

December 2, 1982

## **HOW THE LAME DUCKS CAN SAVE \$12 BILLION**

### INTRODUCTION

When Congress left the Capitol to pound the campaign trail on October 1, it left behind a trail of uncompleted budget legislation. The 97th Congress passed only three of the thirteen scheduled regular appropriations bills before its October 1st deadline. As a result, the federal government once again, as in the past three years, is operating under a continuing resolution--an interim budget based largely on historical and arbitrary numbers.

Continuing resolutions postpone cuts and force administrators to operate under uncertainty, which is to say, inefficiently. Congress must pass the remaining appropriations bills in the lame duck session, if the President is to sign them this year, and they must contain significant cuts if budget targets are to be met. A Heritage Foundation analysis of the pending bills reveals that almost \$12 billion could be saved.

Despite exaggerated media reports of "sweeping" budget cuts, federal spending is not declining. In fact, it increased 13 percent in 1982, and is consuming an unprecedented 24 percent of the GNP. If Congress spends as freely as it threatens to in 1983, government spending will pass the \$800 billion mark--an 11 percent increase over 1982 and double the level of 1977. On a constant 1972 dollar basis, all of Reagan's so-called budget cuts have trimmed only \$7 billion from Carter's projected 1983 budget--a pathetic 2 percent.

The effects of such high levels of government spending on the American economy cannot be underestimated. Government spending is the key fiscal indicator of the government's drain on the economy. Discussions of taxes and deficits merely distract attention from the fundamental problem--all government expenditures must be financed by the nation's wage earners through higher

taxes, higher inflation, and higher interest rates. Consequently, government spending is manifested in the loss of American jobs. If there is to be a sustained economic recovery and a return to high employment, it is absolutely necessary to shift resources from the government to the private sector.

Unfortunately, Congress has left itself little time to affect significantly the spending patterns for 1983. On returning, legislators confront a host of critical issues, but must find time to debate and pass ten appropriations bills in three weeks. Two appropriations bills, for Foreign Aid and the Interior Department, have yet to be marked up, let alone sent to the floor for a vote. These and appropriations for the Departments of Labor, Health and Human Services, Education, State, Justice, Commerce, and Energy and Water Development are not likely to be sent to the President this year. Only four bills--Transportation, Agriculture, Defense, and the District of Columbia--have a realistic chance of being passed during the lame duck session. The ten uncompleted appropriations bills account for more than \$175 billion of new nondefense spending authority, 22 percent of the total authority to be legislated for 1983. Despite the time constraints, it is essential that cuts be enacted in these programs.

In these nondefense areas it is politically possible, socially equitable, and economically efficient to make cuts. It is not too late for Congress to trim nearly \$12 billion from prospective new budget authority in 1983 without major disruption. Among the programs that can be trimmed are those that grant subsidies to domestic and foreign businesses, pour money into wealthy school districts and the oil rich state of Alaska, fund energy-wasting transportation systems, give money to students who fail academic courses, and help the legal profession. The list of budget targets cited below is by no means comprehensive. It does not include a critique of defense spending, of authority already legislated, nor does it attempt to restructure social programs along a more streamlined and equitable basis. It concentrates on cuts that can be enacted in one month's time.

The following table summarizes the recommendations for \$12 billion in cuts as formulated by The Heritage Foundation. In each case, the savings cited is the difference between The Heritage Foundation's recommendation and the higher of the House or Senate Subcommittee's Appropriation. Where neither committee has marked up the bill, the Senate and House Budget Committee's numbers are used.

| PROGRAMS AND<br>CONGRESS COMMITTEES WHERE CONSIDERED  | POSSIBLE SAVINGS FROM CONGRESS<br>(in million of dollars) |
|---|---|
| <u>Departments of Labor, Health and Human Services,<br/>and Education Subcommittee</u>                  | 5,659   |
| Department of Health and Human Services   |   |
| National Institutes of Health   | 255   |
| Alcohol, Drug Abuse and Mental Health   | 48  |
| Low Income Energy Assistance for the Home   | 550   |
| Work Incentives   | 281   |
| Community Services Block Grant  | 361   |
| Health Development Services   | 126   |
| Department of Education   |   |
| Bilingual Education   | 138   |
| School Assistance in Affected Areas<br>(Impact Aid)   | 188   |
| Vocational and Adult Education  | 329   |
| Student Financial Assistance  | 3,172   |
| Higher and Continuing Education   | 130   |
| Libraries and Learning Resources  | 81  |
| <u>Department Of Transportation And Related<br/>Agencies Subcommittee</u>                               | 1,134   |
| Department of Transportation  |   |
| Interstate Transfer Grants - Highway  | 500   |
| AMTRAK  | 188   |
| Alaska Railroad Revolving Fund  | 50  |
| Urban Mass Transportation Grants  | 396   |
| <u>Departments Of Commerce, Justice, And State,<br/>The Judiciary And Related Agencies Subcommittee</u> | 746   |
| Department of Commerce  |   |
| Economic Development Assistance   | 169   |
| Small Business Administration   | 190   |
| National Oceanic and Atmospheric<br>Administration  | 76  |
| Department of Justice   |   |
| Law Enforcement Assistance--Juvenile<br>Justice   | 70  |
| Legal Services Corporation  | 241   |

