February 11, 1985

A GUIDE TO THE REAGAN BUDGET

INTRODUCTION

Ronald Reagan carried all but one state last November by making a clear and unequivocal campaign commitment: he would continue to strengthen America's defenses, cut the size of the federal government, and reject calls for a tax increase to "cure" the deficit. In rejecting Reagan's opponent, the American people decisively repudiated the notions that federal action is the first choice for tackling America's problems, that taxes should be increased, and that liberals understand the nation's defense needs.

The Reagan Fiscal Year 1986 budget request, released February 4, transforms the November mandate into tangible financial form. While total expenditures as a proportion of GNP would be brought down in FY 1986 (although still well above the share during the Carter, Ford, and Nixon years), the composition would change significantly, continuing Reagan's strategy of focusing the national government's efforts upon genuinely national responsibilities of government (such as defense) and returning to the states, cities and the private sector the functions that rest more appropriately with them. Quite properly, the Administration has generally rejected "across-the-board" freezes, which would lock in federal programs that have no place at the federal level, while crimping those programs that should be funded and designed by Washington.

Not only does the budget reflect the President's view of the division of responsibilities within the federal system, it also demonstrates that the White House has not lost sight of its broad economic goals. The budget request rests on the assumption that it is the scale of government spending that poses the greatest threat to America's economic well-being, not whether that spending is financed by taking the money of citizens (in the form of taxes) or borrowing it. In so doing it rejects the argument, voiced even by some conservatives, that taxes should be raised. The White House rightly explains that tax hikes would undermine the strong economic expansion now under way and relieve the pressure on Congress to tackle burgeoning federal spending. An unbalanced federal budget with lower spending as a proportion of national output, the Administration correctly reasons, is less damaging to the economy than a balanced budget with ever-mounting spending.

The specifics of the budget reveal a clear and bold pattern. If adopted, these programmatic reforms could lead to a decisive change in the federal role--a change as important and as lasting as the New Deal or the Great Society.

1) Refocusing on National Priorities

The budget would continue to alter the basic composition of federal spending, a task begun with Reagan's 1981 budget victories. National defense would increase its share of the federal dollar, rising from 29.5 percent in FY 1985 to 35.2 percent in 1988. This still constitutes a smaller share of GNP than under President John Kennedy. On the other hand, discretionary programs of more direct interest to states and local communities, such as many of those concerned with transportation, agricultural supports, and certain social services, are slated to be eliminated or cut back substantially, bringing their share of the budget down from 18.7 percent in FY 1985 to just 11.3 percent in FY 1988.

2) Returning Development Responsibilities to States

The most dramatic examples of the change in government responsibilities contained in the budget involve development assistance and other forms of aid to the states. The Administration's position is that the federal government should play no role in local economic development projects. Washington's job instead is to create a tax and regulatory climate conducive to enterprise, so that private and local government development efforts are more likely to succeed. Hence, the Reagan budget would end such programs as Urban Development Action Grants, close down the Economic Development Administration and Appalachian Regional Commission, and phase out grants for wastewater treatment facilities.

The Administration similarly seeks to return the funding responsibility for transportation to the states and cities. With the federal government picking up 90 percent of the tab for many major highway projects, and heavily subsidizing urban mass transit, it is hardly surprising that there is enormous local pressure for these programs. By taking the first significant steps towards ending federal support for such programs of purely local benefit, the Reagan budget not merely reduces federal spending, but also forces local taxpayers and their representatives to decide if these projects really do constitute value for money.

In addition, the budget contains a long-overdue assault on general revenue sharing, a program that transfers money from insolvent Washington to the financially flush states. Each year this popular holdover from the Nixon Administration takes $4.5 billion from the federal government (which is running a $200 billion deficit), and distributes it without restrictions to the states (which, with local governments, are enjoying a $50 billion surplus).

3) Tackling Middle-Class Subsidies

Critics of the Administration predictably have been quick to charge that the budget unfairly hurts the poor while imposing few burdens on traditional Republican voters. This charge apparently is being made without examining the Reagan proposals. One of the budget's more remarkable features is that it takes aim at some of the most sacred middle class cows. Changing the eligibility for student loans, for instance, primarily would hit middle class voters, as would cutbacks in highway and Amtrak subsidies. Similarly, the dramatic proposals for reforming agriculture programs would have their greatest impact on middle class voters in western and middle western states.

Just as the budget seeks to end federal activities that should be undertaken by state and local governments, it also embodies another fundamental Reagan principle: the federal government has no business subsidizing middle class Americans.

4) Reforming the Safety Net

The fourth key element of the budget is its proposals for basic safety net welfare programs. These proposals continue along the road mapped out by the Administration in 1981: reduce overlap in programs, tighten eligibility to provide assistance where it is really needed, improve incentives to reduce dependence, and gradually move funding responsibilities and discretion to the states. Consequently, the Administration proposes to cap Medicaid assistance to the states, cut many low-income housing programs, consolidate additional categorical health programs into block grants, tighten eligibility criteria for Aid to Families with Dependent Children (AFDC), and enforce "workfare" requirements for those receiving welfare.

As the history of the 1981 budget reductions and block grants demonstrates, states can take over many federal safety net programs and do to use their remaining block grant federal funds efficiently. The FY 1986 budget builds on this successful experience.

Technical Note

In the following analysis of the Reagan Administration's major budget proposals, programs are listed by subfunction number, the form in which the President submits his budget proposals to Congress. Under each program there are four figures: the baseline for 1986, which represents estimated federal outlays for FY 1986 were there to be no change in policy; the Office of Management and Budget (OMB) request for FY 1986, which constitutes the Administration's budget proposal; the savings that OMB figure implies for FY 1986; and the cumulative savings that would accrue over the next three years. In certain cases, official estimates are not available as this <u>Backgrounder</u> is being published.

Below the budget summary, each program is described and the Administration's recommendations for changes in policy are summarized. Following this is a short commentary on each Administration proposal. An appendix indexes all the programs covered.

Stuart M. Butler, Ph.D
Director of Domestic Policy Studies

Stephen Moore
Research Associate

(151) THE PEACE CORPS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$130	$124	$6	$18

Program Description: Launched in 1961 with a budget of $30 million, the Peace Corps provides volunteers for developing nations. These volunteers teach reading and writing and provide training of agricultural and other basic skills to promote economic development in the world's poorest countries.

Administration Proposal: Scale back the Peace Corps by $6 million.

Comments: The Peace Corps was devised as an apolitical philanthropic program, but recently has become so involved in the ideological foreign policy tug-of-war that its ability to carry out its objectives has been seriously impaired. Furthermore, the General Accounting Office recently criticized Peace Corps management procedures that prevent sound evaluations of the quality of its overseas programs.[1] As a result, audits have uncovered tens of thousands of dollars misspent or unaccounted for.

The amount of federal funding of Peace Corps activities has nearly tripled since the program's inception, while private cash contributions have dwindled to two-tenths of a percent of the program's total budget. In light of the fact that U.S. businesses spend hundreds of millions of dollars each year supporting international development programs, the proposed reduction in federal financing of the Peace Corps could easily be made up from private contributions if this avenue were pursued more aggressively by the program's directors.

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

Baseline 1986	OMB 1986	Savings	3-Year Savings
$996	$603	$393	$3,874

Program Description: The "Eximbank" extends credit support to overseas buyers of U.S. goods and services through direct loans for purchase of U.S. exports. It also offers insurance to exporters against payment default by foreign purchasers.

Administration Proposal: Terminate the Eximbank direct loan program.

---

1 General Accounting Office, "Survey of Management of Peace Corps Operations," April 6, 1984.

Comments: The Export-Import Bank's loans amount to little more than generous subsidies to domesic exporters and foreign purchasers of U.S. goods. A 1981 study by the Federal Reserve Bank in Minnesota concluded that the costs of this loan program over the period 1976-1980 exceeded its benefits by $200 million--a cost borne mainly by U.S. taxpayers and unsubsidized domestic firms.[2] And while supporters of the bank cite domestic job creation as a justification for export subsidies, the available evidence indicates that no net employment generation occurs when resulting employment loss in unsubsidized industries is taken into account.[3]

The Export-Import Bank has provided a few very large corporations with heavy subsidies at the expense of small- and medium-sized businesses. Investigative reporter Donald Lambro found that 65 percent of the benefits, or $11 billion of the bank's outstanding loans, helped merely 18 large firms.

The Administration's proposal is but a small step in the right direction. Still better, would be to close the bank's doors completely.

(271) POWER MARKETING ADMINISTRATIONS (PMA)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$902	$2,531

Program Description: Five power marketing administrations within the Department of Energy administer federal power generating facilities and sell electric power to the public. The PMAs sell between 6 and 8 percent of all electricity generating in the U.S., making them the nation's single largest provider. The original intention was that the PMAs would be self-financing in the long term, but their current rates are only one-third of the national wholesale rate--in many cases these charges are well below cost. The most significant of the PMAs is the Bonneville Power Administration which markets electricity to the northwestern states.

Administration Proposal: Raise interest rates nearer to market levels and tighten credit terms extended by the Power Marketing Administrations.

---

2 John Boyd, "The Export Import Bank of the United States: A Cost Benefit Analysis," Federal Reserve Bank of Minneapolis, Working Paper No. 188, 1981.

3 Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options, February 1984, p. 143.

Comments: It is fundamentally unfair to require residents of such cities as San Diego, who pay 12 cents per kilowatt hour for privately generated electricity, to help pay power costs for Americans living in the Northwest, who pay only 2.5 cents. Even if the Administration's proposal is adopted, communities receiving PMA generated electricity would continue to pay rates far below the national average.

The Bonneville Power Administration (BPA) has been far and away the most highly subsidized of the PMAs, and has, with little notice, siphoned hundreds of millions of dollars out of the federal Treasury through a loophole in Department of Energy regulations. First, to put the matter in proper perspective, federal investment in Bonneville's power facilities exceeded $7 billion through 1982.[4] The BPA is obligated by law to repay the Treasury its investment over a 50-year period through the rates it fixes. However, it has managed to push repayment off into future years, for the Energy Department does not require inclusion of the amortized principal in BPA payments. As a result of this loophole, Bonneville can collect and reinvest the funds it owes the U.S. taxpayer. This practice is encouraged by the DOE's policy of charging rock bottom interest--around 4 percent--on the funds it owes the Treasury. The projected cost to the taxpayer of this pork-barrel subsidy to Northwest electricity customers: in the neighborhood of $1.5 billion over the next five years.

OMB's proposal is but one small step towards ending this indefensible subsidy. The Grace Commission has recommended that PMA user fees be brought into line with the cost of power charged by private-sector providers. The costs of such a plan to PMA consumers would be small; the benefits to the taxpayer would be substantial: just raising fees to one-half of the rate of privately generated power would reduce the federal deficit by $4.5 billion.[5] Eventually, of course, the federal government should disengage itself entirely from commercial electric power generation and marketing, and transfer the PMA's to private ownership.

(271) NUCLEAR ENERGY R&D
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$137	n.a.

Program Description: The Department of Energy supports research on alternative ways to generate electricity using nuclear

---

4 Congressional Budget Office, op. cit., p. 166.

5 William R. Kennedy, Jr., and Robert W. Lee, A Taxpayer Survey of the Grace Commission Report (Ottawa, Illinois: Green Hill Publishers, 1984), p. 96.

power (for example, designing new fission reactors; determining whether fusion is a feasible source of energy for commercial purposes). DOE also does work to resolve various problems faced by the nuclear industry, such as cleaning up radioactive materials at government and certain non-government facilities.

Administration Proposal: Reduce funding (budget authority) for "advanced" fission reactors by 17 percent ($76 million) and for fusion by 13 percent ($59 million), compared to current service levels.

Comments: There are two basic problems with federally funded nuclear fission R&D programs. First, The programs are an attempt to find a technical fix to help an industry whose problems are, for the most part, not primarily technological. The grim, unpleasant reality is that no U.S. utility has ordered a reactor in the past six years due to economic, financial, and political factors. There is little point in spending public money to develop advanced reactors at a time when utilities are not buying conventional reactors.

Second, there is no convincing reason for the federal government assuming the cost of nuclear research and development when most industries must conduct their own research to make their products acceptable in the marketplace. Furthermore, government-sponsored research can easily be misdirected and that has happened with these programs. For example, DOE continues to work on breeder reactors. Breeder reactors are reactors which economize on uranium. Since uranium prices have dropped sharply in the past decade, however, the research in this area may not be of practical use.

