce portion of land eligible for deficiency payments	0.3	0.2	0.3	0.2	0.3	0.3
Increase the unpaid acreage requirement	3.1	3.2	2.9	2.5	2.5	2.5
Restrict price support eligibility and reduce payment limitation to $40,000	0.5	0.5	0.5	0.5	0.5	0.5
Reduce farmers' production eligible for government support	2.0	1.2	1.1	0.9	0.9	0.9
Eliminate export enhancement program	0.3	0.2	0.2	0.2	0.2	0.2
Eliminate targeted export assistance program	0.2	0.2	0.2	0.2	0.2	0.2
Cut dairy price supports—require producer contributions	0.3	0.4	0.4	0.4	0.4	0.4
Eliminate dairy program	1.0	1.0	1.0	1.0	1.0	1.0

(continued)

Program change	1992	1993	1994	1995	1996	1997
Make crop insurance coverage mandatory as a condition for Agricultural Credit Insurance Fund eligibility	[a]	[a]	[a]	[a]	[a]	[a]
Make crop insurance coverage mandatory for CCC participants	0.1	0.1	0.1	0.2	0.2	0.2
Reduce Farmers Home Administration (FmHA) lending authority	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate FmHA direct lending	0.3	0.3	0.3	0.3	0.3	0.3
Reduce federal support for agriculture research and extension activities	0.3	0.4	0.4	0.4	0.4	0.4
Education and training programs						
Stafford loans—reduce lenders' interest rate subsidies by 0.5 percent	0.1	0.1	0.1	0.2	0.2	0.2
Stafford loans—have postsecondary institutions pay a coorigination fee	0.5	0.5	0.5	0.5	0.5	0.5
Stafford loans—have postsecondary institutions pay a loan default fee	0.2	0.2	0.2	0.2	0.2	0.2
Require lenders to share in the risk of guaranteed student loan defaults	0	0.1	0.2	0.2	0.2	0.2
Increase guaranty agencies' risk in guaranteed student loans that default	0	0.1	0.1	0.1	0.1	0.1
Require guaranty agencies to participate in IRS tax refund offset program	0	0.1	0.1	0.1	0.1	0.1
Allow Department of Education to recall defaulted student loans when guarantor collection efforts are ineffective	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate administrative cost allowances paid to guaranteed student loan guaranty agencies	[a]	[a]	[a]	[a]	[a]	[a]
Extend current eligibility requirements for SLS program	0.1	0.1	0.1	0.1	0.1	0.1
Reduce interest subsidy payments to lenders making and/or holding federally guaranteed student loans	0	0	0.1	0.1	0.1	0.1
Discontinue federal funding of the Perkins loan program	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate Stafford loan eligibility for students attending schools with default rates over 40 percent	0.3	0.3	0.3	0.3	0.3	0.3
Require Stafford program borrowers to have high school diplomas or graduate equivalency degrees	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate SLS and PLUS programs	0.9	0.9	0.9	0.9	0.9	0.9
Eliminate untargeted portion of math and science funding	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate untargeted portion of vocational education funding	0.3	0.4	0.4	0.4	0.4	0.4
Eliminate impact aid for "b" children	0.1	0.1	0.1	0.2	0.2	0.2
Phase out impact aid to school districts for "b" children	[a]	[a]	[a]	[a]	[a]	[a]
Eliminate half of impact aid for "a" children	0.5	0.5	0.5	0.5	0.1	0.1
Eliminate impact aid for "a" and "b" children	0.8	0.8	0.9	0.9	0.9	0.9
Phase out impact aid to school districts with low proportions of federally connected "a" children	0.1	0.1	0.1	0.1	0.1	0.1
Phase out impact aid to school districts with less than 15-20 percent "a" children	[a]	[a]	[a]	[a]	[a]	[a]
Phase out block grant portion of the school improvement program	0.5	0.5	0.5	0.5	0.5	0.5
Eliminate federal funding for campus-based student aid	1.3	1.3	1.4	1.4	1.4	1.4
Eliminate campus-based aid and redirect 50 percent of the savings to Pell Grants	0.6	0.7	0.7	0.7	0.7	0.7
Reduce Pell Grant funding and increase targeting to lower-income students	0.3	0.3	0.3	0.3	0.3	0.3

(continued)

Program change	1992	1993	1994	1995	1996	1997
Eliminate funding for the arts and humanities	1.0	1.0	1.1	1.1	1.2	1.2
Reduce funding by 50 percent for the arts and humanities	0.5	0.5	0.5	0.6	0.6	0.6
Eliminate National Sea Grant College Program	a	a	a	a	a	a
Transportation programs						
End AMTRAK grants	0.7	0.7	0.7	0.7	0.8	0.8
Reduce mass transit aid	0.6	0.9	1.2	1.4	1.6	1.8
Eliminate operating assistance for mass transit	0.7	0.7	0.7	0.7	0.8	0.8
Reduce federal share of mass transit capital projects (section 9) grant program	0.5	0.5	0.5	0.3	0.3	0.3
Eliminate airport grants-in-aid	1.4	1.5	1.6	1.6	1.7	1.8
Cancel procurement of air traffic control system	a	0.5	0.2	0.3	0.1	0.1
Establish Federal Aviation Administration (FAA) as a private corporation	3.9	4.5	4.9	5.4	5.9	6.4
Reduce new highway spending	0.3	1.4	1.9	2.3	2.7	3.1
Eliminate procurement of helicopters for drug interdiction	a	a	a	a	a	a
Reduce size of buoy tender procurement	a	a	a	a	a	a
Reduce miscellaneous FAA facilities and equipment funding	0.1	0.1	0.1	0.1	0.2	0.2
Research and development and space programs						
Cancel the space station	0.9	1.5	1.9	2.0	2.1	2.2
Postpone new spacecraft development projects	0.1	0.2	0.2	0.3	0.3	0.3
Cancel National Aeronautics and Space Administration research and technology programs	0.1	0.1	0.1	0.1	0.1	0.1
Suspend construction of supercollider for 2 years	0.1	0.1	a	a	a	a
Cancel supercollider	0.1	0.1	0.2	0.2	0.2	0.2
Reduce National Institutes of Health (NIH) research funding	0.7	0.8	0.8	0.9	0.9	0.9
Reduce NIH overhead funds by 50 percent	0.5	0.5	0.5	0.6	0.6	0.6
Commerce programs						
Eliminate EXIM Bank	0.2	0.3	0.3	0.3	0.3	0.3
Reduce Rural Electrification Administration lending	0.2	0.3	0.4	0.5	0.7	0.8
Eliminate further funding for clean coal technology program	0.4	0.2	0.3	0.5	0.5	0.5
Delay oil fill for strategic petroleum reserve	0.4	0.4	0.4	0.4	0.4	0.4
Reduce nuclear waste fund outlays	0.1	0.1	0.1	0.1	0.1	0.1
Cut DOE labs' discretionary research and development activities	0.1	0.1	0.1	0.1	0.1	0.1
Shift funding of the Fast Flux Test Facility to the private sector	0.1	0.1	0.1	0.1	0.1	0.1
Purchase natural gas from wellhead	0.1	0.1	0.1	0.1	0.1	0.1
Cancel advanced reactor research and development program	a	a	a	a	a	a
Cancel light water nuclear reactor program	a	a	a	a	a	a
Eliminate civilian radioactive waste research and development program	a	a	a	a	a	a

