The Heritage Foundation Backgrounder
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SAVING $111 BILLION: HOW TO DO IT

PART 1, DEFENSE, ENERGY AND NATURAL RESOURCES

INTRODUCTION

When Ronald Reagan submits his new budget to Congress January 31, he is expected to request expenditures of close to $850 billion in fiscal year 1984--30 percent more than the budget he inherited in 1981.

When not even the most austerity conscious administration in recent decades has been able to harness government outlays, there can be little question that spending is out of control, and that dramatic action is needed. The President must stand strong on the budget cuts he recommends to Congress. He must present to Congress proposals that affect every program in the budget -- from defense to human services, from entitlements to interest on the national debt. In all, it is possible to slash the projected deficit by $111 billion--over $63 billion from cuts in nearly 100 programs, $26 billion from reduced interest payments, and $22 billion from revenue increases and improved debt collection.

Although Ronald Reagan's presidential campaign platform stressed slashing federal spending, by 1984 he will have presided over the greatest absolute increases in government expenditures in American history--and those expenditures will preempt a record proportion in the nation's output. The bitter irony is that while spending has continued unabated at roughly the same real (i.e., inflation adjusted) rates it did under previous administrations, Ronald Reagan has been cast as the "cruel budget cutter." The fact is that there have been no reductions in real federal expenditures. Indeed, real spending has increased at an annual rate of 5.7 percent during the Reagan years, compared to only 2.5 percent under Carter, and 3.1 percent during the Nixon-Ford years.

Non-defense outlays FY 1982, for instance, increased 9 percent, the Health and Human Services budget rose 11 percent and Social Security outlays rose 12 percent--all far outpacing the 5 percent rise in consumer prices.

The underlying momentum in government spending is due to the explosion in entitlement payments to individuals. As a percentage of GNP, these have tripled in the last twenty-five years. While the rest of the federal budget grew at an annual rate of 10 percent and inflation averaged 9 percent between 1973 and 1981, federal entitlements grew more than 15 percent. Cutting back to "real" 1981 levels would cut $70 billion from the $400 billion entitlement budget in 1984. If Congress were to cut total federal outlays to the real dollar equivalent of just ten years ago, President Reagan would have to present a budget amounting to approximately $600 billion--25 percent below the likely White House figure.

If defense, Social Security, and Medicare are considered beyond the target area for major cuts, it becomes very difficult to reduce the level of government spending. These three programs comprise 60 percent of the entire federal budget; $125 billion in interest payments contributes another 15 percent, leaving only $215 billion in domestic programs that can be restructured. Need Washington spend this much on such programs? Clearly not. Analysis by Heritage Foundation economists suggests that the responsibility for about one-quarter of these revenues and expenditures could be returned to the state and local levels where the programs properly belong. Another 15 percent could be eliminated by terminating redundant programs. And another 15 percent could be saved through more economical management, reduction in fraud and abuse, and wider use of private sector alternatives. But even if major changes of this nature can be steered through Congress, it would still mean a reduction of only $118 billion--or about 15 percent of the total budget.

One recent suggestion for limiting the growth of federal spending is an across-the-board freeze on spending. This would supposedly limit total spending in 1984 to the level of spending in 1983--approximately $800 billion--implying $50 billion in cuts. Not only does this proposal make a very small dent in government spending, but it does nothing to stem the long-term growth of federal spending. Furthermore, if it is applied across-the-board, it would retain the "fat cells" of the budget. It would penalize efficient programs as much as wasteful ones. What is needed instead is a structural reform of spending programs so that the American people can receive at least the same amount of justifiable services at less cost. This goal can only be accomplished by consolidating programs and by turning responsibility for many functions to the private sector.

A saving of $89 billion is possible by eliminating or restructuring programs; $22 billion of new revenues could be raised through user fees, debt collection, and the more rational taxation of federal benefits.

Such an approach to the budget initiative is based on several principles. The most important is New Federalism--the transfer of services to states and local government and to the private sector: in short, charging users of services for the cost of the services. Tolls should be charged on highways and waterways, for example, and fees should be charged for airports. As for shifting programs, most of what is done by the federal Department of Transportation could be transferred to state governments--including mass transit and state and local highways. Many education programs, such as compensatory education for the disadvantaged and vocational education, would be returned to the states. In this way, the states will be motivated by budget pressures, and allowed the necessary discretion to develop more efficient methods of providing services.

In addition, current federal subsidies to individuals, such as support for student loans, mass transit and cultural activities, should end. The National Endowment for the Arts and the Corporation for Public Broadcasting, for instance, should be abolished.

Ending too must be subsidies for private business, such as federal grants and loans, energy research, small business loans, export-import bank loans, urban development grants and "jobs programs." These programs may "create" jobs in one sector or part of the country, but they do so at the expense of other sectors and areas.

The initiative proposed by the Heritage economists concludes that raising taxes is not the key to cutting the deficit.