|  |  |        |
|--|--|--------|
| <u>Agriculture, Rural Development, and<br/>Related Agencies Subcommittee</u> |  | 1,747  |
| Domestic Food Programs   |  |        |
| Child Nutrition  |  | 285    |
| Special Milk   |  | 28     |
| Feeding for Women, Infants, and Children                                     |  | 80     |
| Food Stamps  |  | 1,354  |
| <u>Energy and Water Development Appropriation Subcommittee</u>               |  | 587    |
| Department of Energy   |  |        |
| Non-nuclear Energy R and D   |  | 439    |
| Department of the Interior   |  |        |
| Residential Conservation Service   |  | 3      |
| Appalachian Regional Commission  |  | 145    |
| <u>Banking Committee</u>   |  |        |
| Export-Import Bank   |  | 1,876  |
| TOTAL POSSIBLE SAVINGS   |  | 11,749 |

National Institutes of Health (NIH)  
(Authority levels in millions of dollars)<sup>1</sup>

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 3,642       | 3,749                 |               | 4,004        | 3,749     |

Program Description: This program consists of sixteen appropriations to support biomedical research grants to schools and institutions. The government currently finances 60 to 70 percent of all research in such areas as cancer, heart disease, and aging.

Proposed Change: The Administration acknowledged the importance of medical research by increasing the appropriation for 1983, but asked for some cost-saving concessions in return. These included a cap of 5,000 on the total number of grants awarded, a 10 percent across-the-board cut in the allocations to overhead

<sup>1</sup> In the following pages, the heading 1982 refers to new spending authority in 1982; Administration to the Administration's proposed authority for 1983; Senate and House to the relevant Senate or House Subcommittee's recommended new authority for 1983; and HF, the Heritage Foundation's recommended authority for 1983. In cases where Congress has not yet assigned numbers, the figures used are from the respective Budget Committees and are labeled BC.



payments to schools, and a reduction in the number of clinical trials. There is clearly room for cost reductions. With increases in government funding, indirect overhead in these research projects has risen from 15 to 30 percent of total costs in the last eighteen years. It is therefore quite reasonable for the President to expect grantees to be more economical. Cutting indirect costs would cut only 3 percent of the total funds given to grantees, yet save \$110 million without sacrificing effectiveness.

Possible Savings: \$255 million

Alcohol, Drug Abuse, and Mental Health  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 768         | 738                   |               | 768          | 720       |

Program Description: This program supports a variety of research and educational activities in addition to studies and clinical trials on the subject of alcohol and drug abuse. It funds halfway houses and neighborhood centers for mental health patients and runaways, provides social support education such as teaching patients how to use money and gain work habits, and supports training programs for nurses and therapists.

Proposed Change: The Administration proposed \$30 million in cuts similar to those requested for NIH, of which \$22 million can be saved by requiring that grantees cut indirect costs by just 10 percent through improved efficiency and another \$8 million by cutting back service demonstrations. \$18 million more can be saved by restricting subsidies to professionals and institutions in clinical training.

Possible Savings: \$48 million

Low Income Home Energy Assistance  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 1,875       | 1,300                 |               | 1,850        | 1,300     |

Program Description: This block grant provides funds to states according to predescribed formulas for the purpose of subsidizing the costs of fuel or energy weatherization for low income persons. The block contains several structural problems that contribute to its bloated budget. Because the funds are often processed through welfare agencies, some people receive funds inappropriately. For instance, a person receiving Medicare and living in an institution, or otherwise not paying utility bills, may receive funds. There is also some duplication with the AFDC utility grant. Finally, because cold weather regions

receive more funds than warm weather regions, the program is a cross-regional welfare program.

Proposed Change: The federal government should cut back on regional subsidies by requiring states to assume more of these "welfare" costs. The Administration's cuts should be enacted.