(continued)

Program change	1992	1993	1994	1995	1996	1997
Superfund enforcement program reforms	a	0.1	0.1	0.1	0.2	0.2
Eliminate federal water subsidies	0.8	0.8	0.8	0.8	0.8	0.8
Change revenue-sharing formula to a net receipt basis for commercial activity on federal lands	0.2	0.2	0.2	0.2	0.2	0.2
Eliminate wastewater construction grants	0.2	0.5	1.1	1.6	1.9	2.1
Include foreign deposits of U.S. banks in Federal Deposit Insurance Corporation insurance base	0.3	0.3	0.3	0.3	0.3	0.3
Discontinue not-for-profit postal subsidies	0.4	0.4	0.4	0.4	0.5	0.5
End SBA loans (end all credit programs)	0.3	0.4	0.5	0.6	0.6	0.6
End SBA loans and loan guarantees (except minority and disaster programs)	a	0.1	0.3	0.3	0.4	0.4
End SBA procurement of automated source system	a	a	a	a	a	a
End Economic Development Administration funding	0.1	0.2	0.2	0.2	0.3	0.3
Restrict eligibility and reduce funding for community development block grants	0.2	0.4	0.4	0.5	0.5	0.5
End community development block grant funding	0.1	1.4	2.7	3.2	3.4	3.5
Eliminate National Oceanic and Atmospheric Administration fleet	0.1	0.1	0.1	0.1	0.1	0.1
Cancel second tritium production reactor	0.4	0.4	0.4	0.4	0.4	0.4
End state/local energy conservation assistance grants	0.2	0.2	0.2	0.2	0.2	0.2
Federal pay and workforce						
Impose 1-year civilian pay freeze (savings for civilian agencies only)	1.0	1.4	1.5	1.5	1.6	1.7
Freeze civilian pay raises for 1 year and delay adjustment 3 months	1.0	1.8	2.0	2.1	2.2	2.3
Limit pay raises to CPI minus 2 percent and delay adjustment 3 months	0.6	1.3	2.0	2.8	3.6	4.4
Increase productivity without constraining pay raises	2.2	2.3	2.4	2.4	2.6	2.6
Restrict match on thrift contribution to 50 percent (savings for civilian agencies only)	0.1	0.1	0.1	0.1	0.1	0.1
Modify the Davis Bacon Act	0.2	0.4	0.6	0.6	0.7	0.7
Repeal the Davis Bacon Act	0.3	0.8	1.1	1.2	1.3	1.4
Modify the Service Contract Act	0.1	0.2	0.2	0.2	0.2	0.2
Other programs						
One-year freeze in discretionary programs	3.0	4.9	5.7	6.2	6.6	7.0
Partially replace new construction for elderly (section 202) with certificate	0.1	0.1	0.2	0.2	0.2	0.2
Increase use of alternatives to foreclosures to reduce VA's losses	0.1	0.1	0.1	0.1	0.1	0.1
Eliminate VA home loan program	0.9	0.9	1.0	1.0	1.0	1.0
Eliminate Federal Crime Insurance Program	a	a	a	a	a	a
Eliminate the P.L. 480, title 1 Food Aid Program	0.9	0.9	0.9	0.9	0.9	0.9
Require a 2-week waiting period for unemployment insurance	1.1	1.2	1.2	1.2	1.2	1.2
Eliminate trade adjustment assistance cash benefits	0.2	0.2	0.2	0.2	0.2	0.2
End trade adjustment assistance	0.2	0.2	0.2	0.2	0.2	0.2

(continued)

Program change	1992	1993	1994	1995	1996	1997
Do not extend the targeted jobs tax credit program	0.3	0.3	0.3	0.3	0.3	0.3
User fees						
Sell PMA	1.2	0.1	0.1	0.1	0.1	0.1
Reform PMA debt policies	0.3	0.3	0.3	0.3	0.3	0.3
Naval Petroleum Reserve leasing reforms	0.3	0.3	0.6	0.6	0.6	0.6
Increase HUD user fees	[a]	[a]	[a]	[a]	[a]	[a]
Share in profits of irrigated land sales	[a]	[a]	[a]	[a]	[a]	[a]
Open the Arctic to oil and gas development	0	2.7	0.6	0.6	2.5	1.2
Arctic National Wildlife Refuge development fees	[a]	1.6	0.1	0.9	0.1	0.1
Refinance high-interest-rate section 235 mortgage	0.1	0.1	0.1	0.1	0.1	0.1
User fees for special weather services	[a]	[a]	[a]	[a]	[a]	[a]
Increase SBA loan guarantee fees	0.1	0.1	0.1	0.1	0.1	0.1
Increase SBA publication fees	[a]	[a]	[a]	[a]	[a]	[a]
Stafford loans—make students pay interest while in school	0.1	0.3	0.6	0.7	0.8	0.8
Stafford loans—raise students' interest rates and accrue interest during current after-school grace period	0.1	0.1	0.3	0.4	0.4	0.4
Stafford loans—raise students' interest rates after they leave school	[a]	[a]	0.1	0.1	0.1	0.1
Increase borrowers' interest rates on Stafford and consolidated student loans	[a]	0.1	0.2	0.2	0.2	0.2
Charge borrowers in Loan Consolidation, SLS, and PLUS programs a loan origination fee	0.2	0.2	0.2	0.2	0.2	0.2
Improve pricing from federal water sales	[a]	[a]	[a]	[a]	[a]	[a]
Improve pricing of grazing fees	[a]	[a]	[a]	[a]	[a]	[a]
Improve pricing from timber sales—national forests	[a]	0.1	0.1	0.1	0.1	0.1
Increase harbor maintenance tax	0.3	0.3	0.4	0.4	0.4	0.4
Phase out premium subsidies for crop insurance	0.2	0.3	0.4	0.6	0.6	0.6
Auction Federal Communications Commission licenses	0.4	0.4	[a]	[a]	[a]	[a]
Increase Federal Communications Commission filing fees	0.1	0.1	0.1	0.1	0.1	0.1
Impose a royalty payment on communications users of electromagnetic spectrum	1.8	1.9	2.1	2.2	2.2	2.2
Raise fees to cover 100 percent of operations and maintenance for the Inland Water System	0.3	0.4	0.4	0.4	0.4	0.4
Charge user fee for prescriptions filled by VA	0.1	0.1	0.1	0.1	0.1	0.1
Raise maximum VA housing loan fee from 1.25 to 4 percent	0.3	0.4	0.3	0.3	0.3	0.3
Raise maximum VA housing loan fee from 1.25 to 2 percent	0.1	0.1	0.1	[a]	[a]	[a]
Establish charges for airport takeoff and landing slots	0.3	0.3	0.3	0.3	0.3	0.3
Raise aviation ticket tax to 10 percent	2.3	2.5	2.7	3.0	3.0	3.3
Increase taxes to cover costs imposed by aviation users	4.7	5.0	5.4	5.9	6.3	6.7
Charge for use of Corps of Engineers recreation projects	[a]	[a]	[a]	[a]	[a]	[a]
Increase Corps of Engineers fees for flood plain management planning assistance	[a]	[a]	[a]	[a]	[a]	[a]