The details of the proposed budget are presented in a series of three studies, of which this is the first. Each paper lists programs by subfunction number just as they are when the President and the Congressional Budget Committees submit their proposals to Congress. This first paper examines the areas of defense and natural resources (subfunctions 051-351)); the second deals with transportation, regional development and the national debt (376-452, 851 and 901); the third deals with human services (501-806).

Under each program are three figures--estimated outlays for 1983, 1984, and the Heritage economists' recommendation for 1984. The first two figures are based, when possible, on the Congressional Budget Office (CBO) July 1982 baseline projection of outlays; as such, they represent the authorized expenditures assuming no policy changes. The differences between 1984 CBO baseline and our outlay recommendation is shown as the possible budget saving. Following this is a brief description of the specific program and the recommended change.

In this first analysis, $5 billion in defense spending reductions are recommended--without any reductions in funding for weapons systems. Previous studies by Heritage policy analysts have concluded that certain weapons systems, such as the M-1 tank and some air defense systems, should be reviewed, and that there should be changes in the procurement process.[1] But, in keeping with these studies, this analysis presupposes that savings due to the cancellation of ineffective weapons should be channeled into the development of superior alternatives. Consequently, this budget study proposes no aggregate reduction in outlays for weapons development. The study instead focuses on military personnel and retirement, procurement and base operations.

Other key programs addressed are the Export-Import Bank, which spends nearly $4 billion per year to subsidize domestic businesses and foreign purchasers, wasteful energy projects, such as Clinch River, the Synfuel Corporation, and the Portsmouth, Ohio, Gas Centrifuge Plant, and the Environmental Protection Agency, which finances unnecessary research and construction.

At the conclusion of each paper, the programs are also grouped by appropriating committee, to permit cross-reference.

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(050) NATIONAL DEFENSE

(051) THE MILITARY RETIREMENT SYSTEM
(Outlays in millions of dollars)

1983	1984	Heritage Foundation
16,390	17,810	17,647

Possible Savings: $163 million.[2]

Program Change: Two changes could be made in the present military retirement system that would provide significant savings over a period of years.

The first would be the phasing in over a three-year period of the so-called "high-3" retirement benefit calculation for all military personnel. The "high-3" proposal would base military retirement benefits on the average pay during the individual's three highest earning years rather than on a percentage of the individual's basic pay on the day of retirement, as is currently done. This has long been the procedure used in calculating federal civilian retirement annuities, and in 1980 Congress decided to apply the "high-3" procedure for new military recruits.

Under this plan, those retiring within 36 months of the enactment date would base their retirement on average basic pay

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1 See Robert Foelber, "What Price Defense?" Heritage Foundation Backgrounder No. 217, October 6, 1982. Also see Foelber, "Cutting the High Cost of Weapons," Heritage Foundation Backgrounder No. 172, March 16, 1982.

2 This figure assumes CBO's 1983 savings would take effect in 1984.

during the months since enactment, while those retiring after that time would have their retirement annuity calculated on the average of their three highest earning years.

In a study dated February 1982,[3] the Congressional Budget Office reported the following estimates of savings under this scheme:

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	1	27	75	141	216	460
Outlays	1	27	75	141	216	460

The second savings proposal is to provide only half of the regular cost-of-living increase for military retirees under age 60, with a catch-up raise at age 60 to make up for the earlier half raises. Because the present military retirement system forces retirement after 20 or 30 years service, depending upon the rank achieved, the overwhelming majority of military retirees reenter civilian life in their early and mid-40s. Most of these retirees move into second careers in civilian life which augment their retirement incomes. Therefore, cutting their cost-of-living increases in half for the period until they reached age 60 would provide substantial savings without, at the same time, placing undue hardship on most military retirees.

In its 1982 report, CBO estimated that the following savings could be achieved by this scheme:

Savings from CBO Baseline	Annual Savings (millions of dollars) 1983	1984	1985	1986	1987	Cumulative Five-Year Savings
Budget Authority	162	459	764	1056	1331	3772
Outlays	162	459	764	1056	1331	3772

Both savings suggestions would have an effect on the decisions of personnel to remain in the military, and therefore require certain funding increases for reenlistment bonuses. Such increases have not been factored into the above calculations of savings.

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3 Reducing the Federal Deficit: Strategies and Options, Congressional Budget Office, February 1982.

(051) MILITARY PROCUREMENT
(Outlay in millions of dollars)

1983	1984	HF
55,144	70,022	66,772

Possible Savings: $3,250 million

Program Change: In 1982, the Department of Defense (DOD) purchased more than $140 billion in goods and services from the private sector. Experts agree that the procurement process is fraught with waste. Several acquisition procedures could be changed that would result in significant long-run savings. Competition should be encouraged through second sourcing--the use of more than one contractor to manufacture a particular weapon. This would produce savings up to 30 percent in some items. The DOD should encourage economical buy sizes and foster multi-year procurement, which provides for buys over several years with substantial cancellation charges if the buys are not executed. This would encourage manufacturer efficiency and possibly produce savings of 5 to 10 percent. Total savings over the next five years could reach $6 billion.