Fusion research and development should also be cut back, as OMB has proposed. While fusion energy continues to have great emotional and theoretical appeal to many, fusion is, at present, only a possibility and not a practical reality. Its capital costs are likely to be very significant and may completely outweigh cheaper fuel costs. Fusion may become a practical, economical alternative only after breeders have been well-established, well into the next century. With crude oil and natural gas prices declining there are more economical sources of energy available.

(271) NON-NUCLEAR ENERGY R&D*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$450	$346	$104	$534

* For additional information, see: Julian L. Simon, The Ultimate Resource (Princeton, New Jersey: Princeton University Press, 1981).

Program Description: The federal government plans to spend $1.9 billion in 1986 (and $11.0 billion from 1986 through 1990) on non-nuclear energy research, development, and demonstration. Programs include work at the Environmental Protection Agency on acid rain; research at the Energy Department (DOE) on the impact of radiation on biological systems; funding for supercomputers and materials science; applied research on energy conservation; and production subsidies provided through the Synthetic Fuels Corporation. The bulk of this research is undertaken at the national laboratories and at universities.

Administration Proposal: Reduce funding (budget authority) for these activities by 14 percent ($260 million) in 1986 and by 7 percent ($785 million) from 1986 through 1990. The proposed reductions would fall primarily within the Department of Energy's technology development programs on energy conservation; oil, gas, coal, other fossil fuels, and solar energy.

Comments: Private companies have strong incentives to undertake productive and promising investments, including investments on technology development in these areas, in response to market forces. If a company fails to undertake an investment, its management has determined that there are better uses for the time, talent, and capital in question. The government performs no useful service by pulling investment out of areas where it needs no subsidy into areas where subsidies are required.

There may have been a rationale for government funding of these programs when price controls were in effect, but with controls dismantled that rationale has evaporated. Similarly, a case can be made for federal assistance for long-term primary research, but not for commercial development. Continued subsidization of these technologies is a peculiar form of industrial policy, wherein the government gives financial aid to some of the country's largest and most profitable corporations.

Program advocates are concerned that the energy industry and consumers will not respond adequately to market incentives, but this is contrary to the evidence. The U.S. economy is using less energy today than it did five years ago. The energy needed to reduce a dollar's worth of GNP has dropped 20 percent in a decade. In short, the economy has demonstrated remarkable flexibility. These changes have come about in response to market incentives--not in response to government programs tucked away at national laboratories.

(274) STRATEGIC PETROLEUM RESERVE (SPR)*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$2,029	$379	$1,650	$5,177

Program Description: The SPR, a stockpile of oil that could be used in the event of an oil embargo, was established in 1975 with the goal of storing 90 days of U.S. petroleum consumption, estimated at one billion barrels.

Administration Proposal: Institute an indefinite moratorium on further fill and development of the SPR.

Comments: As a result of price-induced national conservation measures, a 90-day reserve would now require only 500 million barrels of oil, a level the SPR has nearly attained. Since 1975, the storage costs for maintaining this sizable reserve have exploded. If the stockpile is topped off at one billion barrels, as originally planned, the cost would exceed $26 billion, with an implicit carrying cost of $5 billion per year.

The SPR was established in 1975 and expanded in 1978 in response to gasoline lines and turbulence in world oil prices. Government controls on oil supplies and prices, in place in the U.S. until 1981, amplified disruptions in the world market. These controls made it a federal offense to move gasoline and heating oil from areas with temporary excess supplies to areas of shortage, but this bureaucratic attempt to interfere with the market process of adjustment only aggravated gasoline lines and shortages. When President Reagan dismantled these restrictions in 1981, he eliminated a key cause of the periodic "energy crises" which the SPR was meant to alleviate.

Defenders of the SPR also argued at its inception that the program was needed to add flexibility to a market balanced on a knife's edge. OPEC was seen as invincible. But oil prices have fallen a third from their 1981 peak, and members of OPEC have been struggling unsuccessfully to keep prices from falling further. Twice in the last three years the cartel has been forced to reduce prices. At the same time, the strategic power of OPEC has weakened--less than 25 percent of the free world's oil now comes from the Persian Gulf, down from 40 percent in 1979.

Given these changed conditions--both within the U.S. and throughout the world--there is sound practical and fiscal justification for the Reagan proposal to halt SPR purchases.

---

* For further information, see: National Petroleum Council, The Strategic Petroleum Reserve, December 1984.

(276) FEDERAL ENERGY REGULATORY COMMISSION (FERC)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$48	$30	$18	$92

Program Description: FERC was instituted in 1977 as the successor to the now defunct Federal Power Commission. Its authority includes regulation of interstate sales and transportation of natural gas, the licensing of interstate natural gas pipelines, regulation of the interstate sale of electricity, and licensing of hydroelectric facilities. Under the Natural Gas Policy Act of 1978, FERC also gained authority to regulate wellhead oil prices for natural gas sold exclusively on the intrastate market.

Administration Proposal: Raise user fees for FERC services to 88 percent of the Commission's expenditures, excluding only costs associated with prosecutions.

Comments: FERC currently collects user fees based on the cost of providing rate-setting and other regulatory services, but this covers less than 45 percent of the agency's annual costs--despite the fact that the total sales revenue of those industries regulated by FERC exceeded $140 billion in 1980. As the Grace Commission noted, an increase in user fees (of the magnitude that OMB is suggesting) would amount to 0.01 percent of the industry's total sales revenue. Since the recipients of FERC's activities--the regulated industries over which FERC has jurisdiction, and their customers--are easily identified, it is reasonable that the cost of regulation be included in the rates they charge. This is far more reasonable than the debt-ridden federal government assuming the cost.

(300) RECREATION USER FEES
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$87	$268

Program Description: Recreational facilities provided by the federal government include the national parks and national wilderness areas. Seven land-management agencies administer federal lands for which recreation user fees could be imposed: Bureau of Land Management, National Park Service, Army Corps of Engineers, Forest Service, Bureau of Reclamation, Fish and Wildlife Service, and the Tennessee Valley Authority. Some of these agencies, such as the Corps of Engineers, are restricted by law from collecting any user fees on certain of its recreational land. Others, such as the National Park Service, charge user fees, but these fees are extremely low and nowhere near the cost of maintenance.

Administration Proposal: Impose user fees, wherever possible, on federally administered recreational lands.

Comments: Low or nonexistant entrance fees for access to federal government recreational facilities have passed on the costs of providing these services to the general taxpayer, rather than to Americans who use them. The recreational lands administered by the Army Corps of Engineers, for instance, provide 400 million visitor days of recreation a year, but 80 percent of the visitors pay no entrance fee, and so Congress must appropriate nearly $100 million annually for the protection and preservation of these lands.[6] The National Park Service is another example of an agency that fails to recover fees in any proportion to the expenses it incurs--the Service collected a mere $10 million in 1981 from 300 million visitors. In that same year, the Park Service spent $450 million for the maintenance and operation of the national parks.[7] Moreover, the disparity is growing worse. While entry fees financed about 7 percent of the cost of running the national parks in 1971, ten years later the percentage had dropped to around 2 percent.[8] So users are paying less, and nonusers are paying more.

The average entrance fee, adjusted for inflation, has also been declining--down 50 percent between 1971 and 1981.[9] Indeed, the user fees are so low now that a family of four can drive into the Grand Canyon National Park for 2 dollars, while the same family would pay at least ten times that cost to enter the typical amusement park for an afternoon.

There is an indisputable public benefit to maintaining and protecting this country's national forests, parks, and wilderness areas for future generations. The OMB's proposal does not mean that recreation user fees should recover all or even a substantial portion of the costs for preserving these lands. But the entrance fees charged at the government's national parks and wilderness areas should be required to rise in line with the increases in the cost of day-to-day upkeep.

(301) WATER PROJECTS--CORPS OF ENGINEERS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$403	$1,666

---

6 Office of Management and Budget, Major Themes and Additional Budget Details, FY 1984, p. 176.

7 William R. Kennedy, Jr., and Robert W. Lee, op.cit., p. 96.

8 Ibid.

9 President's Private Sector Survey on Cost Control, War on Waste, 1984, p. 469.

Program Description: The Corps of Engineers spends nearly $1.2 billion annually on water projects. Almost half of this is spent on constructing and maintaining ports and channels, while the remaining funds are spent on building and operating inland waterways, comprising canals, locks, and dams that serve barge transport. Both of these programs almost exclusively benefit commercial shippers.

Administration Proposal: Levy user fees on commercial shippers to defray the cost of Corps water projects.

Comments: The Administration's user fees proposal should be adopted on equity grounds. User charges now recover only about 3 percent of the federal government's cost in operating Corps of Engineers water projects.[10] Since the Corps is expected to incur outlays exceeding $6 billion over the period 1985-1989,[11] there is every reason to require commercial shippers to pay their share.

Cost studies have found that increased user fees would not be ruinous for U.S. shippers, as they so often contend. The Congressional Budget Office, for instance, has estimated that full-cost recovery user fees for ports and harbors (a reimbursement level far greater than OMB proposes) would increase the cost of exported goods only "slightly--for example, less than 1 percent in the cost of coal delivered to Europe." And a plan simply to recoup the cost of operation and maintenance of ports and harbors--with potential savings of nearly $500 million annually--would raise port costs by between 1 and 9 percent, but raise the total cost of exported goods by a far smaller percentage.[12]

(301) WATER PROJECTS--BUREAU OF RECLAMATION
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$4,373	$4,169	$205	$522

Program Description: Operating in 17 western states, the Bureau of Reclamation plans, constructs, and maintains multipurpose water projects. These projects include the building of dams, the conveyance of water for irrigation, and the generation of hydroelectric power. About 93 percent of the federally subsidized water under this program is used for irrigation.

Administration Proposal: Increase user fees and tighten cost-sharing formulas.

---

10 William R. Kennedy, Jr., and Robert W. Lee, op. cit., p. 96.
11 Congressional Budget Office, Reducing the Deficit, op. cit., pp. 169-170.
12 Ibid.

Comments: In 18 of its major water projects the Bureau sells water at an average price of $9.34 per acre-foot, while the average cost to deliver this water is $58 per acre-foot.[13] This represents an enormous taxpayer subsidy to western farmers. Indeed, the General Accounting Office has concluded that the cost to the government of delivering water in many cases actually exceeds the added income that irrigation earns farmers--in other words, it would be less costly for the federal government simply to write these farmers a check for the difference in income.[14] In addition, some experts contend that the subsidy has caused chronic misallocation and overutilization of water resources in the West, unwittingly contributing to water shortages the Bureau is designed to combat.

A 1984 National Wildlife Federation study provides further support for the Administration's proposal. The study's findings reveals that the Bureau's failure to collect or impose water project user fees has shortchanged the U.S. Treasury out of several hundred million dollars. The following is a list of some of their more dramatic findings:[15]

1) Failure of the Department of the Interior to collect repayment of funds used to build and operate six major federal water and power projects will cost the federal government $10 billion over the next 50 years should present policy continue.

2) Nearly 20 percent of the power output from federal dams in the Missouri River Basin is now given away free. This is enough enegy to provide electricity for 250,000 residential customers.

3) An Inspector General audit found that Bureau water project customers have been charged interest rates of 3½ percent on balances owed to the federal government, over a period in which the federal government has been forced to borrow at rates between 7 and 14 percent.

The widespread abuses uncovered by the National Wildlife Federation report underscore the need for immediate increases in Bureau water user fees, in conjunction with tighter enforcement and collection mechanisms.

---

13 Congressional Budget Office, Reducing the Deficit, op. cit., p. 167.

14 Study quotes in ibid.

15 National Wildlife Federation, Shortchanging the Treasury: The Failure of the Department of the Interior to Comply With the Inspector General's Audit Recommendations to Recover the Costs of Water Projects, 1984.

(302) DEPARTMENT OF AGRICULTURE--AGRICULTURAL CONSERVATION PROGRAM
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$954	$769	$184	$1,412

Program Description: The U.S. Department of Agriculture's Agricultural Conservation Program administers national soil and water conservation strategies. The major component of the program is the Soil Conservation Service (SCS), which provides farmers USDA funds and technical assistance to prevent soil erosion and water losses. The SCS also monitors nationwide soil and water loss due to erosion.

Administration Proposal: Reduce spending on government agriculture conservation programs.

Comments: Perhaps no one has more succinctly attacked the rationale behind federally funded soil conservation programs than Nobel Laureate economist Theodore Schultz:[16]

> We proclaim to the world that American farmers are second to none in their agricultural achievements; but when it comes to soil erosion, the prevailing assumption is that American farmers have no perception of the value of their soil resources and that they act as if they were indifferent to soil losses. The dynamics and success of agriculture in the United States is ample proof that farmers are competent entrepreneurs; they do not shed their entrepreneurial ability when it comes to investments to improve and maintain their soil resources.

