The Heritage Foundation Backgrounder

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A $130 BILLION NO-TAX PRESCRIPTION FOR THE BUDGET DEFICIT

George Bush and congressional leaders are engaged in negotiations to deal with the federal budget deficit, which is described by many policy makers as a "crisis" that threatens the health of the national economy. Many members of Congress are urging the President to "show leadership" by raising taxes. And Bush has announced that he might be willing to forsake his most solemn political pledge, to abandon his "no new taxes promise."

Behind calls for new taxes are the assumptions that the federal budget already has been cut to the "bare bones," that every program is running as efficiently as possible, and that every program serves vital national goals that cannot be accomplished by state and local governments or by the private sector. These assumptions are false. In fact, Heritage Foundation analysts have identified over $130 billion in spending cuts and budget savings that could be made without harming programs comprising the social "safety net."

Wasteful or unneeded spending in the budget is the real cause of the deficit. Before the President and Congress take one more dollar from Americans who are now paying record high levels of taxes, they must put every federal program on the table for critical review.

Ignoring Billions in Cuts. There is indeed a need for leadership on the problem of the budget deficit. The Bush Administration has failed even to go through the motions of requesting cuts or elimination of dozens of programs that aid only special interest groups or government bureaucrats. And Congress repeatedly has ignored reputable studies calling for hundreds of billions of dollars in spending cuts. In 1984, for instance, the President's Private Sector Survey on Cost Control, known as the "Grace Commission" after commission chairman J. Peter Grace, recommended spending reductions and efficiency measures totaling $424 billion over three years. The year following the commission's report, Congress increased federal spending by $94.5 billion, an inflation-adjusted increase of 7.2 percent.

Congress repeatedly has ignored revelations of wasteful spending uncovered by its own respected research arms. Last November, for example, the General Accounting Office (GAO) released its fourth annual report on the implementation of the Federal Manager's Financial Integrity Act of 1982. This act was intended to control waste in Federal Financial Management Systems. GAO found over $150 billion in program waste, fraud, and financial mismanagement. Said Comptroller General Charles A. Bowsher before the Senate Governmental Affairs Committee, "The problems that exist are not limited to a few agencies or a few programs; rather, all of the major agencies have serious problems."[1]

Each year, the Congressional Budget Office (CBO) is required by the Congressional Budget Act of 1974 to produce a survey of recommended budgetary options for the Senate and House Budget Committees. This year's report, released in February, recommended program reforms that yield roughly $60 billion in savings in the first year of implementation.[2] And CBO is known for erring on the side of caution. Congress so far has ignored these recommendations.

Record Revenues, Record Taxes. Americans are paying a higher percentage of their income to the federal government than ever before. And the federal government is collecting record amounts of revenue. Rather than turning to more taxes to deal with the budget deficit, therefore, Congress must turn seriously to the task of cutting spending.

Legislators face a difficult task when spending reductions are necessary. Most government spending benefits some group of individuals or interests. If there were no limit to revenues, Congress could find many worthy projects to fund. But government spending is at the expense of the taxpayer. Helping one interest always harms another. Congress, therefore, must decide which expenditures truly serve the national interest and which, while not without merit, should be left to state and local governments or to the private sector.

In the face of the budget deficit, Congress and the Administration must justify to the American taxpayer why each new dollar of revenue is needed, why the last dollar did not accomplish what lawmakers promised, and why existing programs should continue.

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1 Judith Havemann, "OMB's 'High Risk List' Details Vulnerable Programs," *The Washington Post*, December 6, 1989.

2 Congressional Budget Office, *Reducing The Deficit: Spending and Revenue Options*, February 1990.

HOW CONGRESS FORCES UNCLE SAM TO WASTE MONEY

Lawmakers are always quick to argue that cuts in federal programs are impossible to achieve without significant reductions in the quality or quantity of essential services. They give the impression that all spending is necessary and relevant to the goals of government, and that they have taken all possible steps to permit the Executive Branch to use the most efficient means available to deliver services.

The reality is very different. In a number of ways, Congress consciously prevents the federal government from saving money without reducing necessary services. Thus billions of dollars must, by law, be wasted, rather than being used to reduce the deficit.