(continued)

Program change	1992	1993	1994	1995	1996	1997
Increase Corps of Engineers fees for navigation and wetland permits	[a]	[a]	[a]	[a]	[a]	[a]
Raise National Park Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Raise Forest Service fees to cover 100 percent of recreation facilities' costs	0.2	0.2	0.2	0.2	0.2	0.2
Impose a 3-percent tax on the commercial fish and shellfish catch	0.1	0.1	0.1	0.1	0.1	0.1
Recover 100 percent of costs for Coast Guard services provided to commercial and pleasure boats	0.7	0.8	0.8	0.8	0.8	0.8
Establish Coast Guard commercial vessel inspection fees	[a]	[a]	[a]	[a]	[a]	[a]
Raise Patent and Trademark Office application fees	0.1	0.1	0.1	0.1	0.1	0.1
Universally charge for laboratory accreditation services	0.2	0.2	0.2	0.2	0.2	0.2
Raise mining claim fees and eliminate the patenting of hardrock mining lands	0.1	0.1	0.1	0.1	0.1	0.1
Charge full market value for hardrock mining claims	0.3	0.3	0.3	0.3	0.3	0.3
Raise rate of Nuclear Regulatory Commission licensing fees to 75 percent of program costs	0.2	0.2	0.2	0.2	0.2	0.2
Establish charges for Food and Drug Administration review of human drug products	0.1	0.1	0.1	0.1	0.1	0.1
Charge fees to cover all regulatory and inspection costs	2.7	2.8	2.9	3.1	3.2	3.3

[a]Less than $50 million.

Detailed Breakdown of Revenue Options

In this appendix, we discuss in detail a number of the building blocks for the different revenue options. In the first section, tables V.1 through V.3 list the specific revenue measures included in each of the approaches (discussed in ch. 7) for raising $60 billion, $120 billion, or $170 billion. These tables not only list the measures included in each of our examples but also give estimates of revenue for fiscal years 1992-97.

In the second section of this appendix, we discuss the impacts of the various proposals. Where we are able, we attempt to provide an indication of which income groups will be most affected by the particular proposal. In other cases, we provide more general characterizations of the effect of the tax by income group or by sector of the economy.

In a third section, table V.10 identifies additional revenue options.

Selected Revenue Packages for Raising $60 Billion, $120 Billion, or $170 Billion

Unless otherwise noted, the revenue estimates for each measure are based on Reducing the Deficit: Spending and Revenue Options, CBO (Feb. 1990).

Although CBO presented revenue estimates and the Joint Committee staff calculated tax expenditures through fiscal year 1995, we extrapolated to fiscal year 1997 using the growth trends implicit in the relevant sources. Each revenue and tax expenditure estimate is done independently of the others, so that interactive effects are not taken into account. This means that care must be exercised in interpreting the summation of these elements. Both the revenue and tax expenditure estimates also reflect the economic assumptions prevailing at the time the estimates were made. In addition, the tax expenditure estimates assume that the particular tax preference applies to all current and future beneficiaries, so that fully recapturing the tax benefit would require applying any restrictions retroactively.

Table V.1: Potential $60 Billion Revenue Packages

Dollars in billions

Revenue source example	1992	1993	1994	1995	1996	1997
			Single revenue source			
Income tax rate increases						
Increase individual rates to 16, 30, and 33 percent	$40	$44	$47	$52	$57	$62
Increase corporate rate to 35 percent	3	3	3	3	3	3
Total	**$43**	**$46**	**$50**	**$55**	**$60**	**$65**
Income tax base broadeners						
Eliminate one or two of the largest tax expenditures						
Net exclusion of pension contributions and earnings[a]	$54	$57	$59	$61	$64	$67
Total	**$54**	**$57**	**$59**	**$61**	**$64**	**$67**
Mortgage interest deduction[a]	$34	$36	$38	$40	$41	$43
State and local nonbusiness income and personal property tax deduction[a]	22	23	25	27	29	31
Total	**$56**	**$59**	**$63**	**$67**	**$70**	**$74**
Limit a full range of tax expenditures						
Impose 5-percent tax on investment income of life insurance, annuities, pensions, and individual retirement accounts (IRA)	$9	$10	$10	$11	$12	$12
Tax 50 percent of Social Security benefits, without thresholds	8	8	9	9	10	10
Tax 30 percent of capital gains from home sales	6	8	9	10	10	10
Tax employer-paid health benefits in excess of $3,000 per family per year	6	6	7	8	9	10
Limit deductibility of state and local taxes to 9 percent of adjusted gross income (AGI)	5	5	6	6	7	7
Disallow deductions for 50 percent of meals and entertainment expenses	3	4	4	4	4	5
Tax employer-paid life insurance premiums	2	2	2	3	3	3
Limit mortgage interest deduction to $12,000 for individual, $20,000 for joint returns	2	2	2	2	2	3
Eliminate all private-purpose tax-exempt bonds	1	1	1	2	2	3
Tax capital gains held until death on carryover basis	0	1	1	1	1	2
Total	**$42**	**$47**	**$51**	**$56**	**$60**	**$65**
Consumption/excise taxes						
Increase excise taxes on alcohol to restore 1970 value and equalize based on the rate for distilled spirits[b]	$23	$24	$25	$26	$28	$29
Double the tax on cigarettes	3	3	3	3	3	3
Raise motor fuel taxes by $0.20 per gallon (phased in)	4	8	12	16	19	19
Impose 0.5-percent tax on the transfer of securities	12	12	13	13	14	15
Total	**$42**	**$47**	**$53**	**$58**	**$64**	**$66**

(continued)

	Mixed revenue sources					
Income tax rate increases and excise taxes						
Add a 33 percent individual tax bracket	$8	$9	$10	$11	$13	$14
Increase excise taxes on alcohol to restore 1970 value and equalize based on the rate for distilled spirits[b]	23	24	25	26	28	29
Double the tax on cigarettes	3	3	3	3	3	3
Increase motor fuel taxes by $0.20 per gallon (phased in)	4	8	12	16	19	19
Total	**$38**	**$44**	**$50**	**$56**	**$63**	**$65**
Income tax base broadeners and excise taxes						
Allow itemized deductions against 15 percent marginal rate only[c]	$28	$30	$32	$34	$36	$39
Increase motor fuel taxes by $0.20 per gallon (phased in)	4	8	12	16	19	19
Total	**$32**	**$38**	**$44**	**$50**	**$55**	**$58**

[a]These are tax expenditure figures based on Overview of the Federal Tax System, Committee on Ways and Means, U.S. House of Representatives (June 4, 1990).