Possible Savings: \$550 million

Work Incentives (WIN)

(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 281         | 0                     |               | 281          | 0         |

Program Description: Under WIN, AFDC mothers with children at least three years old register with state agencies which provide job training and placement assistance. According to a recent GAO study, apparent program success is in fact due to the practice among many state agencies of concentrating their resources on the more educated and skilled clients. The study claims that 70 percent of those WIN participants who entered unsubsidized employment in 1980 reportedly found their own jobs.<sup>2</sup> The Administration feels the program is redundant and that its goals are achieved by a host of other government services, including the recently enacted job training.

Proposed Change: Congress should acknowledge the validity of the GAO study and the Administration criticisms and terminate the program.

Possible Savings: \$281 million

Community Services Block Grant (CSBG)

(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 366         | 103                   |               | 361          | 0         |

Program Description: The CSBG combines a dozen of Lyndon Johnson's "War on Poverty" programs. With the catch-all purpose of "alleviating the causes of poverty," it is no wonder that these state administered programs have no clear bounds or consistency and have been made largely redundant by other programs, such as the Social Services Grant. Among the many activities financed in part by the CSBG are job training, waste-water treatment, emergency foodstuffs, and day care.

<sup>2</sup> General Accounting Office, "An Overview of the WIN Program, Its Objectives, Accomplishments, and Problems," HRD-82-55, June 21, 1982, p. 35.

Proposed Change: The Administration feels that, since the grant is largely redundant, it can be cut substantially without adverse effects. In fact, given the the existence of so many other programs which accomplish the same objectives, the most rational action is for Congress to terminate the CSBG, not merely trim its appropriation.

Possible Savings: \$361 million

Human Development Services (HDS)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 1,727       | 1,611                 |               | 1,737        | 1,611     |

Program Description: HDS comprises categorical grants to states to help fund dozens of social services, including Headstart, child abuse programs, meals for the elderly, and assistance for runaways. But most of these programs are more appropriately within the province of voluntary organizations or state and local governments. Federal funding tends to inflate the program cost, crowd out voluntary alternatives, and restrict innovation because of excessive red tape. The Administration estimates that some HDS programs can be cut by 10 percent without losing any effectiveness, especially if local governments are given more discretion in their use of funds.

Proposed Change: The Administration requested only a 6 percent cut from 1982 authority, and no cut at all for the Headstart program. Given that many of these programs already rely heavily on nonfederal support (runaway programs, for instance, receive only 20 percent of their funding from the federal government), these small cuts should not have significant adverse effects on the recipients. The Administration proposal should be adopted.

Possible Savings: \$126 million

Bilingual Education  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 138         | 94                    |               | 138          | 0         |

Program Description: This program is intended to assist students limited in English proficiency to acquire that proficiency in order to function in a regular classroom. The federal government gives grants to project directors, largely in the Hispanic Southwest, who manage these programs. Unfortunately, the progress of many children is being delayed as they are instructed solely in their native language. Many ethnic leaders fear that this will inhibit

their integration and job opportunities. There also have been allegations of kickbacks, abuse, and waste. In order to eliminate overhead and abuse at the state grant level, some Administration officials have suggested putting the program under the elementary and secondary education program.

Proposed Change: According to Department of Education studies,<sup>3</sup> the program actually retards the education of more children than it helps and a great amount of money is lost to overhead and abuse. The program should be terminated.

Possible Savings: \$138 million

School Assistance in Affected Areas (IMPACT AID)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 456         | 287                   |               | 475          | 287       |

Program Description: Under the provisions of the Impact Aid program, the federal government compensates school districts for property tax revenues lost because students live on, or their parents work on, federal property. The Administration feels that these provisions are too loose and tend to overcompensate school districts. Further, some of the school districts that benefit the most are also among the wealthiest, such as those of Fairfax County, Virginia, and Montgomery County, Maryland.

Proposed Change: The Administration has proposed that compensatory funds be provided only if a student lives on and his parents work on federal property. This proposal is a good example of a prudent economy and should be adopted.

Possible Savings: \$188 million

Vocational and Adult Education  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 735         | 500                   |               | 829          | 500       |

Program Description: Since 1917, vocational training grants have assisted in the funding of a variety of vocational educational

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<sup>3</sup> Keith Baker and Adriana Rekanter, "Effectiveness of Bilingual Education; A Review of the Literature" (Washington, D.C.: Office of Technical and Analytic Systems, U.S. Department of Education, September 24, 1981).



activities in high schools and technical schools. The funds go to school districts according to a population based formula. Federal funding currently accounts for only 10 percent of vocational education expenditures. Adult education provides continuing education opportunities to adults over the age of sixteen who do not have a high school degree.