1) Congress makes it illegal to use privatization to reduce costs.

Congress constantly blocks attempts to inject market incentives into government. After years of academic analysis and successes at the local level, there is no longer any question that the private sector can provide many government services at greatly reduced costs. Yet during the Reagan Administration, Congress in many cases passed legislation explicitly blocking White House attempts to expand federal contracting and the sale of certain federal assets. In some cases laws were passed to prevent agencies even from studying ways to save money through privatization. Currently there are 37 laws blocking privatization, including measures that exempt 70 percent of federal commercial services from competition. In addition, Congress often micromanages programs, bypassing the normal chain of command, to require programs to serve certain constituencies. The total cost to taxpayers of these prohibitions: $5 billion per year.

Example: The General Services Administration is prohibited from contracting out guard, elevator operation, messenger, and custodial services.

Example: The Legal Services Corporation may not use vouchers or hire private legal clinics as an alternative to staff lawyers employed by a limited number of legal service agencies. Thus, it cannot employ the services of private for-profit legal clinics, such as Hyatt Legal Services, or private arbitration or mediation organizations, such as ENDispute Inc. and New York City's Dispute Center.

Example: Due to congressionally mandated employment levels, the Food and Drug Administration, the Veterans Administration, and the Coast Guard maintenance yard are effectively prohibited from reducing costs through privatization or eliminating duplicative staffing.

Example: The commission created in 1987 to explore the privatization of Amtrak was denied funding and future studies of privatizing Amtrak were prohibited.

2) Congress refuses to close down programs that have completed their purpose.

Once Congress creates a program it rarely lets it die. If the program succeeds, some new constituency is found that "needs" help from the program. Washington's bureaucrats are remarkably entrepreneurial, creating new missions for their programs and creating new political constituencies.

Some 35 states and many local governments avoid this problem by enacting "sunset" laws. These laws mandate that an agency or program must expire after a specified period of time, unless the legislature takes specific action to extend its life. But the federal government has yet to accept such a comprehensive system of automatic agency and program review. Failure to close down agencies and programs that have fulfilled their mission may cost taxpayers as much as $20 billion per year.

Example: The Davis-Bacon Act of 1931, which establishes inflated "prevailing wages" for federal construction contracts over $2,000, was enacted to protect unionized construction workers, the majority of whom were white, from competition from lower cost non-union labor, the majority of whom were black. For sixty years this law denied opportunities to black tradesmen and raised federal construction costs by $1.5 billion per year. Yet Congress refuses to abolish it.

Example: The military commissary system was created to provide foodstuffs to the cavalry on the Western plains in the 1800s. The program continues today, although over 80 percent of military commissaries are within ten miles of two or more commercial supermarkets.

Example: The Export-Import Bank was created in 1934 to finance exports to Russia. Sixty-five years later the Bank loses about $400 million a year financing exports for some of America's largest international corporations.

Example: The Rural Electrification Administration was created in 1935 to bring electricity, and later telephone service, to rural areas of the country. Today, 99 percent of rural Americans have electricity and 96 percent have telephones. Yet REA still exists at a cost to taxpayers of $2 billion per year.

3) Congress is addicted to creating programs.

Congress rarely designs just one program to solve a problem; rather, Congress tends to "spread out" a program over many agencies so that as many constituencies as possible become reliant on the program. If a program proves to be a failure, Congress never reforms or abolishes it. Rather, a new program is created to "solve" the problem or a new layer of bureaucracy is added onto the old one.

Example: There are roughly sixty anti-poverty programs administered by the federal government. Nearly every federal agency has its own anti-poverty program. This includes the military if certain veterans programs are counted.

Example: The Stewart B. McKinney Homeless Assistance Act of 1987, intended to help the homeless, created seventeen different programs administered through seven federal agencies. Yet, there were already over sixty separate federal programs providing assistance to the homeless.

4) Congress does not trust people to help themselves.

With few exceptions, Congress designs programs to empower bureaucrats and private sector professionals, not those individuals that a program was intended to help. For instance, federal money for the poor reaches recipients only after it has trickled through a half million poverty-industry bureaucrats and untold numbers of private sector specialists, such as doctors, real estate developers, and social workers.