Nevertheless, the Department of Agriculture Agriculture in 1983 disbursed $1 billion in federal funds to the nation's farmers either through technical assistance or by sharing the cost of applying conservation practices. Yet with the average value of a U.S. farm today at approximately $280,000, American farmers need little urging to engage in conservation measures which protect this sizable asset.

There are other problems in justifying the Department of Agriculture's massive expenditures in farmland preservation:

1) The alleged crisis stemming from a supposed loss of prime farmland through erosion or urban encroachment is utterly without factual foundation. For example,

---

16 Theodore W. Schultz, "The Dynamics of Soil Erosion in the United States," in John Baden, ed., The Vanishing Farmland Crisis (University Press of Kansas, 1984), pp. 45-58.

the main source for the farmland scare was the 1977 National Agricultural Lands Study which asserted that the nation was losing up to 3 million acres of cropland annually. But just last year the USDA quietly conceded that this often quoted figure had been far off the mark--perhaps three times higher than the actual rate. Moreover, Census of Agriculture data reveal that the amount of harvested cropland is actually rising.[17]

2) Total U.S. production of food has risen rapidly over recent decades while the price of food is more affordable now than it has ever been. These data soundly refute predictions of impending U.S. food shortages due to soil erosion on prime farmland and contradict popular arguments for government conservation measures.[18]

3) Over half of all Agriculture Conservation Program funds have been spent on farms where erosion is negligible or under the five tons per acre per year level considered an acceptable rate. Further, a USDA study concluded that only 21 percent of SCS erosion control funds went to farmers with 84 percent of all erosion problems. The figures for water conservation assistance were even worse: only 4 percent went to high water-use farmers.[19]

4) The Grace Commission found that $194 million could be eliminated from the Agricultural Conservation Program budget merely by consolidating overlapping activities under the SCS, Agriculture Stabilization and Conservation Schedule, and Farmers Home Administration.

The Administration's proposal calls for cutting back federal soil and water conservation programs. This is a useful step. But eventually the programs should be eliminated entirely.

(303) DEPARTMENT OF THE INTERIOR/NATIONAL PARK SERVICE--LAND ACQUISITIONS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$176	$134	$42	$229

---

17 Julian L. Simon, "U.S. Farmlands: The False Crisis," Heritage Foundation Backgrounder No. 280, September 14, 1983.

18 Donald Lambro, Washington, City of Scandals (Boston: Little, Brown and Company, 1984), p. 274.

19 President's Private Sector Survey on Cost Control, op. cit., p. 27.

Program Description: The National Park Service land acquisition program carries out the provisions of the Land and Water Conservation Fund Act. Public land acquisitions are made to expand nationally significant federal recreation areas.

Administration Proposal: End land acquisitions for public parks.

Comments: The federal and state governments own over 760 million acres of land, or 33 percent of the nation's land area. Expenditures simply for managing and preserving that land have risen considerably over the past 15 years. In 1970, the Department of the Interior spent $900 million on land management and conservation. By 1981, that figure had grown nearly fourfold--to $3.4 billion. In light of ever rising deficits, the government should be selling tracts, not buying new land. The Grace Commission study, for instance, identified 11.5 million acres of federal land as "excess acreage." By selling just one-third of that excess acreage, the federal government could obtain $900 million in net revenues. An additional $150 million could be saved from the reduced costs of maintaining that land. These land sales could be made without touching federal holdings of parks, wilderness areas, and similar environmentally sensitive areas.[20]

(304) EPA WASTEWATER TREATMENT GRANTS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$2,650	$2,650	-	$190

Program Description: The EPA wastewater treatment grants program began after the passage of the 1970 Clean Water Act. It was intended to to aid local communities in complying with the new treatment standards. The money is used for the construction of municipal wastewater treatment facilities.

Administration Proposal: Allow no new starts for federal sewer and water grants.

Comments: The local municipalities have had ample time--and more than $40 billion over 15 years--to comply with EPA discharge standards. Part of the reason for the continued high cost of the program has been that while the federal government contributes more and more money to local communities for construction of better wastewater plants--about $2 billion annually--the EPA continues to raise the level of required treatment, which causes the local governments to request more federal assistance.

---

20 William R. Kennedy, Jr., and Robert W. Lee, op. cit., p. 20.

At this stage, the grants are really nothing more than a subsidy to the builders and local communities. All other similar expenses are funded locally. The fact that, according to EPA's own data, U.S. drinking water is now cleaner than it has been in recent decades taken underscores that the objective of the federal grants has been achieved.[21]

More important, the federal government can no longer afford the subsidy; the Environmental Protection Agency estimates that local municipalities will request in excess of $118 billion in federal funding through the year 2000.[22] What is perhaps most scandalous about these wastewater treatment grants is that even the wealthiest communities come knocking at the receptive federal door. Arlington, Virginia, the nation's third most affluent county, has received over $60 million in U.S. Treasury funds to finance a modernized water treatment plant:

> Could well-to-do Arlington have built the treatment center on its own? Alan F. Cassel, chief of the county's water pollution control division, concedes that it may well have done so. And it might have built the plant in six rather than 14 years, says Cassel, if it had not been dependent on EPA's protracted and piecemeal funding methods. Speedier construction would have avoided some of the steep rise in construction costs. Cassel adds: "If it were the county's own money, I am not sure that all that was built would have been built."[23]

In his view, EPA's quality standards required some rarified equipment that was not really necessary. The OMB proposal is indeed logical and fair, by requiring that communities pay the cost of cleaning their own effluents.

Even greater cost-savings could be realized by both the federal government and local communities if wastewater treatment were handled by the private sector. Johns Hopkins University economist Steve Hanke estimates that "the costs of private supply typically run 20 to 50 percent lower than public supply." And private firms are anxious to finance and operate wastewater treatment plants: Camden, New Jersey recently received nineteen bids from the private sector to operate this service. Over 80 percent of San Jose, California, wastewater treatment is already handled by the private sector.[24] According to the Grace Commission,

---

21 Council on Environmental Quality, Environmental Quality--1980, 1980, p. 81; or Council on Environmental Quality, Annual Report, 1975, p. 352.

22 President's Private Sector Survey, op. cit., p. 311

23 Irwin Ross, "One County's Pipeline to the Treasury," Fortune, February 20, 1984, p. 51.

24 Robert W. Poole, Jr., "Privatization Resurrects Decaying Infrastructure," Fiscal Watchdog, October 1983.

privatization would encourage future construction, reduce considerably the cost of sewage treatment to local residents, and stimulate new taxpaying business formation.[25] By removing itself from the funding of local construction, the federal government would stimulate more such beneficial privatization of municipal services.

(306) NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION--COASTAL ZONE MANAGEMENT STATE ASSISTANCE GRANTS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$37	0	$37	-

Program Description: The Coastal Zone Management State Assistance Grants were established in the mid-1970s to assist coastal states in managing and preserving the environment of their coastal areas. Coastal Zone Management was never intended to continue indefinitely; it was expected that states would assume increasing funding responsibility so that federal participation could be phased out.

Administration Proposal: Discontinue federal funding of the grant program.

Comments: The Coastal Zone Management program has attained its objective; in almost every coastal state, coastal zone management is established and further federal assistance is unnecessary. A number of communities have used the grants for pure pork barrel projects, such as upgrading small boat and craft harbors and building piers. The grant money even is spent on instituting restrictive land use regulations--usually of dubious merit. But regardless of whether these kinds of projects are worthwhile, their costs should be borne exclusively by the taxpayers of state and local governments who derive benefits from them, not the federal taxpayer.

(306) NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION--NATIONAL SEA GRANT COLLEGE PROGRAM
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$37	$15	$22	-

Program Description: This program, designed after the Land Grant Colleges program, was launched in 1960 to foster development of a nationwide system of Sea Grant Colleges. The

---

25 President's Private Sector Survey, op. cit., p. 311.

primary purposes of a Sea Grant College are to support the training of more marine science specialists and to further understanding of marine resources and the marine environment.

Administration Proposal: Rescind $22 million of the program's 1985 appropriation and terminate sea grant appropriations thereafter.

Comments: A nationwide network of twenty Sea Grant Colleges has been established. Today, there are more students studying marine biology and marine engineering than there are jobs in these fields--which means that the purpose of the sea grant program has been fully accomplished. Furthermore, the research conducted by Sea Grant Colleges is oriented toward solving regional marine problems and thus is not an appropriate concern of the federal government, but of the states.

(306) NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION--NEXT GENERATION WEATHER RADAR (NEXRAD)*
(Outlays in millions of dollars)

Baseline 1986[26]	OMB 1986	Savings	3-Year Savings
n.a.	n.a.	n.a.	n.a.

Program Description: The NEXRAD program provides for the acquisition of modern doppler weather radars to serve the NOAA national weather service, the Department of Defense, and the Federal Aviation Administration.

Administration Proposal: Discontinue development of the new radar system, and instead purchase commercially available off-the-shelf radar systems.

Comments: When the government initiated the Next Generation Weather Program, commercial systems were unavailable. But private industry has since developed economical, technically sophisticated doppler radars. These radars have already been sold to a number of foreign governments at costs significantly below what NOAA intends to spend on NEXRAD development. For NOAA to continue funding NEXRAD, the cost to the federal government over the next ten years is estimated at $900 million. For NOAA to shelve NEXRAD and buy commercially developed radars would cost between $250 and $300 million, or $600 to $650 million less than NEXRAD. The more economical option should be chosen.

---

* For a highly technical discussion of this topic, see: National Oceanic and Atmospheric Administration, "NEXRAD, Possible Technical Option in the Event of Cancellation Prior to Completion and Field Testing of Prototypes," December 21, 1984.

26 Savings incorporated under NOAA total budget. The proposed change would save $500 million over the next six years.

(351) DEPARTMENT OF AGRICULTURE--CROP PRICE SUPPORTS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$12,564	$10,522	$2,042	$16,077

Program Description: The Department of Agriculture's policy of setting price supports for wheat, corn, tobacco, rice, cotton, and other U.S.-grown crops was instituted to protect U.S. farmers against big swings in crop prices from year to year. Before each planting season, the federal government sets target price levels for each commodity. The government guarantees farmers that surplus production not sold in the market will be bought up by the government at the target price. Since 1981, the target price levels have been set far above market levels for most crops. Farmers currently are eligible to receive up to $50,000 annually in cash aid payments from the federal government.

Administration Proposal: 1) Reduce subsidies on grains and cotton to more closely approximate market levels. 2) Set a limit of $20,000 on subsidy and other cash payments to any single farmer in 1986, $15,000 in 1987, and $10,000 thereafter. 3) Limit price support loans to $200,000 for each farmer.

Comments: The proposed cutback of target price levels should bring crop prices back in line with market-determined levels, restore farm exports to heights attained at the end of the 1970s, and reduce the federal deficit significantly. Dr. Gale Johnson, an agricultural economist at the University of Chicago, long has supported slimming U.S. farm supports. He points out: "Congress should realize that its efforts to establish price support levels several years in advance has been a disaster....It is easy to blame the strong dollar for the decline in exports, but the price support levels bear a reasonable share of the blame. Hold the price support high enough and you're going to destroy our foreign markets."[27] Indeed, the level of U.S. farm exports has already begun to erode--precipitious declines have taken place since 1981 when farm exports peaked at $41 billion.

The cost of farm subsidies to U.S. taxpayers has mushroomed far out of proportion to their social benefits or even to their alleged benefits to farmers: Consider that the federal government spent more in 1983 on farm support programs than the entire net income of U.S. farmers.[28] Moreover, farm subsidies have grown fivefold in the past four years--from $4 billion in 1981 to $20 billion in 1984.[29]

---

27 United Press International, Release, April 28, 1984.
28 Ibid.
29 E.C. Pasour, "The Free Market Approach to U.S. Farm Problems," Heritage Foundation Backgrounder No. 389, October 30, 1984, p. 1.

Proponents of the high level of current farm subsidies contend, as they have for the past 40 years, that low farm incomes justify massive federal support. This assertion is contradicted by the facts--the average income of small farmers is close to the national average.[30] Most medium- and large-sized farmers do even better. One cannot ignore, however, that the rate of farm bankruptcies has risen dramatically in recent years. But the evidence is that this disaster has occurred more because of government farm policies, rather than despite them. Many of the current forpclosures, for instance, result from government-sponsored easy credit in the 1970s, which encouraged farmers to sink deep into debt.