Proposed Change: The Administration proposes to consolidate the programs and to turn over more control to the states, as a means of reducing overhead and increasing local control. Officials also note that support from nonfederal sources, such as corporations interested in employee development, are providing more and more of the funds necessary to maintain existing service levels with less federal support. The President's request should be adopted.

Possible Savings: \$329 million

Student Financial Assistance  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |                    |
|-------------|-----------------------|---------------|--------------|-----------|--------------------|
| 3,569       | 1,800                 |               | 3,569        | 397       | Total*             |
| 2,419       | 1,400                 |               | 2,419        | 0         | Pell Grants        |
| 355         | 0                     |               | 355          | 0         | Supplements        |
| 528         | 397                   |               | 528          | 397       | College Work Study |
| 179         | 0                     |               | 179          | 0         | Direct Loans       |
| 74          | 0                     |               | 74           | 0         | State Incentives   |

\* Totals do not necessarily correspond to individual items because of rounding.

Program Description: This group of programs provides grants and loans for low income students.<sup>4</sup> The Pell Grants are direct gifts to students, while the supplements are gifts distributed through the schools. The College Work Study program allows students to work at low paying, on-campus jobs, or for nonprofit organizations in order to pay for their education. Because many of these jobs would only be available at below the minimum wage, the federal government provides the difference in the form of a subsidy. The Direct Loans program provides loans to students. The State Incentive Grants program gives federal funds to states, who then distribute it to students.

Many problems are associated with student aid as now designed. More than 50 percent of the postsecondary students are subsidized by the federal government, and it is not uncommon to find students

<sup>4</sup> Under present guidelines, students can qualify for Pell Grants and Direct Loans if their family's income is below \$25,000.

receiving funds from several different sources in gross excess of the original intent of Congress. Demographic patterns also suggest that cuts can be made in this program because there will be fewer college students in the 1980s. Furthermore, according to a GAO study conducted last Spring, some colleges are inflating tuition costs merely to obtain federal funds and keeping failing students on their records in order to continue receiving government subsidies.<sup>5</sup> Finally, nearly 1,000 proprietary schools, such as hairdressing, disc jockey, beauty, and bartenders, qualify for government funds. While vocational training is to be applauded, it is by no means clear that many of these schools provide any valuable educational benefits to students. In cases where they do, it would seem most appropriate that they be funded within the industry concerned and not by the taxpayers.

Proposed Change: The Administration wants to cut all the programs except the Pell Grants and College Work Study on the correct assumption that low income students technically can secure loans from the Guaranteed Student Loan (GSL) program. We would recommend that even the Pell Grants be terminated, on the grounds that any student receiving a college degree should be able to pay back a loan. We would recommend that only the College Work Study program, a program that requires a tangible student contribution toward his education be maintained at the President's requested level. GSL's should also be restructured to assure that these low-income students are not discriminated against further. To cut back on subsidies and therefore on the number of loans, the GSL should charge borrowers rates closer to market rates.

Possible Savings: \$3,172 million

Higher and Continuing Education  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 382         | 271                   |               | 401          | 271       |

Program Description: The program provides funds for special programs for the disadvantaged, program development for cooperative work-study education and foreign language studies, graduate support, special endowments, and law related education.

Proposed Changes: The special program for the disadvantaged is loosely defined and redundant, given the existence of other similiar federal programs. The federal government should not be funding a student's work experience unless the purpose of the

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<sup>5</sup> General Accounting Office, "Students Receiving Federal Aid Are Not Making Satisfactory Progress; Proper Standards Are Needed," HRO 82-15, December 3, 1981.

work is to contribute to the cost of the education. Neither should the federal government be funding specialized study in academic disciplines such as foreign languages and law. The Administration has proposed reasonable cuts in these programs, which should be enacted.

Possible Savings: \$130 million

Libraries and Learning Resources  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 81          | 0                     |               | 81           | 0         |

Program Description: This program provides federal funds to be used as seed money by states and local governments to build public library services for the disadvantaged and in rural areas.

Proposed Change: This is not an appropriate function of the federal government. Consequently, the program should be terminated. If there is a need for such a service, it should be provided by the states and local communities, which states and localities long have recognized. Federal funds provide only 5 percent of total funds for public libraries, so it is doubtful that the elimination of the federal program would adversely affect the availability of library services.