(051) MILITARY OPERATION AND MAINTENANCE
(Outlay in millions of dollars)

1983	1984	HF
67,279	71,890	71,880

Possible Savings: $10 million

Program Change: The cost of operating and maintaining the Department of Defense's 5,000 installations and properties world-wide was about $20 billion in 1982. Since 1969, the Department has taken more than 4,000 realignment and closure actions to reduce operating costs. Proponents of further base restructuring point to the wide variation in base operating support costs as an indication of the potential savings from such actions. For example, the cost per person assigned to a mission task at the most expensive base often exceeds that at an average base by three to one. In March of 1979, the Department drafted base realignment proposals affecting 157 military installations and activities. These proposals could lead to savings of more than $520 million over five years. Initial 1984 savings would be minimal, however, due to dislocation and transition costs.

(051) MILITARY PERSONNEL
(Outlay in millions of dollars)

1983	1984	HF
44,534	45,820	44,787

Possible Savings: $33 million.

Program Description: The present pay system is inequitable, complicated, and inefficient because of the existence of many tax-free, in-kind benefits. The Comptroller General has argued that the pay system is so complicated that "few members who are paid under it know accurately how much of what they earn is equivalent to a civilian salary. They usually underestimate their equivalent salaries, which clearly does not help to recruit and retain personnel."[4]

Program Change: Under the pay system, the single serviceman earns much less than a married couple because of the far smaller range of in-kind benefits available to him. A straight salary system would help eliminate these pay inequities and also make clear the total personnel cost of an all-volunteer service. In-kind benefits conceal a large part of military compensation.

The large federal subsidy to commissaries consists not only of an annual appropriation from the Treasury, but of foregone tax revenues resulting from the tax-free status of commissary products. Servicemen should be compensated for the elimination of commissary services by an increase in their basic pay. On balance, estimated efficiency gains would be at least $33 million.

Possible Savings: $1,000 million.

Pay raises for military servicemen should not be across-the-board but should be directed to areas of specific personnel shortages. To reduce the exodus of experienced personnel from the armed services, President Reagan proposed a 5.3 percent pay raise for military personnel on top of the proposed 9.1 percent included in the Carter Administration's 1982 budget.

An across-the-board pay increase of this magnitude far outpaces the pay raises of other federal workers and is an inefficient method of retaining experienced personnel. According to the GAO, only specific occupations within the military are experiencing shortages. Some areas of the military are overstaffed with qualified personnel. The remedy for the shortages that do exist is not to provide increases to all military personnel, but only in those cases where critical shortages are apparent.

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4 Comptroller General of the United States in a letter to Caspar Weinberger, Secretary of Defense, "Proposed Agenda of Significant Management Improvement and Cost-Reduction Opporturnities--Department of Defense," p. 11.

(150) INTERNATIONAL AFFAIRS

(151) UNITED NATIONS
(Outlays in millions of dollars)

1983	1984	HF
905	905	398

Possible Savings: $507 million.

Program Description: The U.S. currently contributes more than $900 million to the maintenance and development of the United Nations. Of this, $316 million is assessed by the U.N. to maintain general programs; $589 million is contributed voluntarily to maintain special programs.

Cuts of approximately 50 percent can be made in U.S. contributions to more than a dozen U.N. programs. These reductions would reduce U.S. assessed contributions to $167 million and voluntary contributions to $245 million.

Program Change: The U.S. contributes 25 percent of the total U.N. budget--a share disproportionately large when compared to other industrial states, such as the USSR and to oil-rich nations.

Among the programs which could be cut are: the U.N. Development Program, the U.N. Fund for Population Activities, the U.N. Relief and Works Agency, and the U.N. Education, Science and Cultural Organization. These and other programs have been analyzed in a number of Heritage studies and judged ineffective by several government reports. The programs fail in their objectives, contribute to the problems they attempt to alleviate and, in many cases, contradict the premises upon which the programs originally were based. In addition, it is almost universally acknowledged--and deplored--that the U.N. bureaucracy has become extravagantly bloated, wasteful and even plagued by fraud and corruption. Reducing U.S. contributions below the assessed levels would not weaken the political voice of the U.S. at the U.N. or endanger the American vote in the Security Council.

U.S. contributions to the U.N. and affiliated agencies assessed for 1983 are $316 million. Heritage proposes a 1984 budget of $152 million, based on the following changes:

1) U.N. general funding cut from $145 million to $73 million because the General Assembly not only is ineffective but is hostile to the U.S., the Secretariat staffing policies indicate corruption, and there is much inefficiency.

2) International Labor Organization funding cut from $31 million to $15 million because the ILO is politicized and has been conspicuously ineffective in such cases as trade union problems in Poland.

3) UNESCO (U.N. Educational, Scientific, and Cultural Organization) funding cut from $39 million to $10 million. The agency is highly politicized, is threatening to undermine press freedom and uses a double standard in promoting its policies.