[b]These estimates are based on a study by the National Alcohol Tax Coalition, as cited in the Daily Tax Report (July 24, 1990).

[c]These estimates are from Description of Possible Options to Increase Revenues, prepared for the Committee on Ways and Means, Staffs of the Joint Committee on Taxation and of the Committee on Ways and Means (1987).

Table V.2: Potential $120 Billion Revenue Packages

Dollars in billions

Revenue source example	1992	1993	1994	1995	1996	1997
			Single revenue source			
Income tax rate increases						
Increase individual tax rates to 17, 32, and 36 percent	$77	$84	$91	$99	$107	$115
Increase corporate tax rate to 36 percent	5	5	6	6	6	7
Total	**$82**	**$89**	**$97**	**$105**	**$113**	**$122**
Income tax base broadeners						
Eliminate deductibility of state and local taxes	$30	$31	$33	$36	$38	$41
Tax 85 percent of Social Security benefits	20	21	23	24	26	27
Impose 5-percent tax on investment income of life insurance, annuities, pensions, and IRAs	9	10	10	11	12	12
Allow deductions for home mortgage interest against 15-percent rate only	10	11	13	15	17	19
Tax 30 percent of the capital gains from home sales	6	8	9	10	10	10
Cap deductible health insurance premiums at $3,000 per family per year	6	6	7	8	9	10
Disallow 50 percent of deduction for business meals and entertainment expense	3	4	4	4	4	5
Tax capital gains held until death on a carryover basis	0	1	1	1	1	2
Total	**$84**	**$92**	**$100**	**$109**	**$117**	**$126**
Consumption/excise taxes						
Impose 5-percent value-added tax with one-third of the revenue devoted to tax rebates and/or low-income entitlements	$60	$91	$99	$107	$114	$122
Total	**$60**	**$91**	**$99**	**$107**	**$114**	**$122**
			Mixed revenue sources			
Income tax rate increases and base broadeners						
Raise individual income tax rates to 16, 30, and 33 percent	$40	$44	$47	$52	$57	$62
Raise corporate rate to 35 percent	3	3	3	3	3	3
Tax 85 percent of Social Security benefits, without thresholds	20	21	23	24	26	27
Allow deductions of mortgage interest only on the basis of 15-percent rate	10	11	13	15	17	19
Disallow 50 percent of deduction for business meals and entertainment expense	3	4	4	4	4	5
Tax capital gains held until death on last income tax return of deceased	2	2	3	3	4	4
Total	**$78**	**$85**	**$93**	**$101**	**$111**	**$120**

(continued)

Consumption-income tax base broadener examples						
Raise cigarette tax to 32 cents per pack	$3	$3	$3	$3	$3	$3
Increase taxes on distilled spirits, beer, and wine to 25 cents per ounce of alcohol	7	7	8	8	8	8
Impose tax on domestic and imported oil of $5 per barrel	20	21	21	21	22	23
Impose tax on air pollutants—nitrogen oxides from stationary sources	2	2	2	2	2	2
Impose tax on air pollutants—sulpher oxides from stationary sources	3	3	3	3	3	3
Impose tax on air pollutants—emissions from mobile sources	3	3	3	3	3	3
Impose tax on air pollutants—volatile organic compounds from stationary sources	10	10	10	10	10	10
Impose tax on water pollutants	2	2	2	2	2	2
Tax 30 percent of capital gains from home sales	6	8	9	10	10	10
Adopt base broadeners listed in preceding example	35	38	43	46	51	55
Total	**$91**	**$97**	**$104**	**$108**	**$114**	**$119**

Table V.3: Potential $170 Billion Revenue Packages

Dollars in billions

Revenue source example	1992	1993	1994	1995	1996	1997
			Single revenue source			
Income tax rates						
Increase individual rates to 18, 34, and 37 percent	$111	$120	$130	$141	$153	$165
Increase corporate rate to 36 percent	5	5	6	6	6	7
Total	**$116**	**$125**	**$136**	**$147**	**$159**	**$172**
Income tax base broadeners						
Eliminate net exclusion of pension contributions and earnings[a]	$54	$57	$59	$61	$64	$67
Eliminate exclusion of contributions for health insurance[a]	38	42	47	50	52	55
Eliminate deductibility of mortgage interest[a]	34	36	38	40	41	43
Eliminate deductibility of nonbusiness state and local income and personal property taxes[a]	22	23	25	27	29	31
Total	**$148**	**$158**	**$169**	**$178**	**$186**	**$196**
Consumption taxes						
Impose a 5-percent broad-based value-added tax	$89	$136	$148	$159	$171	$182
Total	**$89**	**$136**	**$148**	**$159**	**$171**	**$182**
			Mixed revenue sources			
Income tax rate increases and base broadeners						
Increase individual rates to 16, 30, and 33 percent	$40	$44	$47	$52	$57	$62
Increase corporate rate to 35 percent	3	3	3	3	3	3
Cap or eliminate an assortment of deductions or exclusions from income tax base						
Eliminate deduction for state and local taxes	30	31	33	36	38	41
Tax 50 percent of Social Security benefits, without thresholds	8	8	9	9	10	10
Impose 5-percent tax on investment income of life insurance, annuities, pensions, and IRAs	9	10	10	11	12	12
Allow home mortgage interest deduction against 15-percent rate only	10	11	13	15	17	19
Cap deductible health insurance premiums at $3,000 per family per year	6	6	7	8	9	10
Disallow 50 percent of deduction for business meals and entertainment expense	3	4	4	4	4	5

(continued)

Tax capital gains held until death on a carryover basis	0	1	1	1	1	2
Tax employer-paid life insurance premiums	2	2	2	3	3	3
Total	**$111**	**$120**	**$129**	**$142**	**$154**	**$167**
Consumption tax and income tax rate increases						
Impose 5-percent value-added tax with 20 percent of the revenue devoted to tax rebates and/or low-income entitlements	$72	$108	$118	$127	$136	$146
Add a 33-percent bracket	8	9	10	11	13	14
Increase corporate tax rate to 36 percent	5	5	6	6	6	7
Total	**$84**	**$122**	**$134**	**$144**	**$155**	**$167**

[a]These are tax expenditure figures based on Overview of the Federal Tax System, Committee on Ways and Means, U.S. House of Representatives (June 4, 1990).