Possible Savings: \$81 million

Interstate Transfer Grants -- Highways  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 288         | 150                   | 375           | 500          | 0         |

Program Description: This program provides funding for new state and local highways. Under it, the affected state and local governments may petition the federal government to cancel a proposed interstate highway segment considered not essential to the interstate system. When a petition is received, Congress may authorize funds, equal to the value of the cancelled highway segment, toward the construction of another new highway or mass transit project. As of December 31, 1981, nearly \$10 billion in obligations had been incurred through this program.

Proposed Change: The federal government should not be funding highways that neither the state nor the federal government considers an integral part of the national highway system and that are of purely state or local importance. And Washington certainly should not be obligated to construct local highways at

the bid and call of state and local governments. Therefore, the transfer system should be discontinued.

Possible Savings: \$500 million

National Railroad Passenger Corporation -- AMTRAK  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 735         | 600                   | 788           | 735          | 600       |

Program Description: AMTRAK is the controversial federally subsidized national railroad. As reported in a recent Heritage Foundation Backgrounder,<sup>6</sup> the system "has cost the U.S. economy over \$12 billion and more than 125,000 jobs in the last ten years." In 1981, AMTRAK lost nearly \$900 million. It received 1981 subsidies of \$38.30 per passenger or more than 23¢ per passenger mile. This is more than 100 times the federal subsidy for any other mode of transportation. The system has been justified on grounds of energy efficiency, but is actually less efficient than any other form of modern transportation. According to Amtrak's own projections, only the Northeast Corridor routes will cover their operating costs in 1983.

Proposed Change: Routes that do not meet federally legislated standards for subsidies should be closed immediately. This would include at least the Cardinal Route, which runs from Washington, D.C., to Chicago; according to Administration officials, this boondoggle continues to be subsidized only because of the political power of Senator Byrd (D-W.Va.). As the President has requested, all subsidies to intrastate and community systems also should be eliminated immediately. AMTRAK should be required to institute labor cost cutting procedures, and should be provided with only a spartan capital budget. The authorization for 1983 should be cut to the President's request of \$600 million, and in light of the virtual bankruptcy of most of the system, legislation should be introduced in the next Congress to phase out AMTRAK or to sell it to the private sector.

Possible Savings: \$188 million

Alaska Railroad Revolving Fund  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 6           | 0                     | 50            | 0            | 0         |

<sup>6</sup> John Semmens, "End of the Line for Amtrak," Heritage Foundation Backgrounder #226, November 9, 1982.



Program Description: In the early 1900s, the federal government constructed a 470-mile railroad in Alaska to transfer coal. Today it is used primarily for private purposes and for the transport of jet fuel. The Administration has recommended turning over the railroad to the state of Alaska. Some House members want Alaska to pay for the railroad. Senator Ted Stevens (R.-Alaska) has led a Senate drive to continue funding the railroad--although some insiders claim this is merely a ploy to suggest that the railroad is unprofitable, has no real value, and should be given, not sold, to Alaska.

Proposed Change: The Administration and House are correct in arguing that the railroad is fundamentally profitable and that it is a local concern and therefore should not be funded by the federal government. But rather than arguing about the price, Congress should simply give the railroad to the state of Alaska and reject the Senate call for continued funding.

Possible Savings: \$50 million

Urban Mass Transportation Grants  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u>   |               |
|-------------|-----------------------|---------------|--------------|-------------|---------------|
| <u>2815</u> | <u>2534</u>           | <u>2822</u>   | <u>2930</u>  | <u>2534</u> | Total         |
| <u>1450</u> | <u>1519</u>           | <u>1622</u>   | <u>1630</u>  | <u>1519</u> | Discretionary |
| <u>1365</u> | <u>1015</u>           | <u>1300</u>   | <u>1300</u>  | <u>1015</u> | Formula       |

Program Description: The Discretionary Grants are the traditional federal source of capital grants for mass transit projects. These include acquisitions, rail systems, technical studies. Under the program guidelines, grants are earmarked for specific projects. The Formula Grants generally are used to subsidize mass transit operating costs and are allocated according to a prescribed formula. The Administration requested that all capital projects be allocated on a similar formula basis to achieve objectivity and continuity in planning. The President also wants the program to concentrate on rebuilding existing systems rather than investing in new systems. Because the present subsidization of operating expenses encourages mismanagement and undercuts more cost-effective private bus systems and other private mass transit innovations, the Administration requested that Congress phase out all subsidies of operating expenditures.

Proposed Change: Congress should adopt the President's requests. In 1983, financing for the following new mass transit systems should be cut: the Miami circulator, Detroit, Santa Clara, Denver, Portland, and Seattle; and appropriate changes made in operating subsidies.