4) World Health Organization funding cut from $43 to $21 million. WHO is threatening to impose anti-competitive regulations, has allowed its technical functions to become heavily politicized, and for years has discriminated against Americans in staffing.

5) Food and Agriculture Organization funding cut from $34 million to $17 million. While the U.S. pays a disproportionate share of FAO's budget, the USSR's contribution is zero.

6) United Nations Children's Fund (UNICEF) funding cut $36 million to $18 million. A House Interim Report submitted to Congress on April 23, 1982, indicated that UNICEF has been used increasingly in recent years as a political forum for the Soviet Union and its allies. Yet the USSR contributes only 0.7 percent of UNICEF's budget.

7) U.N. Institute for Training and Research funding cut from $500,000 to $250,000. According to the same House Interim Report, UNITAR appears to be largely ineffective.

U.S. contributions to the U.N. special programs--voluntary contributions--for 1983 is approximately $590 million. The proposed Heritage budget for 1984 is $246 million.

The U.S. contributions which which should be reduced are:

1) United Nations Development Program should be cut from $126 million to $25 million. Americans are paying a grossly disproportionate share. Japan pays only 6.8 percent of UNDP and the USSR pays a mere 0.7 percent while the U.S. pays close to 19 percent--the largest contributor.

2) U.N. Fund for Population Activities should be cut from $32 million to zero since the fund is highly politicized and the USSR contribution is zero.

(151) AGENCY FOR INTERNATIONAL DEVELOPMENT-POPULATION PLANNING
(Outlays in millions of dollars)

	1983	1984	HF
India	14.1	14.1	0
Bangladesh	21.4	21.4	0
Nepal	2.1	2.1	0
Thailand	4.7	4.7	0
Phillippines	11.6	11.6	0
Indonesia	6.0	6.0	0
Total	60	60	0

Possible Savings: $60 million

Program Description: The population planning program provides funds to enhance the marketing and production of contraceptives and sterilization.

Program Change: While these programs are necessary from the host country's perspective, they are not programs in which the United States should be directly involved. The programs are better suited to the multilateral nature of the World Health Organization. Funding should be discontinued.

(151) P.L. 480
(Outlays in millions of dollars)

1983	1984	HF
1,042	1,088	253

Possible Savings: $835 million

Program Description: PL-480 provides subsidized (Title I) and free (Title II) agricultural commodities to foreign purchasers. Although the purpose of P.L. 480 ostensibly is to provide humanitarian and development assistance, it also serves as a mechanism for the disposal of U.S. "surplus" agricultural production arising from the Department of Agriculture's price support efforts.

Program Change: There is little economic reason for the government to support agricultural prices. Surpluses have dwindled and, in general, agricultural prices should be determined without government intervention. As an emergency food relief program, PL-480 may have merit; as a long-term development assistance program, it is disastrous. By providing developing states with food, the United States depresses the price of food in those countries, inhibiting agricultural production, and increasing the country's dependence on U.S. aid. If aid must be provided, the United States should provide food coupons that would strengthen prices and encourage domestic agricultural production. Surplus demand could be satisfied by purchasing U.S. food with the coupons. Eliminating Title I subsidies, and thus limiting aid to special humanitarian cases, could save about $835 million in 1984.

(155) EXPORT-IMPORT BANK
(Outlays in millions of dollars)

1983	1984	HF
3,498	3,950	0

Possible Savings: $3,950 million

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. By doing so, the U.S. subsidizes private domestic business and foreign buyers, distorts national and international markets, and encourages excessively risky trade deals.

Proposed Change: There is no sound economic reason for subsidizing foreign purchasers of U.S. goods. Loans made available to foreign firms could be employed domestically to stimulate job creation in other sectors. The Export-Import Bank should be abolished.

(270) ENERGY

(271) GAS CENTRIFUGE ENRICHMENT PLANT (GCEP)
(Outlays in millions of dollars)

1983	1984	HF
613	613	0

Possible Savings: $613 million

Program Description: GCEP is the Portsmouth, Ohio, facility constructed to convert uranium into fuel for nuclear reactors. So far, some $1.2 billion has been spent on it. The estimated total cost is expected to exceed $10 billion.

Program Change: The General Accounting Office and Congressional Research Service have echoed many private experts in expressing their doubts about the project's necessity given weak demand for uranium and the development of new laser technology. Present American uranium enrichment prices are so high that they have led to a decrease in the U.S. share of the foreign market from nearly 100 percent to 35 percent. GCEP is a $10 billion government boondoggle. Funding should cease.

(271) CLINCH RIVER BREEDER REACTOR
(Outlays in millions of dollars)

1983	1984	HF
174	370	0

Possible Savings: $370 million

Program Description: The program provides funds for work on a demonstration project for a "fast-breeder" nuclear reactor.