It is important to bear in mind, moreover, when the "fairness" issue is raised that only half of agriculture is supported by federal subsidies; no subsidy is given to the growers of fruit, vegetables, and livestock. More to the point, the major beneficiaries of crop price supports are not those small-sized farmers the policies were designed to protect, but rather a small concentrated group of large farm owners. Only 15 percent of U.S. farmers receive about half of all federal payments.[31] Consequently, the OMB proposal to cap total cash payments at $10,000 per farmer can only add equity to the farm program.

This reform, in addition to the proposed cutback of target price levels, should redirect agriculture policies back toward the free market conditions they have strayed so far from. According to North Carolina State University economist E.C. Pasour, this policy change is justified because "there is no persuasive evidence that agriculture is different from other economic sectors, in the sense that the competitive market process is incapable of coordinating its economic activity."[32]

The Administration apparently recognizes this. Its budget proposal is consistent with the more general strategy outlined in the 1985 Farm Bill it will lobby for in upcoming months. Agriculture Secretary John Block recently discussed the type of farm legislation which Reagan and a growing number of farmers desire: "We need a market-oriented bill that will keep us competitive in the world. Farmers must produce in response to a market price....Congress could send agriculture down a new road wherein the market, not the government, becomes the guiding force."[33] The first step toward initating such broad reforms is to reduce crop target prices.

---

30 "U.S. Weighs New Farm Program with Reduced Government Role," New York Times, December 30, 1984, p. 22.

31 E.C. Pasour, "The High Cost of Farm Subsidies," Heritage Foundation Backgrounder No. 388, October 22, 1984, p. 1.

32 Pasour, "The Free Market Approach...," op. cit., p. 6.

33 John R. Block, "The Bill the Farmers Want," The Washington Post, January 24, 1985.

(351) DEPARTMENT OF AGRICULTURE--DAIRY PRICE SUPPORTS
(Outlays in millions of dollars)

Baseline 1986*	OMB 1986	Savings	3-Year Savings
n.a.	n.a.	n.a.	n.a.

Program Description: The Department of Agriculture sets annual dairy price support levels to stabilize dairy farm incomes and assure sufficient levels of domestic production of milk and dairy products. The supply of milk which exceeds commercial purchases is bought up by the federal government at the federally set price. In 1981 and 1982, the supply of dairy products exceeded demand by 10 percent, costing the federal government $4 billion dollars.

Administration Proposal: Replace the dairy price support program with an aid program for small farmers, eliminating federal subsidies to large dairy producers.

Comments: The dairy price support program is extremely wasteful of federal funds and is of little benefit to small farmers. The government currently purchases and stores whatever surplus milk, butter, and cheese is produced each year to the tune of $2 billion annually. Satirist George Will vividly described the USDA's expanding warehouse of dairy products in this fashion:

> A tour by golf cart reveals canyons of cheddar cheese in 500-pound barrels, towers of frozen butter in 68-pound boxes, endless aisles of 100-pound sacks of dried milk--61 million pounds of dairy products, enough to cover 13 football fields 17 feet deep, or fill a train stretching from Manhattan to Toledo.

Exacerbating the problem is that milk supply and demand are not projected to balance until at least 1987, which translates into overflowing inventories of government dairy products.[34]

Dairy price support levels enacted in the 1983 dairy bill are the most generous in history. The powerful dairy producers' lobby called the bill their "biggest victory," and indeed it is: some large dairy producers will receive subsidies in excess of $1 million.[35] As North Carolina State University economist E.C. Pasour recently pointed out: "The bill is hardly consistent with any supposedly lofty ideal of transferring income to poor farmers."[36]

---

* Savings from reduction of dairy price support reductions incorporated in reductions in general crop supports, budget function (351).

34 Congressional Budget Office, Reducing the Budget, op. cit., p. 142.
35 E.C. Pasour, "The Free Market Approach...," op. cit., p. 5.
36 Ibid.

Perhaps the biggest losers, however, are the American consumers who must pay double the world price for milk, butter, and cheese at the grocery store. Adoption of the OMB proposal to phase out dairy subsidies would save American taxpayers a projected $12 billion over the next three years, bring dairy prices back toward market-dictated levels, and allow federal subsidies to be targetted toward small farmers, who need them most.

(370) RURAL ELECTRIFICATION ADMINISTRATION
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$2,779	$2,603	$176	$1,801

Program Description: The REA was created in the midst of the Depression to provide electricity to America's farmers while reducing rural unemployment. At that time, only 12 percent of U.S. farmers had electricity. In 1949, the REA began providing telephone service to rural areas as well. Today, the REA continues to disburse $1.1 billion in loans annually, at 5 percent interest or lower, to rural electric and telephone cooperatives. These funds are to be spent on maintenance and expansion of utility operations.

Administration Proposal: Phase out Rural Electrification Administration loans by 1990.

Comments: There can be little dispute that the REA's job of bringing electricity to the nation's farmers was completed years ago. Ninety-nine percent of all farms have electricity, and 95 percent have telephone service--both remarkable accomplishments for which the REA deserves credit. But over the past ten years, rural electric cooperatives have continued to receive $70 billion in federal subsidies to provide underpriced electricity to 10 percent of U.S. households while the remaining 90 percent pay the difference through their taxes.[37] And the REA subsidy no longer benefits solely low-income farmers, nor is it restricted to residents of rural areas. Anchorage, Alaska, for example, a city whose median income is $10,000 above the national average, receives REA loans. Five REA co-ops in Georgia service suburban dwellers in the Atlanta metropolitan area.[38]

REA low-interest loans now finance more than just telephone service and electricity. The Wall Street Journal reports that REA loans have even been used to finance access to cable television in rural areas.[39] Frequently REA co-ops simply reinvest

---

37 John M. Palffy, "S.1300: The Multi-Billion Dollar Rural Electric Giveaway," Heritage Foundation Issue Bulletin No. 107, June 6, 1984, p. 2.

39 National Center for Privatization, Government Waste Report, Vol. 6, No. 1, 1985, p. 2.

39 "U.S. Charges Small Electric Utilities with Improper Use of Low Interest Loans," Wall Street Journal, September 1, 1983.

the federal loan subsidies at higher interest rates, for lack of a better way to spend the handout.[40] The Reagan phase-out plan would end such costly abuses, and save taxpayers billions over the next several years.

(370) RURAL HOUSING PROGRAMS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3 Year Savings
$4,595	$2,352	$2,243	$8,983

Program Description: The federal rural housing program is administered through the Farmers Home Administration (FmHA) and provides housing loans to low-income rural families. In 1983, 52,000 rural families financed mortgages with FmHA housing loans.

Administration Proposal: Eliminate rural housing programs.

Comments: According to Congressional Budget Office figures, 61 percent of rural housing was classified as substandard when the rural housing program was initiated, while in 1984 only 6 percent was so classified.[41] So the objective of rural housing programs has substantially been fulfilled. Moreover, it is no longer true that rural families need special housing assistance because their incomes are lower than average American families. The National Agricultural Forum estimates average small farmers' incomes at $19,435, or only slightly below the national average.[42]

These changed conditions justify terminating the rural housing programs. While there do remain low-income rural dwellers who are in genuine need of federal housing assistance, there is no longer a need for a special rural program to complement the other existing federal housing programs.

(376) THE SMALL BUSINESS ADMINISTRATION (SBA)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$1,325	-$142*	$1,467	$5,301

---

* Revenue from repayment of SBA loans.

40 Palffy, "S.1300...," op. cit., p. 11.

41 Office of Management and Budget, Major Themes, op. cit., p. 296.

42 "U.S. Weighs New Farm Program with Reduced Government Role," New York Times, December 30, 1984, p. 22.

Program Description: The Small Business Administration "aids and assists the interests of small business" through direct and guaranteed low-interest loans, administrative counseling, and statistical collection and analysis. The SBA also provides disaster assistance loans to small businesses to help them meet the costs of physical disasters, such as weather damage.

Administration Proposal: Abolish the Small Business Administration.

Comments: The Small Business Administration provides little, if any, benefit to most small businesses. SBA business loans are now distributed among less than one half of one percent of the nation's small businesses.[43] It is no wonder then that a National Federation of Independent Business survey found that half of the nation's small business owners oppose direct government loans to businesses, and only 10 percent said they would seek SBA assistance first in times of fiscal distress.[44]

But there are other reasons why the government should remove itself from the lending business. First, the SBA has proved to be an abysmal failure at identifying business ventures likely to succeed: the default loan rate at SBA has hovered at between 20 and 30 percent--a high percentage of losers even for a government agency.[45] Second, SBA lending has not been an important source of capital even for those firms receiving its loans--less than half rely on the SBA for most of their capital.[46] This indicates that eliminating the SBA will cause burdens for only a fraction of the less than one percent of U.S. businesses that even receive any assistance--many of whom should not be in business in the first place. Moreover, lowering inflation, personal tax rates, and capital gains taxes are the reasons why the start-up rate of new small firms is now breaking all records--not the SBA. If Congress genuinely wants to help small businesses, it would do so far more effectively through general economic policies that improve the business climate--such as by eliminating government regulation impeding new business formation and by further reducing taxes. In contrast to SBA assistance, these policies would benefit all small businesses.

---

43 Edward L. Hudgins, "Shutting Down the SBA Would Help Small Business," Heritage Foundation Executive Memorandum No. 70, December 20, 1984.

44 "Small Business Evaluates SBA," National Federation of Independent Business, June 1984.

45 Congressional Budget Office, Reducing the Deficit, op. cit., p. 141.

46 Hudgins, op. cit.

(401) FEDERAL HIGHWAYS TRUST FUND
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$13,457	$13,457	0	$2,460

Program Description: The federal government, together with the states, finances the construction and rehabilitation of interstate highways and bridges through the Federal Highways Trust Fund. Department of Transportation highway "user fees"--a 9 cent per gallon gasoline tax--contribute revenue to the fund, but an $850 million gap between Highway Trust Fund revenues and outlays is anticipated in1986. This is projected to balloon to $8.5 billion by 1989. Federal government appropriations currently pay for nearly 90 percent of new highway construction, but finance little of the cost of maintaining these roads.

Administration Proposal: Restrict the number of new highway construction contracts.

Comments: The proposed reduction in federal funding of new highway construction is a move toward restoring the balance between Highway Trust Fund outlays and the money the government collects from gasoline taxes. If the Department of Transportation were to focus its activities exclusively on highway arteries of national significance--which it clearly should do--nearly 70 percent of the uncompleted portion of the interstate highway system would immediately fall out of the federal picture.[47] The Congressional Budget Office estimats that such a proposal would reduce federal spending by $10 billion over the next five years.

A conspicuous example of such a pork barrel nature of highway grants is New York's request of $2 billion to construct the controversial Westway highway in Manhattan. The New York Times maintains that the city's motive for this request is to:

> ...take maximum advantage of federal highway subsidies. As approve, this 90 percent federal funded project would create several hundred acres of new land, including 93 acres of waterfront park. The Feds would also spend $25 million to demolish rotting piers, $76 million to replace an obsolete incinerator, $28 million for a bus garage.[48]

In many cases parochial highway construction has already been discarded as uneconomical by the localities themselves, but the federal government still decides to pick up the tab. If anything,

---

47 Stuart M. Butler, Michael Sanera, and W. Bruce Weinrod, Mandate For Leadership II (Washington, D.C.: The Heritage Foundation, 1984), p. 187.

48 "The Westway 'Luxury' is a Bargain," The New York Times, May 4, 1983.

the OMB proposed cut of the Highway Trust Fund budget is far too modest--federal spending on all roads of local concern ought to be terminated immediately.

Labor groups oppose such a proposal on the grounds that federal funds on local highway projects are an important source of new jobs. This argument is unpersuasive; in fact, such federal spending more likely reduces aggregate employment. For each job created through public works spending, government expenditures rise $28,000 to $40,000--which consequently crowds out private investment of at least that magnitude. In short, there are far more efficient ways to create jobs.

Other interstate highway spending reforms deserve consideration. First, the federal government should devote fewer funds to new highway construction, and more to the maintenance of existing roads. Present laws encourage states to permit their roads to deteriorate until they reach a state of such disrepair that federal funds for major rehabilitation become available. Second, the interstate highway system should be declared complete. The system has been "near complete" for years, but states have forestalled finishing the highway system within their boundaries to avoid being cut off from federal aid completely. Finally, where practical, the interstate highway system should begin to impose tolls as a means of financing highway repair. Transportation economist Fred Smith estimates potential revenues of up to $10 billion annually if tolls were collected.[49]

(401) <u>URBAN MASS TRANSIT AID</u>
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$4,047	$3,278	$768	$4,234

<u>Program Description</u>: The federal government has assumed a major role in financing local mass transportation systems during the last ten years, spending over $3.5 billion in 1983. The Urban Mass Transit Administration distributes these funds to state and local governments for both construction and operating expenses of hundreds of local transit projects.