Possible Savings: \$396 million

Economic Development Administration (EDA)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 199         | 0                     | 169           | 169          | 0         |

Program Description: EDA provides public works grants, direct business development loans, and loan guarantees to construct industrial parks and development projects in economically distressed areas. A few years ago, when the program had a half billion dollar price tag, Congress decided that it should be phased out.

Proposed Change: Federal programs of this kind channel large amounts of public money for projects of doubtful merit. EDA projects especially have tended to be allocated according to political clout, not efficiency. They are a perfect example of Congressional pork barreling. Furthermore, various other block grants and programs, such as UDAG, already provide funds for this purpose, and in general, states and the private sector should be taking over the function of regional development in accordance with the Administration's overall strategy. The taxpayer and the goal of economic development would be served much better if the program were ended.

Possible Savings: \$169 million

Small Business Administration (SBA)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 569         | 379                   | 530           | 548          | 358       |

Program Description: The most costly function of the SBA is providing subsidized and guaranteed loans to small businesses. The cost of these loans to the SBA in 1982 was \$326 billion. In 1981, the interest rates were raised to the government's cost of borrowing, which meant they were still below market rates.

Proposed Change: While small businesses are primary job creators in the economy, subsidized government loans are not the way to help small firms. The SBA definition of "small" is now so mute as to make it meaningless. Moreover, the program has had the effect of insulating inefficient firms from healthy competition for investment funds. The most effective way to stimulate small firms is to cut taxes and regulation. The federal government should end its involvement in the loan business, and guaranteed loans should be stabilized as the President requested. This action would save the business loan and investment fund \$190 million without seriously diminishing small business development. If the savings were used to further reduce interest rates by

cutting the deficit, or to allow further tax cuts, it would be far more helpful to the small business community than subsidized loans.

Possible Savings: \$190 million

National Oceanic and Atmospheric Administration (NOAA)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 849         | 776                   | 852 (BC)      |              | 776       |

Program Description: NOAA's mission is to monitor, manage, and conserve marine resources and to forecast marine and atmospheric conditions. NOAA supports a national weather service; civil environmental satellite remote sensing systems; fisheries research, management, and development; an ocean research fleet; and aeronautical and nautical mapping and charting.

Proposed Change: Much of the weather service and research provided by NOAA could be handled more efficiently in the private sector. Specifically, 45 weather service stations would be closed, state fisheries grants could be curtailed, and implicit business subsidies could be avoided through user fees. Hence, the Administration's requested cut to \$776 million is more than reasonable.

Possible Savings: \$76 million

Law Enforcement Assistance  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 94          | 19                    | 89            | 89           | 19        |

Program Description: Nearly \$70 million of the grants to states under this appropriation are to finance the continuation of the juvenile justice program. The program was intended to improve the juvenile justice system by building facilities to separate youths from adults and deinstitutionalized truants and runaways. The Administration and many Congressmen contend that the program has run its course and should be terminated, and several scholars maintain that it has even been counterproductive. The strongest opposition to changes in the program comes from the professionals and other welfare industry lobbies that absorb the grants.

Proposed Change: The Administration's proposal to terminate the juvenile justice system should be adopted.

Possible Savings: \$70 million

Legal Services Corporation  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 241         | 0                     | 241           | 241          | 0         |

Program Description: This controversial program is intended to provide legal services to needy, low-income persons. Federal grants finance local programs, which, in turn, recruit lawyers. In theory, the program enables the poor to obtain full access to the judicial system. In practice, because the funds are channeled through the legal firms, the program fuels excessive and misplaced demand for lawyers who often seek out plaintiffs. Politically motivated suits against the federal, state, and local governments are common. Thus, the program not only provides income for many lawyers, it also results in cases against government entities, which then must use even more taxpayers' money to defend themselves.

Proposed Change: Under its present structure, the program provides welfare for lawyers rather than help for needy people. It also costs the U.S. government far more than the \$241 million directly charged to the program. The poor and the rest of society would be much better served if the program were replaced with a new program that would meet the original goals more fully. In a "judicare" system similar to Medicare, for instance, a needy person would seek legal assistance from a private firm. The firm would be reimbursed for services by the government. Better yet, lawyers could provide services pro bono according to standard rates and receive tax incentives to do so. Meanwhile, the Administration recommendation to terminate the program should be adopted.

Possible Savings: \$241 million

Child Nutrition Program  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 1,082       | 671                   | 896           | 544          | 611       |

Program Description: The Child Nutrition Program finances school lunches and breakfasts, child care meals, summer meals, and nutrition education. The summer program is fully subsidized for all recipients, regardless of income. According to GAO reports, the summer feeding program has become riddled with abuse.<sup>7</sup> Moreover, it has largely been superseded by the food stamp program.