Program Change: Industry has never invested more than 9 percent to fund this "urgent" commercialization project. Moreover, studies by The Heritage Foundation and others point out that the technology may be too far ahead of its time, and that such development work should not be undertaken by the government.[5]

(271) FOSSIL ENERGY RESEARCH AND DEVELOPMENT (FERD)
(Outlays in millions of dollars)

1983	1984	HF
467	428	0

Possible Savings $428 million

Program Description: FERD allocates funds to explore and research coal and petroleum.

Program Change: DOE's research and development duplicates work underway in the private sector. Funding should be eliminated.

(271) SYNFUEL CORPORATION
(Outlays in millions of dollars)

1983	1984	HF
35	38	0

Possible Savings: $38 million

Program Description: The Corporation's mission is to support development of synthetic fuels from unconventional technologies and from proven methods not yet commercially "on line." The goal is to expand the U.S. energy supply and to increase the nation's energy independence. The estimated price tag of the total program is nearly $100 billion.

Program Change: Major energy firms plan massive investments in technology that make the government program redundant and unnecessary. There have been numerous "energy crises" in recent history. In every case, the private sector discovered a cheaper and more efficient energy source.

(272) SOLAR ENERGY CONSERVATION
(Outlays in millions of dollars)

1983	1984	HF
28	38	0

Possible Savings: $38 million.

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5 Henry Sokolski, "The Clinch River Folly," Heritage Foundation Backgrounder No. 231, December 3, 1982.

Program Description: This program subsidizes energy conservation in commercial and agricultural buildings and private homes, and encourages the development of solar technology. The subsidies are provided through grants and below-market rate loans.

Program Change: Conservation incentives belong in the marketplace and not in the federal budget. Given free market prices, owners of homes, businesses and farms are induced to make conservation investment decisions on their own, without an unnecessary windfall from the government. The dramatic drop in energy use in recent years proves this. The Administration estimated that in FY 1983 only 7,500 households nationwide would receive subsidized loans or grants for energy conservation, and only 1,800 new home buyers with passive solar designs features might have their mortgage costs reduced under this program. This program should be terminated.

(272) ENERGY CONSERVATION
(Outlays in millions of dollars)

1983	1984	HF
440	500	0

Possible Savings: $500 million

Program Description: This program funds demonstration projects, research grants and investments in energy conservation that would not be undertaken in the private sector.

Program Change: The reason the projects are not undertaken by the private sector is because price regulation artificially reduces the price of energy and thus the incentive to conserve. By deregulating completely and allowing prices to rise to market level, the Department of Energy would encourage private sector investment in new energy sources and conservation techniques. The program should be terminated.

(274) STRATEGIC PETROLEUM RESERVES (SPR)
(Outlays in millions of dollars)

1983	1984	HF
369	365	0

Possible Savings: $365 million

Program Description: The SPR, a stockpile of oil that could be used in the event of an oil embargo, was begun in 1975 with the intent of storing up to 1 billion barrels of petroleum at a total cost of $8 billion. Since then, the price of crude oil and storage costs have exploded. If the stockpile is topped off at 750 million barrels, as planned, the cost would exceed $26 billion, with an implicit carrying cost of $5 billion per year.

Program Change: The SPR is fraught with high costs, high risks and marginal benefits. The security of the storage facilities cannot be controlled. There is danger of contamination. Moreover, the SPR is unnecessary since private oil reserves are able to handle a short oil embargo. Like grain, oil is a fungible good and cannot be effectively embargoed to a single nation. Future stockpiling should end and the reserve sold off slowly.

(276) ENERGY INFORMATION ADMINISTRATION (EIA)
(Outlays in millions of dollars)

1983	1984	HF
76	93	30

Possible Savings: $63 million

Program Description: EIA is obliged to gather data concerning all transactions and product flow in energy commerce in the United States. This mandate has led it to require sellers of petroleum products to attempt to trace subsequent sales of their products, an almost impossible task. Data similar in detail are gathered for natural gas, coal, nuclear power and all other fuels.

Program Change: Some of EIA's work is duplicated by the Department of the Census and private industry. EIA's mandate should be limited to the collection of data useful to measure oil production rates and emergency oil supplies.

(276) ECONOMIC REGULATORY ADMINISTRATION (ERA)
(Outlays in millions of dollars)

1983	1984	HF
57	55	0

Possible Savings: $55 million

Program Description: ERA is the final vestige of Richard Nixon's wage and price controls. It has been responsible for price and allocation regulations, some aspects of the Fuel Use Act, and the development of the standby gasoline rationing plan. ERA currently is involved in investigating gas prices and crude oil prices and processing crude oil price control cases--none of which are necessary or appropriate federal functions.

Program Change: Any continuing cases at ERA should be settled with consent orders or turned over to the temporary Emergency Court of Appeals. ERA should be abolished quickly and completely.

(276) DEPARTMENTAL ADMINISTRATION (DEPARTMENT OF ENERGY)
(Outlays in millions of dollars)

1983	1984	HF
294	300	240

Possible Savings: $60 million

Program Change: By terminating many of the department's programs and scaling back their other activities, 20 percent can be saved in administration. Eventually, the Department of Energy should be downscaled and stripped of its department status.