<u>Administration Proposal</u>: The Reagan budget proposes phasing-out most federal urban transit aid.

<u>Comments</u>: The federal government's subsidy for local transit systems has risen substantially--an average of 40 percent

---

49 Fred L. Smith, <u>Toll Financing Option, A Quasi-Market Solution</u>, Working Paper, Council For a Competitive Economy, 1983.

annually--since 1970, despite that ridership has actually declined over this same time period. Freed of the constraint of operating in the black, thanks to these subsidies, public mass transit costs have far outpaced comparable costs in the private sector. The national average salary for public transit workers, for instance, was $23,000 in 1979 in contrast to the $14,400 average paid in the private sector for similar work.[50]

Currently the federal share of mass transit construction financing ranges between 75 percent and 85 percent of the total cost of capital purchases. This massive subsidy has given localities strong incentive to purchase new highly capital-intensive bus and rail systems while shunning the often far more economical option of rejuvenating existing systems. For instance, a General Accounting Office audit recently revealed that the Massachusetts Bay Transit Authority spent $14 million in federal funds "ineffectively, inefficiently, and uneconomically."[51] Simply reducing the federal share of capital grants to 50 percent would induce greater cost consciousness on the part of local governments while saving the federal government $2.9 billion, reports the CBO.

Much evidence indicates that UMTA funds may only retard the development of efficient and less expensive mass transit systems by "crowding out" alternatives. The development of private mass transit systems, which often provide far more cost-efficient service than public systems (witness recent innovative strategies in San Diego, which is contracting out low demand bus routes to taxi companies, and Indianapolis, which has legalized jitneys) has been hindered because federal subsidies to public transit obscure the real cost of operating these systems.[52] If the cost burden of urban mass transit systems were shouldered by the localities which build the systems, the riders who use them (only one quarter of whom are from low income households[53]), not only would the federal government save money, but commuters would begin to receive better service, since private sector alternatives would become competitive.

---

50 John M. Palffy, "Charting a New Course for Transportation Policy," Heritage Foundation Backgrounder No. 279, July 25, 1983, p. 5.

51 William R. Kennedy, Jr., and Robert W. Lee, op. cit., p. 75.

52 Robert W. Poole, Jr., "Paratransit: The Private Route to Revitalized Transit," Fiscal Watchdog No. 78, April 1983.

53 John M. Palffy, "Charting a New Course...," op. cit., p. 7.

(401) AMTRAK
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$744	$200	$574	$2,221

Program Description: Amtrak is the federally subsidized National Railroad Passenger Corporation established in 1970 to ensure continued intercity rail passenger service. Every Amtrak route loses money; for most, even operating costs are substantially higher than revenues.

Administration Proposal: Eliminate federal subsidies to Amtrak.

Comments: In 1983, Amtrak passengers--who are disproportionately of the middle- and upper-classes--received a federal subsidy of 24.0 cents per passenger mile, in contrast with intercity bus and airline travelers, who received a subsidy of 0.1 cent per mile, and automobile travellers, who received no subsidy at all.[54] Amtrak's Phoenix to Los Angeles run, for example, costs passengers just $66 for a one-way trip, while the trip's real cost is $280, or a $214 federal subsidy per rider per run.[55] Incredibly, in this and many other instances, it would be cheaper for the taxpayer if the federal government gave free airline tickets to current riders and closed down the Amtrak route.

Shutting down Amtrak would have a negligible impact on intercity travelers. Its runs now account for a tiny 0.3 percent of city passenger trips. Moreover, the demise of rail passenger service in the U.S. is not likely to rebound anytime soon and has coincided with similar declines in Europe and Japan. As transportation economist Fred Smith concluded: "It has become increasingly clear that rail travel is simply noncompetitive."[56]

In its first ten years, Amtrak cost taxpayers $12 billion and over 125,000 jobs according to a 1982 CBO study.[57] American taxpayers can ill afford to continue such a massive subsidy. Since the evidence is clear that Amtrak has reached the end of the line as a modern method of intercity transportation, those few remaining profitable routes should be sold back to the private sector and the rest should be shut down.

---

54 Congressional Budget Office, Reducing the Deficit, op. cit, p. 170.

55 Donald Lambro, op. cit., p. 272.

56 Stuart M. Butler, Michael Sanera, and W. Bruce Weinrod, op. cit., p. 193.

57 Congressional Budget Office, Federal Subsidies for Rail Passenger Service: An Assessment of AMTRAK, July 1982; or see, John Semmens, "End of the Line for AMTRAK," Heritage Foundation Backgrounder No. 226, 1982.

(402) NASA CIVILIAN AERONAUTICAL RESEARCH AND DEVELOPMENT
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$682	$654	$28	$1,188

Program Description: The National Aeronautics and Space Administration (NASA) currently spends about $300 million annually on commercial aeronautical research and technology. This funding is separate from the sizable budget for aeronautical research under the Department of Defense.

Administration Proposal: Cancel NASA's civilian aeronautical research and development funding.

Comments: Commercial research and development should be funded by the private firms that benefit from it. It is not difficult, for instance, to identify the beneficiaries of NASA funds spent on developing more fuel-efficient and better performing civilian aircrafts. As the CBO contends: "There are no grounds for favoring this [the civilian aircraft] industry over others also facing international competition but receiving little R&D support."[58] Those NASA research projects that can be defended as vital to U.S. national security interests ought to be transferred to the National Security Agency or the Department of Defense, where they belong, and funding for the remaining commercial projects should be borne entirely by the private sector.

(403) COAST GUARD
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$240	$1,200

Program Description: About $1 billion of the U.S. Coast Guard's annual budget, funded out of general federal tax revenues benefits easily identifiable users--commercial shippers and recreational boaters. Coast Guard activities include aids to navigation, search-and-rescue missions, and marine safety.

Administration Proposal: Impose user fees on certain Coast Guard services.

Comments: Just as automobile owners assume the costs of building and maintaining roads, and as local taxes--not federal taxes--pay the costs of police and fire protection, so boat

---

58 Congressional Budget Office, Reducing the Deficit, op. cit., p. 173.

owners should help defray the costs of federal services provided solely for their benefit. As examples, the Coast Guard maintains buoys and channel markers that are essential aids to fishing and commercial vessels, and provides rescue services for recreational boaters. The budgetary impact of collecting user fees for these, and other services, would be significant--up to $3.8 billion over five years, estimates the Grace Commission.[59] Even so, the burden on for the most part wealthy recreational boat owners would still be minor; CBO estimates that fees for recreational boaters would be less than 20 dollars.[60] The impact of fees on the fishing industry and commercial shippers would be greater, but still not excessive. User fees merely would cause industry prices to reflect more accurately the real cost of these commercial activities.

A further change in Coast Guard operations should be instituted. The Coast Guard currently spends about $12 million annually on the alteration of bridges. The program is pure pork-barrel. In 1984, for instance, Congress proposed spending $11 million on just three bridges. In times of mounting federal deficits, parochial projects of this kind should be undertaken at local expense.

(451) COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$3,527	$3,520	$7	$465

Program Description: The CDBG program awards block grants to state and local governments to help provide adequate housing, a suitable living environment and expanded economic opportunities for low income groups. Approximately two-thirds of the funds are disbursed on an entitlement basis directly to the cities, while the remaining portion is given to the states and distributed at their discretion.

Administration Proposal: Cut the Community Development Block Grant program by 10 percent.

Comments: The entitlement component of the CDBG program has reached ridiculous proportions. Communities receive aid with seemingly little consideration of the local capacity to finance

---

* For additional information, see: Chapter 18, "Rewarding the Rich," in Donald Lambro, op. cit., pp. 178-184.

59 Congressional Budget Office and General Accounting Office, Analysis of the Grace Commission's Major Proposals for Cost Control, February 1984, p.213.

60 Ibid., p. 214.

development activities. As a result, in 1983, cities like oil-rich Houston secured CDBG aid of over $23 million despite the city's annual budget surplus; Palo Alto, California, with a median family income of $32,000, received $600,000; and Greenwich, Connecticut, with a median income of $35,000, pocketed a CDBG check for $700,000. Even needy recipients, such as Boston, have abused the system; that city obtained $5 million in grants intended to be used to promote economic development or provide low-income housing, but the money went instead toward paying the city's administrative salaries and expenses.

OMB's proposal to scale back the grant program by only 10 percent is a modest cutback, which could be effected without hurting low-income communities. But with state and local governments running a healthy budget surplus this year--many of the nation's largest states are contemplating tax cuts--and with the federal government facing $200 billion in red ink--the Administration should be drying up the program completely. At the very least, the 33 percent which is disbursed by the states should be eliminated, while the entitlement portion could be cut 25 percent, with a requirement that the remainder be targeted only to the nation's neediest urban areas.

(451) URBAN DEVELOPMENT ACTION GRANTS (UDAG)*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$544	$522	$22	$359

Program Description: UDAG provides economic aid to local governments to assist business enterprises that supposedly could not make it on their own in the competitive marketplace. The grants are intended to revitalize cities and urban counties by stimulating new investment, jobs, and revenues.

Administration Proposal: End Urban Development Action Grants.

Comments: Despite that Urban Development Action Grants are intended to aid development projects which otherwise would not be undertaken, as many as 25 percent of UDAG loans violate this requirement. Major corporate hotel chains, such as the Hyatt Corporation, have built many profitable facilities with UDAG assistance. Supposedly the poor benefit from these corporate subsidies through bellhop, maid, and doorman jobs. Perhaps the most egregious misuse of UDAG funds occurred in Detroit, where developers received $19 million to build a Riverside housing development with rents ranging from $450 to $1,500 a month. The accommodations included a health spa, indoor swimming pool, and rooftop tennis courts. Hardly a boon to low income Detroiters.

---

* For additional reading see, Donald Lambro, op. cit., pp. 164-168.

Other investigations of UDAG funds have found significant amounts of fourth quarter money waiting to be spent; local governments presumably cannot spend the money fast enough. In any case, the projects funded by UDAGs are more properly the responsibility of the state and local governments--not the debt-ridden federal government. If the program is as beneficial as its supporters contend, state and local voters will no doubt be very willing to pick up the tab for subsidizing business developments.

(451) APPALACHIAN REGIONAL COMMISSION (ARC)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$184	$152	$32	$228

Program Description: Created in 1965, the Appalachian Regional Commission provides grants to the thirteen Appalachian states for the construction of roads and for other general economic and community development projects. ARC support was intended to be temporary and phased out once basic facilities had been put in place. Since 1965, the Commission has disbursed $5 billion in federal aid to Appalachia.

Administration Proposal: Terminate federal funding of the ARC.

Comments: Recent economic trends indicate that the economy of Appalachia is far stronger today than when ARC was first formed. Between 1965 and 1980, over 2 million new jobs were created in the Appalachian region, poverty levels were cut in half, and the area's per capita income rose slightly faster than the U.S. average.[61] Thus, while Appalachia remains poorer than the nation as a whole, the federal government has generously fulfilled its financial commitment to this region. Moreover, the Office of Management and Budget estimates that the remaining funds needed for the Appalachian states to bring development of public facilities up to adequate levels--$55 million--are now "clearly within the capabilities of the individual states and localities."[62] The Administration's proposal to end funding makes strong sense.

---

61 Office of Management and Budget, Major Themes, op. cit., p. 17.
62 Ibid.

(452) ECONOMIC DEVELOPMENT ADMINISTRATION
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$236	$175	$61	$373

Program Description: The Economic Development Administration was created in 1965 with these goals: "To reduce substantial and persistent unemployment in economically distressed areas and to react to economic adjustment problems that may arise abruptly." The program provides grants and loans for public works.

Administration Proposal: Abolish the Economic Development Administration.

Comments: While the EDA's objectives are lofty and commendable, its track record has been dismal. Investigative journalist Donald Lambro terms EDA "the ultimate pork barrel," and as evidence points to the fact that nearly 80 percent of the nation's population live in communities eligible for its grants. The Grace Commission, too, has been highly critical of the EDA. It found that in 1981 the agency carried a portfolio of $1 billion, of which over 40 percent represented delinquent business loans--what the Commission termed "an appalling rate of bad loans."[63]

It should not be surprising that the EDA has been entirely unsuccessful in creating jobs in financially distressed areas. Political factors, more often than need, seem to determine how the funds will be disbursed, which thwarts any coherent development plan. In addition, EDA money often times merely replaces state and local money, rather than supplementing it, or duplicates other similar federal programs, such as those under the departments of Housing and Urban Development and Agriculture, and the Environmental Protection Agency. Recent experience shows clearly that a grant program is far less effective in creating jobs than is a policy of reducing taxes and tearing down prohibitive regulatory barriers. If Congress genuinely wishes to help distressed areas the House should agree to the bipartisan enterprise zone legislation already passed by the Senate.