<sup>7</sup> General Accounting Office, "What can Be Done to Improve Nutrition Education Efforts in the School," 82-65, May 25, 1982.



Proposed Change: The Administration has asked for the summer feeding program to be terminated and the education programs substantially reduced. Officials also maintain that it should hardly be a duty of the federal government to provide school breakfasts. Even if the suggested cuts were enacted, over 23 million students would receive federal meal subsidies.

Possible Savings: \$285 million

Special Milk Program

(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 28          | 0                     | 21            | 28           | 0         |

Program Description: The special milk appropriation finances milk subsidies for students in schools that do not participate in other federally subsidized meal programs. The program is clearly not necessary as welfare; of the 1.6 million students who receive a subsidy of 9¢ per half pint of milk, nearly 90 percent come from non-needy families with incomes over \$16,000 a year.

Proposed Change: Every President since Kennedy has proposed major reductions in or elimination of the Special Milk program. The program's original goal, to promote fluid milk consumption in schools, has been superseded by the large subsidies (\$700 million in 1982) for milk consumption in other federal meal programs. Since the program subsidizes non-needy families able to afford 9¢ more per half pint of milk, termination of this special subsidy would not affect needed milk consumption for students.

Possible Savings: \$28 million

Feeding Program for Women, Children, and Infants (WIC)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> <sup>8</sup> | <u>HF</u> |
|-------------|-----------------------|---------------|---------------------------|-----------|
| 904         | 980                   | 1,060         | 652                       | 980       |

Program Description: WIC is a state administered grant to provide nutrition to pregnant and new mothers and to children under five years old, who are certified "nutrition risks." Recipients receive a form of food stamp restricted to certain "high nutrition" products. For mothers and children under two, the program has been proved cost effective in saving lives and reducing health care costs. But this has not been the case for two to five year olds.

<sup>8</sup> The House appropriation only funds the program for two-thirds of the year. The President agreed to a compromise of \$980 million this summer.

Proposed Change: Since this program has the same target populations as the maternal and child health care grant, the Administration recommended combining them into one block grant to save \$250 million in overhead. This legislation was not enacted, and the President endorsed a compromise budget of \$980 million for WIC. This compromise should be adopted, but the block grant should be instituted as soon as possible.

Possible Savings: \$80 million

### Food Stamps

(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 11,300      | 9,542                 | 9,542         | 10,896       | 9,542     |

Program Description: The food stamp program subsidizes the food purchases of low-income households in order to ensure adequate levels of nutrition. As a means of alleviating hunger and malnutrition, the program has been a success. Unfortunately, it also epitomizes the problems of our present welfare system. Blind to all but the benefits, Congress has allowed the program to expand without regard to cost or efficiency. Between 1978 and 1981, outlays doubled from \$5.5 billion to \$11 billion, and six million people were added to its rolls. Now one of every ten Americans receives food stamps and two million households receive food stamps in addition to federally subsidized school meals. Forty percent of all households receiving food stamps have incomes above the federal poverty level.

Proposed Change: Clearly, waste, abuse, and coverage to non-needy individuals can be limited without harming those who rely on the program. The Administration suggested the following proposals: hold states to firm targets for reducing erroneous eligibility (this abuse cost the federal government \$1.1 billion in 1981); cut benefits that are less than \$10 per month (obviously such people are not in dire need of the help, and it costs \$15 to certify each case); institute workfare or job search requirements to reduce fraud and the incentive for those not in need to apply for food stamps; count in-kind transfers (such as housing subsidies, energy assistance, and Medicaid) and income when computing benefits. All these changes can be enacted without affecting the benefits of the 4 million recipients who have little or no income.

Possible Savings: \$1,354 million

Energy Supply and Research and Development  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 2,127       | 1,627                 |               | 1,886        | 1,447     |

Program Description: The non-nuclear program provides support to the private sector for the development of new technologies using fossil fuels, solar and geothermal energy. It also provides funds for energy conservation research; development of new methods of electricity transmission and energy storage; and support of energy related health and environmental research.

Proposed Change: These business subsidies are a relic of the energy scare of the 1970s and should be terminated. Most activities in this program would be undertaken in due course more efficiently by the private sector. Private energy research and development has been rising steadily and total government fossil fuel R&D amounts to only 14 percent of the industry total.