(300) NATURAL RESOURCES AND THE ENVIRONMENT

(301) SOIL CONSERVATION SERVICE; WATERSHED AND FLOOD PREVENTION OPERATIONS
(Outlays in millions of dollars)

1983	1984	HF
210	219	192

Possible Savings: $27 million

Program Description: This program provides for cooperation between the federal government and states and their political subdivisions in installing works of improvement to reduce damage from floodwater, sediment, and erosion; for the conservation, development, utilization, and disposal of water; and for the conservation and proper utilization of land.

Program Change: Several analyses, from both sides of the environmental political spectrum, indicate that this program has become a pork-barrel. Some of the irrigation projects it funds are outdated. There are no material environmental or cost-benefit reasons for increasing this program over the 1982 expenditure level of $192 million. It has achieved its primary purposes on past budgets.

(301) BUREAU OF RECLAMATION, CONSTRUCTION PROGRAM
(Outlays in millions of dollars)

1983	1984	HF
602	663	564

Possible Savings: $99 million

Program Description: The Bureau of Reclamation plans, constructs and operates facilities to irrigate lands, furnish municipal and industrial or other water supplies and develop related hydroelectric power and flood control in the western states and Hawaii. Many of these projects' sole beneficiaries are private firms and individuals.

Program Change: This program should be retained at the FY 1982 level. The federal government should reduce their involvement in these *de facto* water related subsidies to the private sector.

(301) CIVIL CORPS OF ENGINEERS: USER CHARGES
(Authority in millions of dollars)

	1983	1984	HF
Budget Authority	3,145	3,266	3,266
Offsetting User Fees	0	0	1,300

Possible Savings: $1,300 million

Program Description: The U.S. Army Corps of Engineers spends about $500 million a year to maintain and operate ports and channels for all deep-draft vessels. In addition, the Corps will spend about $4.4 billion between 1983 and 1987 for inland navigation services. Waterway user fees over the same period will only cover about 8 percent of the projected federal expenditures.

Program Change: The Corps should charge all vessels a user fee approximating the costs of constructing and operating inland waterways and deep-draft ports. One option is to assess a harbor and channel user fee where a ship is charged each time it uses a particular waterway facility.

(302) NATIONAL FOREST SYSTEM (NFS), SALES OF TIMBER ON NATIONAL FORESTS
(Outlays in millions of dollars)

1983	1984	HF
665	697	492

Possible Savings: $205 million

Program Change: Included in the 1984 proposal is $205 million in subsidies for the timber industry, representing sales of timber sold "below cost." Federal sales-below-cost may discourage investments and production for profit on private lands, encouraging companies to substitute subsidized public for private timber. The NFS should charge market prices for their timber. The resultant savings would result from reductions in sales administration expenses, other management costs and road construction expenses brought about by reduced demand.

(302) <u>OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT: ABANDONED MINE RECLAMATION FUND</u>
(Outlays in millions of dollars)

1983	1984	HF
83	77	0

<u>Possible Savings: $77 million</u>

<u>Program Description</u>: This activity currently provides for grants to states to reclaim lands damaged from past mining practices, assistance to states in developing their reclamation programs and the payments of fees for authorized services to eligible coal mine operators in preparing applications for mining permits under state/federal regulatory programs.

<u>Program Change</u>: The program should be a financial responsibility of the state governments, and the federal funding should be eliminated.

(303) <u>NATIONAL PARKS SERVICE: URBAN PARKS RECOVERY PROGRAM</u>
(Outlays in millions of dollars)

1983	1984	HF
39	31	0

<u>Possible Savings: $31 million</u>

<u>Program Change</u>: The federal government does not belong in the business of procuring and caring for urban parks. The benefits of the park are largely enjoyed by the residents and should be funded on a local basis.[6]

(304) <u>ENVIRONMENTAL PROTECTION AGENCY: SALARIES AND EXPENSES</u>

1983	1984	HF
597	602	494

<u>Possible Savings: $109 million</u>.

<u>Program Change</u>:

1) Eliminate the Office of Federal Activities in the Administrator's Office. Much of this office's activities duplicate contract and intergovermental work already coordinated by the Office of Intergovernmental Liaison. (Savings of $1.3 million.)

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6 For a summary of privatization methods used by cities, see Robert Poole, "Municipal Services: The Privatization Option," Heritage Foundation <u>Backgrounder</u> No. 238, January 11, 1983.

2) Consolidate the in-house Policy Analysis, Management and evaluation activities of the offices of 1) Water, 2) Solid Waste and Emergency Response, 3) Air, Noise and Radiation, and 4) Pesticides and Toxic Substances by shifting their program responsibilities to the Assistant Administrator for Policy and Resource Management and abolishing the redundant positions. The program areas mentioned have each established policy review functions which are primarily program specific. Duplicative staff in these four program areas should be eliminated from the budget. (Savings of $27 million.)