(501) IMPACT AID
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$762	$635	$127	$496

---

[63] President's Private Sector Survey on Cost Control, *op. cit.*

Program Description: The purpose of Impact Aid is to compensate local governments for the cost of educating school children of federal employees. The program was launched during World War II to relieve sudden fiscal pressure on schools where enrollment increased sharply with the influx of children of hundreds of thousands of relocated military personnel.

Administration Proposal: Terminate Impact Aid.

Comments: While Impact Aid was an important measure during and shortly after World War II, it now is an unnecessary subsidy to local communities. In fact, every president since Dwight Eisenhower has supported reductions in the anachronistic program, with little success.

Many of the largest recipients of Impact Aid are some of the nation's wealthiest districts, including Fairfax County, Virginia, and Montgomery County, Maryland. One notable excess in Impact Aid payments is that included in the program's headcount for local reimbursement are those children of military personnel who live off base and do pay local property taxes. There is absolutely no justification for federal payments in such cases--the localities are simply pocketing two payments for one family.

But even reimbursing for children of servicemen who do live on base is difficult to justify. The policy is based on the faulty presumption that military bases "cost" local communities. On the contrary, military bases confer substantial net benefits to the communities in which they are located. For proof of this, one need only witness how vigorously Congressmen have been lobbying of late to save declining or antiquated military bases in their districts. Impact Aid is merely icing on the cake for the affected localities, and should be stricken from the federal budget.

(501) BILINGUAL EDUCATION
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$168	$145	$23	$104

Program Description: The Bilingual Education program provides grants to local school districts to establish and operate bilingual education classes. Federal guidelines in effect require these classes to maintain the student's native language and culture rather than to teach the student in English only. The Administration in 1984 proposed an act which would have allowed local school districts much greater flexibility in the type of instructional methods used. The bill finally signed into law, however, authorizes only 10 percent of federal funds for alternative forms of instruction for immigrant children.

Administration Proposal: Reduce federal funding for bilingual education programs.

Comments: The recent successes of Vietnamese and other immigrant and refugee children in American schools--without the aid of intensive bilingual education programs--casts serious doubt on the popular notion among educators that without bilingual training, immigrant students will fall helplessly behind in their learning.

One of the most comprehensive analyses of bilingual education was a Department of Education report which reviewed 28 studies assessing the performance of bilingual education. Concluded the authors: "These findings do not add up to a very strong case for the effectiveness of transitional bilingual education." They found "no firm empirical evidence that it is uniquely effective in raising language-minority students' performance in English or in non-language subject areas." The authors also lend credence to the view that in many instances a child's mastery of English has actually been slowed by the bilingual program.[64]

In addition, bilingual programs appear to have spread well beyond the original target population--that is, those with little or no understanding of English. An American Institutes of Research study found: "[L]ess than one-third of the students enrolled in the Title VII classrooms in grades two through six were of limited English speaking ability."[65]

Sixteen years ago Congress passed the Bilingual Education Act. There was little research then to confirm or deny the effectiveness of bilingual education. Now ample evidence is in. Bilingual education has met with, at best, mixed success. Rather than cutting bilingual education as OMB suggests, federal funding should be ended completely.

(501) VOCATIONAL EDUCATION
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$859	$858	$1	$92

Program Description: The Office of Adult and Vocational Education was initiated to train youth and adults for work and to help adults obtain a high school diploma. Funds are disbursed through matching grant requirements with the federal government paying 10 percent of the program's cost, and the state and local governments contributing the remaining 90 percent.

---

64 Keith A. Baker and Adriana A. deKanter, Effectiveness of Bilingual Education: A Review of the Literature, Department of Education, 1981.

65 "Interim Results: Evaluation of the Impact of ESEA Title VII Spanish/English Bilingual Program," U.S. Office of Education/Office of Planning, Budgeting, and Evaluation, April 1977.

Administration Proposal: Freeze funding for vocational education programs.

Comments: The Brookings Institution concluded its assessment of this program by stating:

> Secondary school vocational education is more expensive than other high school curriculum (sic), and graduates appear to have no gains in relative earnings. Exceptions include transitory gains for men who study industrial arts and women who study clerical skills. Since the average gain is inconsequential, it is unclear why the federal government should subsidize the increased production of an average unit of more expensive vocational education.[66]

The lack of subsequent employment gains from participation in vocational education programs is not surprising; the curricula tend to have vague objectives and are more designed toward promoting students' hobbies than their job skills.

Freezing federal expenditures on vocational education at the nearly $1 billion annual level, as OMB proposes, is not sufficient as a reform. Because the vocational education program is of dubious benefit, the federal government should discontinue its involvement in this area, leaving responsibility exclusively up to the states where traditionally it has rested.

(502) GUARANTEED STUDENT LOAN INSURANCE (GSL)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$3,310	$2,898	$412	$1,168

Program Description: The GSL program was designed to assure that low-interest loans, from banks and other lenders, were made available to help students meet the expenses of postsecondary education. Under present law, students from families with earnings of less than $30,000 a year are automatically eligible to receive a subsidized loan. Students from families with gross income above $30,000 are required to prove need. A student may also apply for a GSL as an "independent"; under this status, only the student's own income is counted, not that of his or her parents.

---

66 Setting National Priorities: The 1984 Budget (Washington, D.C.: The Brookings Institution, 1983), p. 167.

Administration Proposal:

1) Increase from $3,000 to $4,000 the total amount a student may borrow each year.

2) Rule out any new loans to students from families with gross income exceeding $32,500.

3) Tighten the independent student "loophole," under which an increasing number of students from affluent families have received loans over the past five years.

Comments: The cost of the GSL program has quadrupled since 1978.[67] Today, more than half of all post-secondary students are subsidized by the federal government; it is not uncommon to find students receiving funds from several different sources that bring their total grants above the level originally intended by Congress. In addition, there is strong evidence that the government subsidies have raised the cost burden of those students paying their own way through college: A 1981 General Accounting Office report found universities inflating tuition costs to obtain more federal funds from students receiving government loans.[68]

The Administration's changes would more accurately target college financial aid to those genuinely in need of government assistance. The first reform--raising the maximum loan limit to $4,000 a year--would enable a greater number of students from low-income families to finance their entire education with loans. The second proposed change would require middle- and upper-class parents to bear a greater percentage of the cost of their children's post-secondary education--parental payments for education costs have been declining in real terms over the years despite increases in disposable income, while the government's GSL costs have spiralled.[69] Finally, placing greater restrictions on independent student eligibility, should curb some of the considerable abuses that have characterized the student loan program.

Two further steps should be taken which would reduce the cost of the student aid program while keeping intact loans for the truly needy. First, students from families with incomes below $30,000 should not automatically qualify for a GSL. All students should be required to show need. Second, the government should get out of the loan collection business by selling to the private sector the Treasury's portfolio of close to $3 billion in bad debts. Private companies are well suited to the task of securing repayment; the government, on the other hand, has allowed many graduates in high-paying professional jobs to ignore repayment schedules. The value of the GSL bad loan account on the open market has been estimated at well over $1 billion.

---

67 Congressional Budget Office, Reducing the Deficit, op. cit., p. 128.

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

69 Office of Management and Budget, Major Themes, op. cit., p. 218.

(503) LIBRARIES
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$32	-

Program Description: Under this program the federal government provides grants to libraries. Seventy-five percent of these funds are provided under the Public Library Service program, the purpose of which is to ensure that the population in underserved areas has access to library facilities.

Administration Proposal: Terminate library grants to non-national libraries.

Comments: The Public Library Services program has attained its objective successfully; approximately 96 percent of Americans currently have access to a public library. As such, the program can now be phased out. The remaining portion of federal library aid, which is spent mainly to strengthen major research libraries, is more appropriately the concern of the unversities, state and local governments, and the private sector.

(504) JOB CORPS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$644	$548	$96	$1,333

Program Description: The Job Corps is an intensive training program for disadvantaged, unemployed youth. The program is run by private contractors and trains about 40,000 youths each year. Upon completion of the instructional program, participants are provided with intensive job placement assistance.

Administration Proposal: Terminate the Job Corps program.

Comments: The cost of running the Job Corps program mushroomed to $600 million in 1984, equivalent to spending $15,000 per program participant. These costs are completely out of line with the assistance the Job Corps renders; indeed, it would be cheaper to send each participant to Harvard for a year than to have the youth participate in Job Corps training. Worse yet, there are Job Corps programs administered under the Departments of Interior and Agriculture which incur per student costs approaching $20,000.

One study on the performance of the Job Corps, conducted by the research group Mathematica, concluded that Job Corps benefits exceed its costs.[70] Based on this conclusion, program advocates term Job Corps a success. The study has been criticized recently, however, for overestimating welfare expenditures and other such costs the government would have otherwise had to pay to participants. Estimates of such costs are, at best, highly speculative. Moreover, the study's estimates of Job Corps "successes" are suspect because of recent discoveries that Job Corps contractors have been highly selective in choosing youth to participate. Enrollment slots are typically filled by capable non-problem youths who are likely to be employed with or without Job Corps training, rather than by the truly disadvantaged dead-end teenagers the Job Corps was designed to assist.[71] A 1979 General Accounting Office study uncovered such abuses and concluded that Job Corps was not a success, while it masked its failures with statistical slight of hand.[72] Since Job Corps benefits show no signs of approaching the half billion dollars spent on it each year, it should be terminated.

(504) WORK INCENTIVE PROGRAM (WIN)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$272	$60	$212	$793

Program Description: The WIN program provides employable Aid to Families with Dependent Children recipients with job placement assistance, training, and other related services. Despite the program's title, WIN does not provide those on welfare with any direct work "incentive"--financial or otherwise. The program is administered by the states with the federal government assuming 90 percent of the program's costs and the states 10 percent.

Administration Proposal: Terminate the Work Incentive Program.

Comments: A 1982 analysis of WIN by the General Accounting Office lends solid support for the OMB's proposal to end the program. The GAO found that WIN's job placement rates are misleading because many state agencies concentrate their resources on the more educated and skilled clients--in other words on those who were most likely to land a job without WIN's services. The study also found that 70 percent of WIN participants who entered

---

70 Charles Malar, et al., "Evaluation of the Economic Impact of the Job Corps Program" (Princeton, New Jersey: Mathematica Policy Research, Inc., 1980).

71 A discussion of the failure of government job programs in general and Job Corps in particular is contained in "Busy Doing Nothing: The Story of Government Job Creation," Policy Review, Spring 1983, pp. 87-102.

72 General Accounting Office, Job Corps Should Strengthen Eligibility Requirements and Fully Disclose Performance, 1979.

unsubsidized employment in 1980 reportedly found the job on their own.[73] These findings are consistent with others that have emphasized that the administrative costs of government job placement programs are exceedingly high in relation to the social benefits they render.

The findings of a 1983 study by the Research Triangle Institute, a public policy research group, also suggest that WIN's services are unnecessary. That study examined the effects of the Reagan AFDC eligibility cuts and concluded that Americans removed from the welfare roles because they received earned income were less likely to return to public assistance than those who left the welfare rolls when all the work incentives had been in place.[74] The WIN program has thus had little impact in comparison with the current Administration's efforts to reduce unemployment by stimulating economic growth.

(506) ACTION (DOMESTIC VOLUNTEER PROGRAMS)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$154	$148	$6	$27

Program Description: ACTION is an independent agency which administers federally sponsored domestic volunteer programs. ACTION's mission is to advocate and to support voluntary efforts to solve the problems of the poor, disabled, elderly, and youth with special needs. The major programs under ACTION include VISTA, Retired Senior Volunteer Program (RSVP), and the Foster Grandparent Program (FGP).

Administration Proposal: Freeze funds for ACTION.

Comments: The Grace Commission has concluded that sharp reductions in the administrative costs of ACTION could be made without touching a penny of federal funds supporting domestic volunteer activities. ACTION incurred program support costs of $26 million in 1983, out of a budget of $118 million. In other cases, ACTION spent 22 cents out of every dollar of funding on administrative costs, a very high share for overhead, which far exceeds the acceptable level for private-sector volunteer groups such as the United Way, which spends 12 cents per dollar on administrative coss.[75] A freeze should provide ACTION directors with an incentive for greater fiscal responsibility.

---

73 General Accounting office, "An Overview of the WIN Program: Its Objectives, Accomplishments, and Problems," HRD-82-55, June 21, 1982.