Example: Since the mid-sixties the federal government has spent about a quarter of a trillion dollars to build or subsidize the construction of over four million low-income housing units. The use of housing vouchers, like food stamps, would have allowed the government to help twice as many poor individuals, using market demand to stimulate construction of more low- and moderate-income housing. More important, vouchers give the poor a greater sense of efficacy because vouchers allow the poor to live where they choose, near the good schools and good jobs, for example.

5) Congress is addicted to "porkbarrel" spending.

The election process provides powerful incentives for each member of Congress to bring more federal money back to the home district than the voters in the district paid in federal taxes. This is the political equivalent of the "tragedy of the commons" problem found with limited natural resources. Because the resource does not have an identifiable owner, it is to everyone's advantage to obtain as much of the resource as possible before it runs out. The result of this situation is obvious; the resource is quickly destroyed by everyone's rush to "get their's." In budgetary terms, the result is "porkbarrel" spending and consistent budget deficits. The cost to the American taxpayers is difficult to calculate.

Some representative examples of porkbarrel spending are[3]:

◆◆ A $107,000 grant from the National Science Foundation and the National Institute of Mental Health for the study of "sexual looking, classical conditioning of sexual arousal, and improvement of copulatory performance with practice" of the Japanese quail. The conclusion: male quails prefer female quails over male quails and female ducks for mating purposes. Congress has renewed this study with a $100,000 grant.

◆◆ $2,500 to study the causes of rudeness, lying, and cheating on tennis courts.

◆◆ $84,000 to study why people fall in love.

3 See: "Pork Barrel Items in the FY 1990 Appropriations Bills," Citizens Against Government Waste. March 27, 1990 and Walter Williams, "Your Tax Dollars at Work," *The Washington Times*, April 13, 1990.

◆◆ $500,000 to build a ten-story replica of the Great Pyramid of Cheops in Bedford, Indiana, and an additional $200,000 to the same city to build a 800-foot replica of the Great Wall of China.

◆◆ $46,000 to study how long it takes to cook breakfast eggs.

◆◆ $221,000 to send twenty-one members of Congress and their "officials" to the Paris Air Show.

◆◆ $68,000 to send officials of the Urban Mass Transit Administration to Disney World to study the secrets of the Disney transportation system.

◆◆ $150,000 for Broom Snakeweed research in New Mexico.

The burden is on Congress to change the way it does business. Taxpayers should no longer have to pinch pennies so that Congress can spend them with abandon.

SLASHING THE DEFICIT: FY 1991

Summary of Cost Savings by Budget Function

Budget Subsection	Total Savings ($ million)
(000) General Government Management	$25,540
(051) National Defense	$11,200
(150) International Affairs	$ 3,916
(250) Science, Space, and Technology	$ 2,068
(270) Energy	$ 18,276
(300) Natural Resources	$11,439
(350) Agriculture	$10,690
(370) Commerce and Housing Credit	$ 4,140
(400) Transportation	$ 9,443
(450) Community Development	$ 5,608
(500) Education	$ 7,326
(550) Health	$ 1,545
(600) Income Security	$15,200
(700) Veteran's Benefits	$ 3,000
(750) Justice	$ 406
(800) Legislative Branch	$ 270
(920) Federal Pay	$ 900
Total Savings	$130,967

Last year, in the monograph *Slashing the Deficit: FY 1990*, Heritage Foundation experts recommended $128 billion in budgetary spending cuts. The following recommendations are based in part on that monograph, though greatly summarized. Some new recommendations have been added and other recommendations to phase-out programs over many years have been modified. Heritage analysts suggest over $130 billion in cuts this year.

The three fastest growing programs in the budget, Social Security, Medicaid, and Medicare are not addressed here. These programs are in such serious need of reform that they deserve extensive attention elsewhere. Congress should, however, freeze spending for these programs for one year at 1990 levels. This one-year period should be used to develop long-term reform policies to bring the spiraling costs of these programs under control.