3) Eliminate all temporary employees by January 31, 1983. Many of the functions performed by these temporary employees are already assigned to existing full-time employees. (Savings of $39 million.)

4) Reduce the contractual obligations included in the "other services" object classification. The evidence available indicates that there is room in this budget area for some fat-cutting. (Savings of $41 million.)

(304) <u>EPA--RESEARCH AND DEVELOPMENT</u>
(Outlays in millions of dollars)

1983	1984	HF
109	131	70

<u>Possible Savings: $61 million</u>.

<u>Program Description</u>: This appropriation finances research and development of air, water and waste quality as well as toxic wastes. It provides the scientific basis for EPA's regulatory actions.

<u>Program Change</u>: Reductions could be made by eliminating duplicative contracts. Some contracts are awarded to consulting groups made up of former EPA employees. The purpose of the R&D program is to contract outside EPA for specialized scientific services not available within EPA. The need for a large number of the currently existing contracts in this category is questionable at best.

(304) <u>ABATEMENT CONTROL AND COMPLIANCE</u>
(Outlays in millions of dollars)

1983	1984	HF
424	389	234

<u>Possible Savings: $155 million</u>.

<u>Program Description</u>: This appropriation includes funds for contracts, grants, and cooperative agreements for pollution control, abatement and compliance activities.

Program Change: Many of these contracts are duplicative and let without utilizing available in-house professional expertise first. Substantial reductions could be achieved.

(304) CONSTRUCTION GRANTS
(Outlays in millions of dollars)

1983	1984	HF
3,740	3,500	2,940

Possible Savings: $560 million

Program Description: This appropriation provides grants to local public agencies for construction of municipal wastewater treatment facilities.

Program Change: EPA recently changed some of the important grant determination regulations--including a reduction in the federal match contributions. Previously, EPA accepted local estimates of future population to determine the need for future facilities and thus present funding. Because local agencies' estimates were very often inflated, this system resulted in the EPA funding excessively large facilities. Now the EPA makes its own estimates based on census data among other factors. Thus, there is less justifiable demand for grant funds. More important, there is an increasing number of innovative private sector alternatives being developed, which will further reduce the need for grants.

(306) NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (NOAA)
(Outlays in million of dollars)

	1983	1984	HF
Outlays	875	915	895
Offsetting User Fees and Revenues	20	20	220

Possible Savings: $220 million

Program Description. The NOAA manages, conserves, and monitors coastal water, monitors and predicts weather and marine conditions, and provides the aviation and marine community with maps and charts. Many NOAA services are below cost or free, thus subsidizing the users, encouraging uneconomical use of NOAA's resources, and inflating NOAA's outlays.

Program Change: NOAA should attempt to charge its "clients" more accurately for their services. For instance, NOAA should increase the price it now charges on its maps and charts to cover full cost.

NOAA should sell property rights to fishing grounds within the U.S. Fishery Conservation Zone. Auctioning off fishing rights in the same manner that offshore gas and oil leases are sold would eliminate current overfishing and add considerable economic efficiency to the benefit of both fishermen and the consumer.

The Weather Bureau should begin charging user fees for specialized forecasts and forecast data. This would not preclude publication of basic weather information without charge. Television stations that show weather satellite pictures, for example, could pay for the services of the NOAA, now largely provided free of charge.

The Administration should privatize the weather satellite system that now costs in excess of $100 million a year. A multitude of users would be willing to pay for these satellite products and services. Based on 1982 Administration figures, The Heritage Foundation estimated that these measures could save $220 million in 1984.

(350) AGRICULTURE

(351) FARM INCOME STABILIZATION--WOOL AND MOHAIR PAYMENT PROGRAM
(Outlays in millions of dollars)

1983	1984	HF
31	48	0

Possible Savings: $48 million.

Program Description. The National Wool Act of 1954 authorized payments to farmers on marketing of shorn wool, unshorn lambs and mohair. The objective was to encourage annual domestic production of 300 million pounds of shorn wool.

Program Change. Even with this program, domestic wool production has only been about 100 million pounds a year. Only 800,000 farmers receive this payment, with the average subsidy of only about $400 per farmer. Thus the farmers who reap the benefits of these payments and the industry itself are unlikely to be significantly harmed by elimination of this program.

SUMMARY

In this first part of the budget analysis, $15.2 billion in possible program savings have been identified in the areas of defense, international aid, energy, natural resources, and agricultural supports. This is not intended to be a complete account of possible cuts--additional savings can be accomplished. The savings proposed in this analysis will require bold and decisive political action, but they must be made to restrain the growth of federal spending and the undue influence of government on our economic actions.

Part II of the analysis proposes savings of $52 billion from transportation, economic development, and general government and interest costs. Part III targets $44 billion in savings from human services programs.