74 As quoted in: Nicholas Lehmann, "The Culture of Poverty," The Atlantic, September 1984, p. 38.

75 William R. Kennedy, Jr., and Robert W. Lee, op. cit., pp. 13-14.

(506) COMMUNITY SERVICE GRANTS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$384	$129	$255	$1,067

Program Description: Created in the mid-1960s as the core of Lyndon Johnson's "Great Society," Community Services Block Grants are to be used by the states for the nebulous purpose of "alleviating the causes of poverty." The program was supposed to end in 1981, when it was merged into the Office of Community Services within the Department of Health and Human Services, but it survived spends and $300 million annually on such wide-ranging activities as job training, waste-water treatment, emergency food-stuffs, and day care.

Administration Proposal: Cancel Community Services Block Grant funding.

Comments: Most CSBG activities overlap with other existing federal grant programs; all of its functions are the proper responsibility of state and local governments. Despite having been scaled back significantly at the beginning of President Reagan's first term, the administrative budget for the Office of Community Services still remains high--over $4 million a year. The Office of Community Services' doors should be shut completely as originally intended by Congress. Meanwhile, the federal government should press states to simplify occupational licensing and other restrictions that inhibit voluntary associations from meeting community service needs.[76]

(550) MEDICAID
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$23,495	$22,495	$1,000	$3,202

Program Description: Medicaid provides medical care for eligible low-income families and for those who are aged, blind, or disabled. The program provides federal matching funds to states with the states administering the program according to federal guidelines. The federal contribution is determined by a formula inversely related to each state's per capita income, and ranges from 50 to 78 percent of the total cost of care. Eligibility requirements and benefit levels vary widely among states.

---

76 Robert W. Poole, Jr., "Helping Neighborhoods Help Themselves," Fiscal Watchdog, No. 85, November 1983.

Administration Proposal: Medicaid will be subject to a "modified freeze." In addition, the states will be required to incur a greater burden of the program's cost. The proposal calls for a $22.5 billion dollar cap on federal contributions in FY 1986. This cap would rise in subsequent years only with the level of overall inflation, not with the rate of health costs--which has been far above general inflation in recent years.

Comments: National health care spending has risen at a dramatic pace since the Medicaid program's inception in 1965. In that year, the nation devoted 6 percent of GNP to health care. In 1980, the figure was 10 percent, and by 1990, the figure is projected to rise to 12 percent of GNP.[76] Federal health care expenditures have accelerated even more rapidly, from $5.5 billion in 1965 to $93 billion in 1982.[77] Freezing federal contributions to the Medicaid program would provide the states with greater incentive to curb the widespread fraud and waste that permeate this program and that constitute a major reason for its high rate of cost inflation. The Reagan spending cap is a step in the right direction toward requiring the states to be more cost-sensitive in administering the Medicaid program, while continuing to respect the diversity of circumstances within the states.

The OMB proposal should slow the rate of federal health care expenditures, but it still treats only the problem's symptoms, not its cause--which is that third-party reimbursement financing of health care places no incentive for cost-consciousness on the part of the patient or the provider. For this reason, further innovative cost-cutting strategies should be considered. A recent Heritage Foundation report recommends the adoption of an income-related voucher program under which Medicaid participants could "shop around" for the least costly health care providers. Under this scheme, price-conscious Medicaid recipients could use their voucher to enroll in such alternative health care systems as Health Maintenance Organizations--which have achieved significant reductions in treatment costs. Medicaid vouchers would place strong incentives on health care providers to offer high quality care in an economical manner, by spurring competition for Medicaid dollars.

(551) MEDICARE*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$69,536	$65,473	$4,063	$18,553

---

* This section was prepared by Anna Kondratas.

76 Congressional Budget Office, Reducing the Deficit, op. cit., p. 56.
77 William R. Kennedy, Jr., and Robert W. Lee, op. cit., p. 48.

Program Description: Medicare provides health care for the elderly. The program has two parts. Part A is a hospital insurance (HI) program, financed by payroll taxes, and covers inpatient hospital services, skilled nursing care, and home health services. After an annual deductible, representing the average daily cost of one day in a hospital ($356 in 1984), Medicare provides full coverage for the next 59 days with no cost-sharing by the beneficiary or limits on the total costs incurred. Coinsurance charges are not made until the 61st day, and in 1984 were increased to $89 per day through the 90th day. Beyond 90 days, an individual can draw on a lifetime reserve of 60 days, at a cost of $178 per day in 1984. Beyond that point, the patient is responsible for the full cost of hospitalization. As only 0.6 percent of Medicare patients remain longer than 60 days, Part A coinsurance rarely applies.

Part B of Medicare, the Supplemental Medical Insurance (SMI) program, is an optional supplement to those eligible for Part A, as well as for everyone over the age of 65. It is 75 percent financed from general revenues, with the rest coming from premium payments of beneficiaries. It includes coverage for physician costs and all other Medicare services. There is an annual $75 deductible, after which the program reimburses 80 percent of approved charges--although the 20 percent patient share is largely offset by private insurance purchased by about half of all Medicare beneficiaries.

Administration Proposal: Major changes would include:

1) Freeze hospital diagnostically related group rates and physician fees.

2) Require a nominal copayment for home health care.

3) Reduce grants to teaching hospitals.

4) Raise Part B premiums to cover 35 percent of Part B costs, and increase Part B deductible.

5) Extend Medicare second payer status to working elderly over the age of 69 who are covered by employer based health insurance.

Comments: Medicare outlays have been increasing at an average annual rate of 13.2 percent since 1980, far above the rate of general inflation.

The proposed freeze on provider payments, including hospitals, nursing homes, and physicians, will save some $2.5 billion in FY 1986 alone. The reduction in grants for medical education will eliminate parts of the unintended bonanza provided teaching hospitals when the prospective-payment reform was enacted and so return them to the same grant position as other hospitals. The Medicare eligibility changes and other reforms are consistent with the Administration's position that private insurance should be utilized before recourse to Medicare.

The reforms which increase recipient copayments, increase deductibles, and raise the Part B premium provide consumers with an incentive to be cost conscious, a necessary condition for controlling outlays. The changes represent minimal increases in payments by beneficiaries and so should not impose hardship. Yet the programmatic reforms represent savings of $4.1 billion in FY 1986.

None of the proposals, however, addresses the financial crisis which is sure to overtake the system within a decade. Like Social Security, the pay-as-you-go system invites disaster because of an aging population which is constantly eroding the retiree-worker ratio. Expanding benefits, burgeoning medical costs, and rising payroll taxes will lead to ever-greater generational inequities. Thus, fundamental reform of the Medicare system, including development of private-sector options like Health Bank IRAs, which would allow workers to open Individual Retirement Accounts to purchase retirement medical insurance, is necessary.[78]

(600) CIVIL SERVICE RETIREMENT SYSTEM (CSRS)*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$24,733	$24,002	$731	$4,102

Program Description: The CSRS provides pension benefits to federal civilian employees who meet eligibility requirements based on age and years of civil service. It is far more generous than private sector systems or Social Security. Federal employees with 30 years of service may retire with full benefits at age 55, while most private sector employees cannot do so until age 65. Moreover, CSRS benefits are fully indexed to the Consumer Price Index, while private sector pensions generally are not. Finally, the federal government's contributions to the CSRS is 33 percent of payroll--twice the rate of the typical private sector pension plan.

---

* For a more detailed discussion of the need for CSRS reform, see: Chapter 14, "Pay and Pensions: A National Disgrace," in Donald Lambro, *op. cit*.

78 For a discussion on the feasibility of a Health Bank IRA program, see: Peter J. Ferrara, "How to Avert the Medicare Crisis," Heritage Foundation *Backgrounder* No. 385.

Administration Proposal:

1. Raise the age of retirement with full benefits to 65. Pensions from earlier retirement would be reduced by 5 percent for each year retirement is before age 65.

2. Increase employee and agency contributions from the current 7 percent of pay to 11 percent, and eliminate any further contributions from the U.S. Treasury.

3. Calculate CSRS benefits based on an average of the "high five" years of an employee's earnings history, rather than the present high three years earnings.

4. Limit cost of living raises to the lesser of Consumer Price Index or the General Schedule increase. (The General Schedule increase is the yearly pay increase given to federal white collar workers to keep their salaries "comparable" to those in the private sector.)

Comments: Between 1960 and 1982, CSRS benefits accelerated by 2,101 percent. Over the same period, federal employee contributions to their pensions rose 450 percent. The situation is now such that according to investigative journalist Donald Lambro, "CSRS is going deeper into debt at the rate of $70,000 per minute." The federal government spends more money on CSRS benefits than it does on the three most basic welfare programs--Aid to Families with Dependent Children, food stamps, and Housing Assistance.

Lambro, in his investigation of CSRS, found appallingly high pensions being paid civil service retirees. The following is a typical example:

> When Charles Morris retired from the Treasury Department in 1965, his annual salary was $7,500. His total contribution to the Civil Service Retirement System during his years in the government totaled $6,000. Yet since his retirement he has received more than $142,000 in pension payments thanks to generous yearly government cost-of-living increases. He thinks his $17,000-a-year pension is "outrageous."

Or consider this case. The OMB has computed that a federal worker retiring with an income of $50,000 would receive lifetime CSRS benefits exceeding $1 million. That same worker would receive $400,000 from the average pension program in the private sector.

OMB's reforms are sensible and fair. Their objective is to bring public pensions in line with private sector pensions. Eventually these changes should lead to a self-supporting retirement system.

(603) TRADE ADJUSTMENT ASSISTANCE FOR BUSINESES (TAA)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$25	$0	$25	-

Program Description: The Trade Adjustment Assisance for Business Program is administered by the federal government's International Trade Administration. Its purpose is to aid industries that have been severely hurt by foreign competition. Firms in such industries receive assistance in the form of direct loans or loan guarantees for plant modernization, development of new product lines, debt consolidation, and other purposes.

Administration Proposal: Eliminate the TAA.

Comments: TAA has done little to help firms adjust to import competition. In some recent instances, the loan requests have taken so long to emerge from bureaucratic application review procedures that by the time the loan is issued the business has already closed its doors. Moreover, the loans often only delay inevitable changes in the production patterns and employment practices required if industries are to meet foreign competition--meaning even greater disruption in the future. TAA loans encourage the continuation of imprudent plant investment, instead of forcing industries to scale back production and so avoid bankruptcy. Not surprisingly, over 60 percent of all TAA loans are either delinquent, in default, or in liquidation. Since coming to office in 1981, the Reagan Administration has lobbied for TAA's elimination; with a rebounding economy, Congress should now follow suit.

(604) SUBSIDIZED HOUSING
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$10,681	$9,355	$1,326	$4,865

Program Description: Low income subsidized housing support consists of two principal programs: Public Housing and Section 8. Under Public Housing, a program begun during the Depression, local public housing authorities construct and operate housing units for rental to low-income families, who are charged subsidized rents. Under the Existing Housing Program of Section 8, qualified tenants choose housing from approved suppliers and pay the difference between an assessed "fair market rent" and the tenant's income-related rental contribution.

Administration Proposal: Impose a two-year moratorium on new subsidized housing and subsequently merge urban and rural housing programs.

Comments: Federal housing programs are severely overfunded and yet ineffective at solving the nation's low-income housing needs. According to investigative journalist Donald Lambro, the government has already made commitments to spend $363 billion on housing programs. At the end of 1983, $263 billion of this still had not been spent.

The government should, as OMB suggests, begin to reduce its role in providing housing assistance. Seventeen million Americans currently live in public subsidized housing. Housing and Urban Development Secretary Samuel Pierce stated that research conducted by his department indicates that "...in most localities the supply of decent housing is sufficient to meet the need of low-income families."[79] In other words, what is needed is a more effective distribution of housing units, not continued construction of new housing. The OMB budget cut reflects this reduced need.

Compared with privately constructed housing, public housing is costly and inefficient, as confirmed by nearly every study conducted. The Rand Corporation, for instance, found that as a result of federal red tape, delays, cost-plus pricing, and regulations such as the Davis-Bacon Act, public housing is twice as expensive to build as private housing.[80] More important, the study found that publicly funded new housing simply crowds out the construction of private units because "dwellings vacated by program participants as they move into publicly provided dwellings become excess supply in the private market, which decreases the demand for private new construction."[81] Two separate studies attempted to quantify the extent of this crowding out and estimated that for every 100 new units of public housing, the private sector forestalls the building of between 80 and 86 units.[82] Thus, the net amount of new housing supplied by federal funds has only around one-tenth the impact the program would be expected to have.