Distributional and Allocative Effects of Specific Revenue Options

In this section, we examine the distributional effects of some of the proposals provided in the report and in the previous section. We examine in some detail those proposals that involve either the (1) a reduction or an elimination of some deduction or (2) an increase in the extent to which some element of income is included in the tax base. We also provide an overview of the effect of tax rate increases on people at various AGI levels. This analysis is based on the IRS's Statistics of Income data for tax year 1987. Since the current rate structure for the income tax did not become effective until tax year 1988, we had to project our data to 1988 in order to examine the impact of rate schedule changes. (See tables V.4 through V.6.)

We also discuss the equity and efficiency effects of certain other proposals to tax income that is currently not included in the tax base, to extend certain existing excise taxes, and to introduce a new broad-based consumption tax. This discussion is based on the CBO report entitled Reducing the Deficit: Spending and Revenue Options, the CBO report entitled Federal Taxation of Tobacco, Alcoholic Beverages, and Motor Fuels, the Statistics of Income data, and general literature on the economics of taxation.

Table V.4: Individual Income Tax—Changes in Deductions

Dollars in billions

Option	1997 revenue gain	Description of current law and/or effect of change
Reduce overall itemized deductions.		Both alternatives would have a disproportionate effect on high-income taxpayers. The burden would depend on the extent of itemized deductions.
1. Impose a floor on itemized deductions equal to 10 percent of AGI on high-income returns.	$14	The burden would be limited to the 3 percent of taxpayers with AGIs of $50,000 on individual returns or $100,000 on joint returns and, of those, only the ones who itemize.
2. Allow itemized deductions only on the basis of the 15-percent marginal rate.	39	The burden would affect those itemizers who are among the 25 percent of taxpayers whose marginal rate is above 15 percent.
Restrict or eliminate deductibility of state and local taxes.		Middle- and upper-income taxpayers make the most use of these deductions. Taxpayers with AGIs between $30,000 and $75,000 claim about half of these deductions. Another 35 percent are claimed by those with AGIs greater than $75,000.
1. Allow deductibility for state and local taxes only to the extent they exceed 1 percent of AGI.	7	There would be little change in incentives for states and localities. The burden would be distributed across all income classes but would fall disproportionately (compared with their share of income) upon taxpayers with AGIs over $40,000.
2. Cap deductibility at 9 percent of AGI.	7	This would reduce the incentive to have high marginal income tax rates at state and local levels. The burden would fall disproportionately upon taxpayers with AGIs over $100,000.
3. Cap deductibility of state and local income taxes at $10,000.	4	Over 80 percent of the burden would fall on those with AGIs greater than $200,000. It would reduce the incentive to have high state and local tax rates.
4. Eliminate deductibility of state and local taxes.	41	Taxpayers with AGIs above $30,000 take 87 percent of this deduction, and those with AGIs above $50,000 take 59 percent.
5. Disallow deduction for property taxes.	18	Taxpayers with AGIs above $30,000 take 80 percent of this deduction, and those with AGIs above $50,000 take 49 percent. These deductions are more focused in the middle of the income distribution than state and local income tax deductions. The deduction for state and local income taxes gives slightly more benefit to higher-income taxpayers than the property tax deduction.
Limit deductibility of mortgage interest.		This deduction is concentrated in the middle- to upper-income ranges. The distribution of benefits is similar to the property tax deduction, since close to 80 percent is taken by taxpayers with AGIs above $30,000 and 47 percent by taxpayers with AGIs above $50,000.

(continued)

Option	1997 revenue gain	Description of current law and/or effect of change
1. Limit mortgage interest deduction to $12,000 per year (single) and $20,000 per year (joint).	3	Fewer than 0.5 percent of those who claimed this deduction in 1987 had amounts above these caps. About 75 percent of the disallowed interest deduction would be from households with AGIs greater than $100,000. This would have a greater impact in areas with high housing prices. It would remove some incentive for more luxurious housing expenditures and would affect prices of those houses above $200,000.
2. Allow deductibility only on the basis of the 15-percent marginal rate.	19	This primarily affects the 25 percent of taxpayers who are in the high tax brackets and, of those, only the ones who use the mortgage interest deduction.

Table V.5: Individual Income Tax—Including Additional Income

Dollars in billions

Option	1997 revenue gain	Description of current law and/or effect of change
Tax capital gains held until death.		Over 80 percent of realized capital gains appear on tax returns of those with AGIs greater than $50,000 per year. Over half of realized capital gains appear on tax returns of those with AGIs greater than $200,000 per year.
1. Enact carryover basis.	$2	Currently, when an heir sells an asset, the basis is the value at the latest bequestor's death. Under this proposal, the basis would be the original purchase price if it can be determined or one-half the sales price if it cannot.
2. Include capital gains in last income tax return of deceased.	4	The CBO proposal includes certain restrictions. The carryover basis would be used for spouses. The elective basis of one-half the sale price would be allowed. A one-time exclusion of $75,000 would also be allowed above the exclusion of $125,000 in capital gains on the sale of a principal residence. The effect would be limited to those with AGIs greater than $50,000 per year, with 64 percent of the effect borne by those with AGIs greater than $100,000 per year.
Tax capital gains on sale of personal residences.		Currently, taxpayers can defer capital gains tax on the sale of a personal residence by buying another of equal or greater value (rollover). After age 55, a taxpayer can make a one-time exclusion from tax of up to $125,000 of gain. Proposals to tax housing gains have a greater proportional effect on the middle class, since housing is a larger part of their net wealth.
1. Tax lifetime capital gains on sales of personal residences in excess of $125,000.	4	This proposal repeals the rollover but allows homeowners $125,000 in gains over their lifetime. This eliminates the incentive for people under 55 to move to a home of equal or greater value.

(continued)

Option	1997 revenue gain	Description of current law and/or effect of change
2. Tax 30 percent of capital gains on sales.	10	This proposal repeals the rollover, creating a disincentive to move, but taxes all gains at a preferential rate compared with other assets.
Include greater proportion of Social Security income with or without a threshold.		Currently, between 3 and 4 percent of taxpayers have taxable Social Security benefits. If income thresholds of $25,000 for an individual and $32,000 for a couple are maintained, inflation and income growth will lead to taxing larger amounts for this group; the number affected will increase over time with increases in income and benefits. If thresholds are lowered or eliminated, more people will be affected.
1. Include 50 percent of Social Security benefits but remove threshold.	10	This mechanism treats all employer contributions and interest on those contributions as if they were taxable when received as retirement income. For an individual receiving the maximum level of Social Security benefits and no other income, taxable income would be zero after subtracting the standard deduction and personal exemption.
2. Include 85 percent of Social Security benefits but keep threshold.	7	CBO estimates that 15 percent of the maximum benefit can be attributable to the employee's contribution. The remainder, 85 percent, has never been taxed. If the taxable proportion were increased, more people would be subject to tax, and those currently subject would pay more. Over time, unless the threshold were raised, a larger proportion of the retired population would be taxed on this form of income.
3. Include 85 percent of Social Security benefits without threshold.	27	The rationale for 85 percent is the same as above. The effect would be much broader. After subtracting personal exemptions and the standard deduction, an individual receiving $8,600 per year in benefits would pay tax on less than $1,500. Someone receiving the maximum, about $11,700, would pay tax on about $4,100.
Include all or part of certain fringe benefits in AGI.		This would reduce the economic inefficiencies associated with recipients' consuming more fringe benefits than they would if they paid out of their after-tax incomes. It would also reduce the inequity whereby employees who receive fringes pay lower taxes on their overall compensation than do employees who receive only wages or salaries.