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With the assistance of
The Heritage Foundation's Foreign
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	Outlay Reductions ($ millions)	Revenue Increases ($ millions)
FOREIGN OPERATIONS		
United Nations (151)	507	
Agency for International Development (151)	60	
Export-Import Bank (155)	3,950	
	4,517	
DEPARTMENT OF AGRICULTURE		
P.L. 480 (151)	835	
Commodity Credit Corporation: Wool and Mohair Subsidy (351)	48	
Special Milk Program (605)	32	
Nutrition Assistance to Women, Children, and Infants	297	
Food Stamps (605)	3,065	
Child Nutrition (605)	900	
	5,177	
DEPARTMENT OF THE TREASURY		
Federal Election Commission (806)	10	
Federal Retirement System (602)	4,600	
	4,610	
DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION		
NLRB (505)	156	
State Education Block Grants (501)	548	
Impact Aid (501)	222	
Compensatory Education for the Disadvantaged (501)	1,240	
Adult and Vocational Education (501)	467	
Bilingual Education (501)	140	
Education for the Handicapped (501)	333	
Howard University (501)	45	
Higher and Continuing Education (502)	150	
Student Financial Assistance (502)	3,434	
Guaranteed Student Loans (502)	1,000	
Student Loan Debts (502)		1,000
Women's Education Equity Program (502)	48	
Corporation for Public Broadcasting (503)		
Work Incentives (504)	289	
Employment Services Administration (505)	162	
Human Development Services (506)	289	
Community Service Block Grants (506)	361	
Tax Medical Insurance (550)		4,800
Medicare (551)	1,700	
National Institutes of Health (552)	400	
Alcohol, Drug Abuse, and Mental Health (552)	48	

	Outlay Reductions ($ millions)	Revenue Increases ($ millions)
Social Security (601)	1,000	9,100
Low Income Energy Assistance (609)	575	
AFDC (609)	30	
	12,641	14,900

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Urban Development Action Grants (451)	537	
Housing Assistance - Section 8 (604)	5,000	
Consumer Product Safety Commission (554)	35	
EPA: Salaries and Expenses (304)	108	
EPA: Research and Development (304)	61	
EPA: Abatement and Compliance (304)	155	
EPA: Construction Grants (304)	560	
General Revenue Sharing (801)	4,894	
Appalachian Regional Development (452)	233	
	11,583	

DEPARTMENT OF DEFENSE

Military Retirement (051)	163	
Military Procurement (051)	3,250	
Military Operation and Maintenance (051)	10	
Military Personnel (051)	1,033	
	4,456	

DEPARTMENT OF ENERGY

Gas Centrifuge Enrichment Plant (GCEP) (271)	613	
Clinch River Breeder Reactor (271)	370	
Fossil Energy Research and Development (271)	428	
Synfuel (271)	38	
Solar Energy Conservation (272)	38	
Energy Conservation (272)	500	
Energy Information Assistance (276)	63	
Economic Regulatory Administration (276)	55	
Energy Department Administration (276)	60	
Bureau of Reclamation Construction (302)	99	
Civil Corps of Engineers (301)		1,300
	2,264	1,300

DEPARTMENT OF THE INTERIOR

Soil Conservation Service: Watershed and Flood Prevention (301)	27	
National Forest Service: Timber Sales (302)	205	
Abandoned Mine Reclamation (302)	77	

	Outlay Reductions ($ millions)	Revenue Increases ($ mill[illegible]s
Urban Parks Recovery Program (303)	31	
Indian Education (501)	91	
Indian Affairs (452)	70	
National Foundation on the Arts and Humanities (503)	57	
Strategic Petroleum Reserve (274)	365	
	923	
DEPARTMENT OF TRANSPORTATION		
Federal Aid to Highways (401)	6,400	
Interstate Transfer Grants (401)	261	
Urban Mass Transit (401)	2,390	
Interstate Commerce Commission (401)	12	
Washington Metro (401)	295	
AMTRAK (401)	808	
Aid to Alaska Railroad (401)	11	
Federal Highway Administration (401)		2,000
Federal Railroad Administration (401)	445	
Civil Aeronautics Board (402)	27	
Federal Aviation Administration (402)	275	
Air Traffic Control (402)	2,200	
Coast Guard (403)		1,500
	13,124	3,50[illegible]
DEPARTMENTS OF JUSTICE, COMMERCE, AND STATE		
Minority Business Development Administration (376)	65	
U.S. Travel Service Administration (376)	7	
Small Business Administration (376)	225	
Federal Communications Commission (376)	8	
Federal Trade Commission (376)	13	
Federal Maritime Commission (403)	12	
Ocean Subsidies (403)	431	
Economic Development Administration (452)	268	
Legal Services Corporation (752)	269	
Criminal Justice Assistance (754)	74	
National Telecommunications Information Administration (503)	17	
National Oceanic and Atmospheric Administration (306)	20	200
	1,409	200
INTEREST		
Interest on the National Debt (901)	24,000	
Interest Savings from Reduced Deficit (901)	1,650	
Repeal of Davis-Bacon (999)	2,800	
Elderly Exemption (999)		2,3[illegible]
	28,450	2,3[illegible]