The Administration's proposal to scale back the recently initiated housing voucher program, however, is a major mistake. Instead, the moratorium on new subsidized housing should be accompanied by a full-scale transfer to a housing voucher system. Under the current Section 8 existing housing programs, rents for subsidized housing exceed market determined rents by about 26 percent, primarily because landlords have an incentive to raise rents to the published "fair market level" while tenants have no incentive to negotiate lower rents or look for more modestly

---

79 As quoted in John M. Palffy, "Revitalizing Low Income Housing," Heritage Foundation Backgrounder No. 269, May 26, 1983, p. 3.

80 Peter Rydel and John Mulford, "Consumption Increases Caused by Housing Assistance Programs," R-2809-HUD (Santa Monica, California: Rand, 1982).

81 Ibid.

82 Craig Swan, "Housing Subsidies and Housing Markets," HUD Working Paper; Michael Murray "Tenant Benefits in Alternative Federal Housing Programs," Urban Studies, Vol. 17, 1980.

priced units that adequately meet their needs.[83] Under a voucher system, the landlord's incentive to increase rents to the level permitted under the Section 8 program is diminished because every additional dollar of rent charged above the voucher amount is paid directly by the tenant out of his own pocket. A 1982 Congressional Budget Office study found that vouchers are over twice as cost efficient as newly constructed Section 8 housing and estimated that annual savings in switching to a voucher system could exceed $15 million for each 10,000 households receiving assistance.[84]

(605) CHILD NUTRITION--SCHOOL LUNCH PROGRAM*
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$4,097	$3,449	$648	$2,561

Program Description: The National School Lunch program provides cash and commodity assistance to schools, day care centers, and other institutions that serve meals to children. Children from households with incomes below 130 percent of the poverty line are provided free lunches, with the school receiving $1.20 per lunch; children from families with incomes between 130 and 185 percent of the poverty line receive a subsidy of $0.80 per lunch; and children from families with household incomes 185 percent above the poverty line receive a $0.24 subsidy per lunch.

Administration Proposal: Eliminate the school lunch subsidy to students from families in the upper range of income eligibility.

Comments: A 1977 General Accounting Office study of the lunch program concluded: "The absence of any indication that the program is having a benefit upon the health of either needy or non-needy children raises questions about the nutritional value of the lunch."[85] A 1981 follow-up study found little improvement in the lunch program.[86]

As The Washington Post has reported, fraud is also rampant in the Child Nutrition program:

---

* For a further discussion of child nutrition programs, see: James Bovard, "Feeding Everybody: How Federal Food Programs Grew and Grew," Policy Review, Fall 1983, pp. 42-51.

83 Palffy, "Revitalizing Low Income Housing," op. cit., p. 5.

84 Congressional Budget Office, Federal Housing Assistance and Alternative Approaches, May 1982.

85 General Accounting Office, The National School Lunch Program--Is It Working?, 1977, p. iii.

86 General Accounting Office, Efforts to Improve the School Lunch Program--Are They Paying Off?, 1981.

Justice and Agriculture Department investigators have found evidence that the government may have been defrauded of millions of dollars by food management companies that provide free lunches....Alleged fraud in the summer feeding program included theft of food, substandard food, kickbacks, price-fixing, adult use of food intended for children and the dumping of extra food for which the government had paid.

The Administration's proposal to eliminate the federal subsidy to students from families with incomes over $18,850 is long overdue. Available funds should be concentrated on students in real need. Yet Arlington County, Virginia, for example, the third richest county in the country, received $150,000 from the federal government in 1983 for the school lunch program.[87] Savings of $500 million a year could be accrued without touching the funds provided to families with incomes below 185 percent of the poverty line.

One further reform in the school lunch program warrants strong consideration. Since many states currently prohibit local schools from contracting with private firms for school food services, federal action should be taken to require states to allow public schools to contract out the service if they wish. Schools that have done so cite significant resulting savings in tax dollars.[88]

(609) AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3 Year Savings
$7,358	$7,303	$55	$170

Program Description: The AFDC program provides cash assistance to low-income families on behalf of dependent children when one parent is deceased, incapacitated, or--in some states--unemployed. The program is financed through matching federal funds to the states in inverse relation to each state's per capita income.

Administration Proposal: End employable parents' AFDC benefits when the family's youngest child reaches the age of 16.

Comments: Analyses of the impact of the 1981 Reagan Administration budget cuts reveal that the changes in AFDC eligibility have been highly successful in keeping the non-needy off

---

87 Irwin Ross, "One County's Pipeline to the Treasury," Fortune, February 20, 1984.

88 Stuart M. Butler, Michael Sanera, and W. Bruce Weinrod, op. cit.

the welfare rolls. A General Accounting Office report estimated that the AFDC caseload has been reduced by over one-seventh since 1981. Moreover, the Center for the Study of Social Policy found that 80 percent of those eliminated from AFDC eligibility in 1981 had worked during the 27 months following the cuts. These data contradict the argument that restricting the AFDC eligibility to those without earned income would give welfare recipients a disincentive to work at all.[89]

Still, there is room for further changes in eligibility. Almost 10 percent of AFDC benefits go to persons who live in households with a total income over 150 percent of the poverty level.[90] The Reagan proposal to discontinue benefits to parents whose youngest child has reached the age of 16 will encourage those whose childrearing responsibilities have been fulfilled to reenter the labor force rather than continue receiving public subsidies. The change should make more AFDC funds available to the truly needy who cannot work because they must care for infants at home.

(609) WORKFARE FOR WELFARE RECIPIENTS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
-	-	$52	$117

Program Description: Workfare laws require welfare recipients to find work in the private sector, and, if unsuccessful, to perform useful public services to earn their benefits. The federal government currently gives states the option to establish Community Work Experience Programs and mandatory job search requirements, but only about half have instituted such reforms.

Administration Proposal: Require all employable Aid to Families with Dependent Children (AFDC) and Food Stamp recipients to participate in work programs as a condition of eligibility.

Comments: The Reagan Administration has been lobbying for mandatory work requirements for employable welfare recipients for the past five years, but opponents have blocked the measure. Workfare has the benefit of counteracting the inherent work disincentive of most welfare payment schemes, and most analyses indicate that federal welfare expenditures could indeed be reduced by $200 to $300 million annually if the program were instituted on a national basis and coordinated with the Food Stamp program.[91] Workfare is also effective in eliminating overpayments to welfare recipients who have jobs, but are paid "under the table."

---

89 For a discussion of the positive and negative effects of the Reagan 1981 budget cuts on the welfare program, see Nicholas Lemann, "The Culture of Poverty," The Atlantic, September 1984, pp. 26-41.

90 Office of Management and Budget, Major Themes, op. cit., p. 27.

91 Ibid., p. 36.

(703) VETERANS ADMINISTRATION--MEDICAL CARE BENEFITS
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Benefits
$9,348	$8,987	$361	$2,470

Program Description: Veterans Administration medical care benefits originally were restricted to combat-related injuries. These restrictions have been liberalized, and although the V.A. has no legal obligation to pay the cost of treatment for disabilities that are not connected with military service, over 80 percent of the medical care it now renders is for nonservice-related disabilities. The Veterans Administration administers its own hospitals and nursing homes.

Administration Proposal: Impose a means test for veterans' medical care on all but those with service-related disabilities.

Comments: The Congressional Budget Office has estimated that simply requiring those veterans now receiving free medical care for non-combat related injuries to contribute a copayment equivalent to the rates set under Medicare for the first 90 days of in-patient care would reduce the federal deficit by over $1.2 bilion over the next five years. Additionally, states the CBO, the change would "help ensure that V.A. services continue to be adequate to meet the needs of service-disabled and poor veterans."[92] In light of this, requiring a greater financial contribution from the non-needy beneficiaries of V.A. medical benefits constitutes an equitable cost-saving reform, while preserving the government's commitment of providing for the medical needs of the nation's ex-servicemen.

There are three additional justifications for the proposed change. First, the provision of free care has promoted an inefficient overutilization of medical services by veterans--a finding consistent with most studies of utilization rates under systems of total coverage. For example, the average stay in a private hospital is around seven days, while the average stay in V.A. hospitals, where all costs are covered, is three times that length.[93] Instituting a means test will provide an incentive for many veterans who are currently receiving free care to be more cost-conscious. Second, many have argued that some type of cost-sharing formula is imperative just to keep V.A. medical costs reasonably under control over the next decade. The argument is convincing when one considers that in the next fifteen years, over 40 percent of all veterans will reach the age of 65 and thus become eligible for free medical care regardless of financial need.[94]

---

92 Congressional Budget Office, Reducing the Budget, op. cit., p. 152.
93 William R. Kennedy, Jr., and Robert W. Lee, op. cit., p. 81.
94 Peter G. Germanis and Thomas M. Humbert, "Budget Cuts: The Key to Economic Recovery," Heritage Foundation Backgrounder No. 151, September 18, 1981, p. 42.

A final justification for reform is that many veterans who currently are receiving free medical care for non-service-related injuries are covered by Medicare or private medical insurance; the OMB reform would eliminate much of this costly overlap.

(752) LEGAL SERVICES CORPORATION (LSC)
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$318	$37	$282	$965

Program Description: LSC funds state and local agencies that provide free legal assistance to the poor. Legal Services has its own corps of salaried attorneys.

Administration Proposal: Eliminate the Legal Services Corporation.

Comments: The quadrupling in the cost of LSC in ten years--from $72 million in 1975 to $270 million in 1984--has not led to a corresponding improvement in legal representation for the poor. Legal services fees have not always gone directly for litigating cases involving poor defendants, as the money was intended, but often to support politically motivated projects, such as defeating a referendum to index the state income tax in California, funding the publication of a political guidebook that included tips on "How to use the media in a legislative campaign," and challenging an Oregon law restricting the number of Medicaid funded abortions. By their own statements, many Legal Services lawyers see themselves not as representatives for individual clients with specific grievances, but as advocates of the interests of the poor as a class. As a result, it has been estimated that only 4 percent of the nation's poor have benefitted directly from LSC.

LSC is an example of a program that has strayed so far from its original purpose that it now provides little if any benefit to the poor. One alternative to LSC would be fore State Bar Associations to set up a self financing program to provide legal services for the poor. This proposal would be consistent with the American Bar Association Code of Responsibility, which states: "...the basic responsibility for providing legal services to those unable to pay ultimately rests upon the individual lawyer... every lawmaker should find time to particpate in serving the disadvantaged." A second alternative would be to contract out legal services to private legal clinics, which in many instances have been found to provide superior services at lower cost than the Legal Services Corporation.[95]

---

[95] Stuart M. Butler, "An End Run on Legal Services?" Heritage Foundation Executive Memorandum No. 58, 1984.

(851) OFFICE OF REVENUE SHARING
(Outlays in millions of dollars)

Baseline 1986	OMB 1986	Savings	3-Year Savings
$4,567	$1,162	$3,405	$12,539

Program Description: The General Revenue Sharing program provides general purpose funds to approximately 39,000 local jurisdictions. These grants are classified as "unrestricted," meaning that local administrators have almost complete discretion on how the funds shall be spent. Revenue sharing was founded in 1972 on the contention that the federal government is better able to raise revenue than are local and state governments.

Administration Proposal: Eliminate general revenue sharing.

Comments: Originally the states were entitled to revenue sharing funds until 1981, at which time it was felt that the improved fiscal health of state governments had eliminated the need for continued federal subsidy. On similar grounds, a phase-out at the local level is now justified, as OMB has proposed.

The federal government does not, of course, "create" money for the cities and local governments, but collects it from their taxpayers and redistributes it. Moreover, it is strange that the federal government, running a budget deficit of $200 billion, allocates nearly $5 billion a year to state and local governments that are running a combined surplus of over $50 billion a year. This is a little like debt-ridden Argentina being required to give money to oil-rich Saudi Arabia.

General revenue funds are not even restricted to poor communities. Investigative journalist Donald Lambro examined revenue sharing and concluded that "exceptionally non-needy cities, towns and counties, thousands of them, are pocketing yearly checks while federal deficits worsen." In 1983, for instance, Beverly Hills, California, with a median family income of $40,362 and a healthy municipal budget surplus, received over $200,000 in revenue sharing; New Canaan, Connecticut, with a median family income of $49,705--well over twice the national average--received over $700,000; Scarsdale, New York, one of New York City's wealthiest suburbs, was issued nearly $100,000 in revenue sharing. The list goes on and on. Communities have used the federal largesse to pay for pool tables, bridle paths, tennis courts, and even state and local salaries. It is time to end this program, which does nothing but transfer funds from the deficit-plagued federal government to swell surpluses at the state and local level.

ALPHABETICAL LISTING OF PROGRAMS COVERED

(Note: Programs are listed in text in order by budget subfunction number.)