(continued)

Option	1997 revenue gain	Description of current law and/or effect of change
1. Tax employer-paid life insurance benefits.	3	One potential problem with this proposal is that employers might simply substitute by offering larger death benefits on pension plans and less life insurance.
2. Tax employer-paid health insurance above ceilings of $3,000 for families and $1,200 for individuals per year.	10	This proposal would affect about half of all individual tax-filing units. It would reduce discrimination against those who pay for their own insurance and are constrained by the restrictions on the medical expenses deduction.
3. Tax all health insurance contributions paid by employers and disallow deduction for self-employed.	55	This option would eliminate the discrimination described above and would tax more people than the previous option.
4. Impose a 3-percent excise tax on the value of nonretirement fringe benefits.	6	Most of the revenues from this option would come from taxing health insurance benefits. Benefits would be taxed in a proportional rather than progressive manner.
Tax certain types of investment income that are currently tax-preferred.		Current law subsidizes certain forms of saving for retirement by allowing tax to be deferred.
1. Impose a 5-percent tax on investment income of pensions, IRAs, life insurance policies, and deferred annuities.	12	Higher-paid workers have greater access to these tax benefits than lower-paid workers. Taxing investment income meant for retirement could reduce the incentive to save for retirement.
2. Eliminate net exclusion of pension contributions and earnings.	67	This proposal would eliminate the tax advantage for some forms of retirement funds or savings.

Table V.6: Corporate Income Tax Changes

Dollars in billions

Option	1997 revenue gain	Description of current law and/or effect of change
Reduce or eliminate deductions for meals and entertainment expenses		The tax code allows the deduction of ordinary business expenses but not personal living costs. Currently, 80 percent of the cost of business meals and entertainment can be deducted.
1. Disallow deductions for 50 percent of these expenses.	$5	This proposal would further discourage the deduction of personal costs as business costs. It could have negative effects on restaurants and the entertainment industry.
2. Disallow deductions for these expenses	13	Same as above.

The Joint Committee staff has estimated that under current law, about $50 billion in fiscal year 1995 tax expenditures will be attributable to the corporate income tax. While there are about 70 individual items, each amounting to $10 million or more, only eight amount to more than $1 billion each. As a result, we are not including a large list of small corporate base broadeners.

Income Tax Rate Increases

Raising the lowest bracket rate raises the most revenue per percentage point increase, since that rate applies to so much taxable income. We estimated that in 1988, about 65 percent of taxable income would have been affected by any increase in the 15-percent rate.[1] By comparison, an increase in the 28-percent rate would have affected about 35 percent of taxable income. The addition of a third tax bracket, beginning at a taxable income of $89,560 for single filers ($149,250 for joint filers), would have affected only 8 to 9 percent of taxable income.

The 15-percent marginal tax bracket primarily affects lower-middle-income and middle-income taxpayers. About 85 percent of the taxpayers (based on our projections to tax year 1988) whose taxes would have increased due to an increase in the 15-percent marginal rate were in AGI brackets between $5,000 and $50,000. Over 90 percent of the taxpayers who would have been affected by an increase in the 28-percent rate had AGIs between $20,000 and $100,000 per year. Therefore, raising this bracket rate would affect the marginal tax rate of those in the middle-income to upper-middle-income groups. Almost all of the taxpayers who

[1]A small share of this taxable income would not bear the full effect of the rate increase because some of the benefit of the lowest rate already is phased out for taxpayers above a certain income level.

would have borne the burden of the additional tax bracket described above had AGIs greater than $100,000.

Raising the highest corporate rate would affect primarily the larger corporations. They account for a small percentage of corporate taxpayers, but they generate a very substantial part of corporate income tax revenues. There is no clear consensus on who pays the corporate income tax, but those who have an opinion usually believe some significant proportion is passed to those who receive income from capital, i.e., interest, dividends, and capital gains. This income is concentrated at the top of the income distribution.

Excise Tax Increases

CBO has estimated the effects of increasing (1) the tax on a pack of cigarettes from $0.16 to $0.32, (2) the tax on a proof-gallon of alcohol to $16 along with equalizing the tax based on alcohol content, and (3) the tax on a gallon of gasoline from $0.09 to $0.21.

The effect of each of these increases on different income groups depends on whether the comparison is with annual income or long-term income.

Using annual income, the cigarette tax increase would imply an average tax increase of about $41 per year. This is about 0.1 percent of average annual income and of average annual expenditures. However, the distribution depends on the denominator. (See table V.7.)

Table V.7: Cigarette Tax Increase

	Tax increase as a percentage of	
Income group	**After-tax income**	**Expenditures**
Lowest 20 percent	0.4	0.2
Second 20 percent	0.2	0.2
Middle 20 percent	0.2	0.2
Fourth 20 percent	0.1	0.1
Highest 20 percent	0.1	0.1

These taxes are much more regressive when the denominator is annual income. The most important reason is that, at least for the lowest quintile, the average expenditure level is often more than twice the annual income. This occurs because a significant portion of those in the lowest quintile are there temporarily. They spend more than their income because they have accumulated prior savings or are able to borrow against future income. This is not a long-run phenomenon. Those people who are in the lowest quintile year after year do not spend more than their income. In fact, they spend a proportion of their income that is not much different from that of the next two quintiles. Only the top quintile saves a substantially larger part of its income. The long-run incidence of these taxes is better reflected by looking at the tax increase compared with expenditures. For the cigarette tax increase, the incidence is slightly regressive since the proportion falls off in the top two quintiles.

For tax increases on alcoholic beverages, the distributional effect also differs according to whether the tax increase is compared with annual income or expenditures. The increase is definitely regressive when compared with annual income. However, when compared with expenditures, the tax increase is basically proportional. (See table V.8.)