Possible Savings: \$439 million

Residential Conservation Service (RCS)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| .3          | 0                     | 3 (BC)        | 3(BC)        | 0         |

Program Description: Under RCS, a relic of the 1970s energy scare, natural gas and electric utility companies are required by statute to conduct home energy audits on request for only \$15. The auditor then recommends insulation, new appliances, and other means whereby the homeowner can cut energy use. But the average real cost of these audits is \$200, so the federal government makes up the difference, to the tune of \$3 million. This amounts to a subsidy for wealthier homeowners, who can afford to follow up on recommendations.

Proposed Change: The program simply is a subsidy to wealthier homeowners, and should be terminated as the Administration has requested.

Possible Savings: \$3 million

Appalachian Regional Development (ARD)  
(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 150         | 80                    |               | 145          | 0         |

Program Description: The ARD Commission provides grants to thirteen Appalachian states. The program provides funding either directly to the states or through other federal agencies for community infrastructure, housing, economic development, and job creation. The highway program provides funds for the construction of regional highways and access roads to places of "potential" economic development.

Proposed Change: A substantial amount of federal funds has already been pumped into this program. Consistent with its efforts to consolidate programs and reassign responsibility for local economic development to state and local programs, the Administration requested that the program be phased out. Moreover, it seems speculative and inappropriate for the federal government to be providing local access roads to potential development areas. The program should receive no further authority.

Possible Savings: \$145 million

Export-Import Bank

(Authority levels in millions of dollars)

| <u>1982</u> | <u>Administration</u> | <u>Senate</u> | <u>House</u> | <u>HF</u> |
|-------------|-----------------------|---------------|--------------|-----------|
| 3,986       | 2,701                 |               | 3,177        | 1,301     |

Program Description: The bank provides credit support for the sale of U.S. goods and services overseas through direct loans for purchase of U.S. exports and by loan guarantees and insurance against defaults by foreign purchasers. In effect, the U.S. subsidizes private business and foreign buyers and consequently distorts national and international markets, and encourages excessively risky trade deals.

Proposed Change: There is no economic reason to subsidize foreign purchasers of U.S. goods. Loans made available to foreign firms could be employed domestically to stimulate job creation in other sectors. By cutting direct loans in half, to \$2.2 billion, instead of to \$3.8 billion, as the Administration suggests, the bank can reduce the 1983 authority by another \$1.4 billion.

Possible Savings: \$1,876 million

CONCLUSION

Under legislation passed in 1974, annual appropriations bills are to be ready for the President to sign by October 1, the beginning of the federal fiscal year. The last three Congresses have failed to meet this deadline. Of the thirteen regular appropriations bills, the 95th Congress (1977-78) passed an average of 12.5 bills on time, the 96th averaged 9.5, and the 97th Congress (1981-82) passed only 3 out of 13. The budget and



appropriations process is not at fault, although it could benefit from some marginal refinements. The problem is that the Congress itself lacks the will and courage to make the necessary tough decisions. This failure to act then necessitates continuing resolutions.

The habitual use of continuing resolutions signifies legislative stagnation and adversely affects budget and government operations. Continuing resolutions impose arbitrary spending levels, in general not the result of substantive policy consideration--they may even postpone or preclude such consideration. For the "crisis management" atmosphere associated with continuing resolutions encourages hasty funding decisions. It also encourages the add-on of "Christmas Tree" amendments, since the passage of a continuing resolution can become so urgent that a minority of legislators can hold Congress hostage. Finally, the delayed funding and the arbitrariness of continuing resolutions leads to uncertainty within government agencies and departments, and for state, local, and individual recipients of federal funds, thereby lowering efficiency and raising the cost of administering on-going programs.

As recommended above, the designated programs can and should be trimmed by at least \$12 billion. Some of them, such as food stamps, child nutrition, and the National Institutes of Health, provide valuable services to worthwhile causes. But under federal control, they tend to funnel money into non-needy or undeserving hands. Other programs, such as Amtrak, energy supply and research, small business loans, residential conservation service, and the Export-Import bank, are direct subsidies to businesses, foreigners, and non-needy consumers. Some of the suggested cuts are more sensitive politically than others, but in these cases, Congress must face the hard facts of necessary budget austerity. The United States can no longer afford a constantly increasing stream of government funding for any and all programs that provide benefits--regardless of their costs to the nation.

Congress has the opportunity now, in this final session of 1982, to enact critical budgets that will spur and extend economic recovery. If, during this special session, Congress can restrict new government spending authority in the ten budget appropriations bills yet to be passed, it will reassure Americans that their legislators are indeed serious in their commitment to long-term economic recovery.

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