Table V.8: Alcoholic Beverage Tax Increase

	Tax increase as a percentage of	
Income group	After-tax income	Expenditures
Lowest 20 percent	0.6	0.2
Second 20 percent	0.4	0.3
Middle 20 percent	0.3	0.3
Fourth 20 percent	0.3	0.3
Highest 20 percent	0.2	0.3

Instituting a Value-Added Tax

A broad-based value-added tax would be distributed across various income levels in proportion to consumption expenditures. This means that the effect of such a tax depends on whether the denominator is annual income or annual expenditures. For the same reasons as those discussed in the excise tax section, annual income fluctuates much more than annual expenditures. Therefore, many people who show up at low income levels may consume two or three times their annual income in the first year. However, in subsequent years, they will be at higher income levels. Those people who consistently are in the lowest income group generally consume almost all of their income. This is not much different from those in the second and third income quintiles. Only in the highest quintile are we sure that consumption as a proportion of income falls off.

Thus, a distributional table based on annual income for a 5-percent value-added tax might look something like the column headed "annual income" in table V.9. However, it might resemble the column headed "long-run income" if we used average income over 5 years as the denominator.

Table V.9: Broad-Based Value-Added Tax

	Tax as a percentage of	
Income group	**Annual income**	**Long-run income**
Lowest 20 percent	12.4	5.0
Second 20 percent	6.7	5.0
Middle 20 percent	5.3	5.0
Fourth 20 percent	4.8	4.8
Highest 20 percent	3.5	3.5

Tax Increase Options

Table V.10 below is a supplemental list of options for increasing federal tax revenue. The values assigned to each option represent the additional revenue that would be generated if it were added to the existing tax structure without any other changes. Therefore, imposing combinations of options may generate more or less revenue than would be suggested by summingthe value of the individual options added. For example, different income tax rates would alter the revenue generated by eliminating deductions or making additional income subject to taxation.

The revenue estimates for some options in Table V.10 differ slightly from those presented in Tables V.1 through V.3. This is due both to rounding and to differences in assumptions concerning (1) the phasing in of several options and (2) revenue growth after 1992.

Table V.10: Options for Tax Increases

Dollars in billions

Option	1992	1993	1994	1995	1996	1997
Individual income tax rates						
Raise the top marginal tax rate to 30 percent	$11.4	$21.8	$23.9	$26.1	$28.5	$31.1
Raise marginal rates to 16 and 30 percent	20.2	38.2	41.2	44.8	48.7	53.0
Add a 33-percent bracket	4.4	8.7	10.1	11.7	13.6	15.7
Add a 38-percent bracket	10.7	21.0	24.1	27.6	31.6	36.2
Raise 28-percent marginal rate to 30 percent and add a 33-percent bracket	14.0	27.0	30.0	33.1	36.6	40.5
Raise 28-percent marginal rate to 30 percent and add a 35-percent bracket	15.7	30.5	34.0	37.8	42.1	46.8
Raise 15- and 28-percent brackets to 16 and 30 percent, respectively, and add a 33-percent bracket	22.8	43.4	47.3	51.8	56.8	62.4
Raise 15- and 28-percent brackets to 16 and 30 percent, respectively, and add a 35-percent bracket	24.5	46.9	51.3	56.5	62.3	68.7
Add a 4-percent surtax	11.6	22.2	24.0	26.1	28.3	30.8
Increase the alternative minimum tax rate to 25 percent	1.4	1.1	1.0	0.8	0.8	0.8
Repeal the indexing of the tax schedules	10.3	17.4	30.3	46.8	72.3	111.6
Delay indexing of the tax schedules 1 year	5.7	10.8	11.4	12.0	12.6	13.3
Corporation income tax rates						
Raise the top marginal rate to 35 percent	1.5	2.7	2.8	3.0	3.2	3.4
Add a 5-percent surtax on corporate income	5.7	6.0	6.3	6.7	7.1	7.6
Increase the corporate alternative minimum rate to 25 percent	3.5	2.5	1.6	1.1	0.8	0.5
Impose a 5-percent tax on net business receipts	52.0	56.6	60.6	65.9	71.7	77.9
Base broadening						
Exclude capital gains	3.2	−3.6	−4.3	−3.1	−3.5	−3.5
Tax capital gains held until death (carryover basis)	0	0	1.1	1.3	1.4	1.5
Tax capital gains held until death (enact supplemental 10-percent estate tax)	0.5	0.5	0.6	0.6	0.7	0.7
Include capital gains in last income tax return of deceased	1.9	2.3	2.7	3.2	3.8	4.5
Limit the home mortgage interest deduction to 15 percent	4.1	11.4	13.0	14.8	16.8	19.2
Limit the home mortgage deduction for second homes	0.1	0.3	0.3	0.4	0.4	0.5
Limit home mortgage interest deduction to $12,000 (single) or $20,000 (joint)	1.6	1.8	2.0	2.2	2.4	2.7
Tax lifetime gains from home sales above $125,000	2.2	2.9	3.2	3.5	3.9	4.2
Tax 30 percent of capital gains from home sales	0.8	8.4	9.1	9.5	9.9	10.4

(continued)

Option	1992	1993	1994	1995	1996	1997
Decrease the limit for deferrals in salary reduction plans to $4,000 (qualified pension plans)	0.5	0.6	0.6	0.7	0.8	1.0
Decrease limits for contributions for defined benefit plans to the Social Security Wage Base	1.1	3.6	4.0	4.4	4.8	5.3
Impose a 5-percent tax on investment income from pensions and IRAs	4.7	7.9	8.4	9.0	9.6	10.3
Decrease exemption for estate and gift taxes	[a]	1.1	1.3	1.5	1.7	2.0
Substitute a deduction for the state credit for estate and gift taxes	[a]	0.5	0.6	0.7	0.8	1.0
Include life insurance proceeds in the base for estate and gift taxes	[a]	0.2	0.2	0.3	0.5	0.7
Phase out dependent care credit (start at $30,000)	0.1	1.3	1.5	1.7	1.9	2.2
Phase out dependent care credit (start at $65,000)	[a]	0.3	0.4	0.4	0.5	0.5
Phase out dependent care credit (start at $50,000)	[a]	0.6	0.7	0.8	0.9	1.0
Tax the income replacement portion of workers' compensation and Black Lung benefits	0.9	2.6	2.7	2.8	2.9	3.0
Tax 60 percent of Social Security/ Railroad Retirement benefits without income threshold	10.8	11.5	12.2	12.9	13.6	14.4
Tax 85 percent of Social Security/ Railroad Retirement benefits with existing income threshold	3.9	4.4	5.0	5.7	6.5	7.4
Tax 60 percent of Social Security/ Railroad Retirement benefits with existing income threshold	0.3	1.2	1.4	1.6	1.8	2.1
Tax 50 percent of Social Security/ Railroad Retirement benefits without income threshold	4.9	8.1	8.6	9.1	9.6	10.2
Tax 85 percent of Social Security/ Railroad Retirement benefits without income threshold	12.8	21.2	22.5	24.0	25.6	27.3
Lower thresholds for taxation of Social Security/Railroad Retirement benefits by 50 percent	4.0	4.3	4.5	4.8	5.1	5.5
Tax life insurance premiums (income taxes)	2.2	2.3	2.4	2.5	2.6	2.7
Impose a 3-percent excise tax on the value of nonretirement fringe benefits	3.9	4.3	4.7	5.1	5.5	5.9
Tax some employer-paid health insurance	3.6	6.3	6.9	7.7	8.6	9.6
Tax employer-paid health insurance and allow credit for employer and individual contributions	2.1	3.6	3.8	4.1	4.4	4.8
Limit business entertainment deductions to 50 percent	2.1	3.6	3.9	4.1	4.3	4.5
Raise cap and extend volume limits to new issues of all private-purpose bonds	0.2	0.4	0.5	0.6	0.7	0.9
Eliminate all private-purpose tax-exempt bonds	0.2	0.5	0.7	1.2	1.7	2.2
Prohibit deductibility of state and local taxes above ceiling of 9 percent of AGI	0.7	5.3	5.7	6.2	6.7	7.3
Maintain deductibility of state and local taxes above floor of 1 percent of AGI	4.9	5.2	5.6	5.9	6.2	6.5
Eliminate the deductibility of state and local taxes	4.7	31.4	33.4	35.5	37.7	40.1
Repeal the possessions tax credit	1.3	2.4	2.6	2.7	2.8	2.9
Replace the possessions tax credit with a wage credit	0.1	0.3	0.4	0.5	0.6	0.8
Amortize a portion of advertising costs	4.8	3.7	2.4	1.5	0.9	0.6
Repeal credits for rehabilitation of older buildings	0.2	0.2	0.2	0.2	0.2	0.2

(continued)

Option	1992	1993	1994	1995	1996	1997
Repeal credit for nonhistoric structures and reduce credit for historic structures to 15 percent	0.1	0.1	0.1	0.1	0.1	0.1
Tax credit unions like other thrift institutions	0.5	0.8	0.9	0.9	1.0	1.0
Repeal expensing of intangible drilling, exploration, and development costs	0.5	1.2	1.3	1.4	1.5	1.6
Repeal percentage depletion for extractive industries	0.5	0.8	0.9	1.0	1.1	1.2
Excise taxes						
Extend the telephone excise tax	1.6	2.7	2.9	3.1	3.3	3.5
Impose 0.5-percent tax on the transfer of securities	8.2	12.2	12.8	13.4	14.0	14.7
Impose tax on domestic and imported oil ($5 per barrel)	20.3	20.6	21.1	21.6	22.1	22.6
Impose broad-based tax on energy consumption (5 percent of value)	15.0	16.0	17.0	18.1	19.3	20.5
Impose oil import fee ($5 per barrel)	8.8	9.2	9.8	10.5	11.3	12.1
Increase motor fuel taxes ($0.10 per gallon)	10.0	10.0	10.0	10.0	10.0	10.0
Increase motor fuel taxes ($0.05 per gallon)	5.0	5.0	5.0	5.0	5.0	5.0
Increase motor fuel taxes ($0.25 per gallon) (phased in)	5.0	10.0	15.0	19.0	23.0	23.0
Increase motor fuel taxes ($0.50 per gallon) (phased in)	10.0	19.0	27.0	34.0	40.0	40.0
Increase motor fuel taxes ($0.12 per gallon)	11.6	11.4	11.6	11.7	11.7	11.7
Eliminate ethanol tax exemption (raise tax from $0.06 to $0.09)	7.3	7.4	7.6	7.6	7.6	7.6
Increase taxes on distilled spirits, beer, and wine to $0.25 per ounce of ethyl alcohol	7.3	7.4	7.6	7.6	7.6	7.6
Index cigarette and alcohol tax rates for inflation	0.5	0.9	1.3	1.6	2.0	2.4
Raise cigarette tax to $0.32 per pack	2.8	2.8	2.7	2.7	2.7	2.7
Triple cigarette tax	5.6	5.5	5.4	5.4	5.4	5.4
Tax air pollutants—sulphur oxides from stationary sources	1.8	2.6	2.6	2.6	2.6	2.6
Tax air pollutants—emissions from mobile sources	1.9	2.8	2.8	2.8	2.8	2.8
Tax air pollutants—volatile organic compounds from stationary sources	7.0	10.1	10.1	10.1	10.1	10.1
Tax air pollutants—nitrogen oxides from stationary sources	1.4	2.1	2.1	2.1	2.1	2.1
Impose tax on water pollutants	2.4	2.4	2.4	2.4	2.4	2.4
Impose carbon-based tax on fossil fuels—carbon dioxide reduction	14.9	37.4	52.6	68.6	89.5	116.7
Impose carbon-based tax on fossil fuels—carbon dioxide stabilization	23.2	34.3	35.7	37.2	38.8	40.4
Impose tax on agricultural chemicals	0	0.9	0.9	0.9	0.9	0.9
Repeal the automatic tax rate reduction—aviation	1.6	1.7	1.8	2.0	2.2	2.4
Replace import restrictions on sugar, dairy products, peanuts, and beef with tariffs that decline over time	0.2	0.3	0.2	0.2	0.2	0.2
Social insurance taxes						
Repeal the Social Security taxable maximum	42.0	45.0	48.0	51.0	54.2	57.6
Expand Social Security coverage to new state and local government employees	0.8	2.6	3.6	4.6	5.6	6.6
Include Employees Stock Ownership Plan cash dividends in Social Security tax base	0.2	0.3	0.3	0.3	0.3	0.3

(continued)

Option	1992	1993	1994	1995	1996	1997
Stabilize payroll tax deposit rules	2.2	−3.1	0.0	0.0	0.0	0.0
Raise federal employee pension contributions by 0.5 percent of pay	0.5	0.5	0.5	0.5	0.5	0.5
Expand Medicare coverage to state and local employees not now covered	1.1	1.6	1.6	1.6	1.6	1.6
Repeal the Medicare taxable maximum	9.9	10.5	11.3	12.0	12.7	13.5
Index the unemployment insurance taxable wage base	0.6	0.9	1.0	1.1	1.2	1.3
Other revenues						
Impose a value-added tax of 2 percent with exemptions for food, housing, and medical care	0	22.7	34.4	37.1	40.0	43.1
Impose a value-added tax of 3 percent with exemptions for food, housing, and medical care	0	34.0	51.6	55.6	60.0	64.6
Impose a value-added tax of 4 percent with exemptions for food, housing, and medical care	0	45.4	68.8	74.2	79.9	86.2
Impose a value-added tax of 5 percent with exemptions for food, housing, and medical care	0	56.7	86.0	92.7	99.9	107.7
Impose a value-added tax of 5 percent with comprehensive base	0	97.2	147.5	159.1	171.6	185.1

[a]Less than $50 million.