All suggested spending cuts are reductions from Fiscal Year 1990 outlays and are, therefore, real dollar cuts, not reductions in projected baseline increases.

LEGISLATIVE BRANCH

Legislative Branch Expenses:

Deficit Reduction: $220 million

Repeal the congressional payraise and reduce funding for Congress and Legislative Branch agencies and activities by 10 percent. Congress should not receive a pay raise until a balanced budget has been achieved without a tax increase.

Congressional Mail Privilege:

Deficit Reduction: $50 million

Reduce expenditures by 50 percent on congressional mailings, known as the "franking privilege." Members of Congress use this free mailing privilege to enhance their chances for reelection. In 1987, lawmakers sent out 12,000 pieces of mail for every piece received on Capitol Hill.

GENERAL GOVERNMENT MANAGEMENT

Contract Out Federal Services:

Deficit Reduction: $5 billion

Issue an executive order requiring federal agencies to contract out to private firms or groups of federal employees all functions that are not inherently governmental.

Merge the Department of Energy with the Departments of Interior, Commerce and Defense:

Deficit Reduction: $2 billion

Close the Department of Energy and transfer all defense related activities to the Department of Defense; place regulatory functions with the Department of Commerce; and, merge resource management functions with the Department of the Interior, creating a Department of Natural Resources.

Merge HUD and HHS:

Deficit Reduction: $2 billion

Move all low -income housing programs into the Department of Health and Human Services; replace all low-income housing assistance with vouchers; transfer HUD's economic development functions to the states and the Department of Commerce.

Streamline the Department of Agriculture:

Deficit Reduction: $1 billion

Move the Food Stamp and nutrition programs into the Department of Health and Human Services; move the Forest Service into the Department of Interior and the agricultural trade programs into the Department of Commerce; close the Farmers Home Administration and place all low-income housing programs in HHS.

Expand Federal Loan Sales and Include Revenues in Deficit Reduction Calculations:

Deficit Reduction: $4 billion

Initiate a comprehensive credit reform program requiring federal lending agencies to sell the existing $250 billion federal loan portfolio, plus sell all new loans to the private sector through competitive auctions.

Require Reinsurance on Federal Loan Guarantees:

Deficit Reduction: $3 billion

Require all federal lending agencies to purchase reinsurance from the private sector for all federally-guaranteed loans; establish a new federal loan guarantee policy prohibiting lending agencies from granting a guarantee of more than 90 percent of the face value of a loan.

Cut the Capital Gains Tax:

Deficit Reduction: $4 billion

Cut the capital gains tax from 33 percent to 15 percent.

Improve Federal Debt Collection:

Deficit Reduction: $2.5 billion

Adopt the standard debt collection procedures found in the private sector.

Modernize Federal Cash Management:

Deficit Reduction: $40 million

Charge states and cities interest on federal grant and loan money that is paid before the funds are actually spent. A Treasury Department revolving fund should be established to insure that the federal government is fully compensated for early payments to the states and cities, as recommended by the

Grace Commission. This revolving fund similarly should reimburse cities and states for late federal payments.

Repeal the Davis-Bacon Act:

Deficit Reduction: $1.5 billion

Repeal the 1931 Davis-Bacon Act, which establishes inflated "prevailing wages" for federal contracts over $2,000. This law was designed to protect white labor from competition from lower cost Black labor and has continued to have an adverse impact on minority labor.

Repeal the Service Contract Act:

Deficit Reduction: $500 million

Repeal the Service Contract Act of 1965, which establishes inflated "prevailing wages" for federal service contracts of more than $2,500. This law has been especially harmful to small, minority-owned businesses.

NATIONAL DEFENSE

Deficit Reduction: $11.2 Billion

Bush's proposed 1991 Pentagon budget already trims 2.1 percent from last year's defense outlays, for a saving (in 1991 dollars) of $6.2 billion. Bush accomplished the savings by terminating thirteen programs including the M-1 tank (saving $1.1 billion in 1991), Maverick missile (saving $367 million in 1991), and Sea Lance anti-submarine warfare missile (saving $156 million in 1991). Bush also proposed cutting two divisions from the Army for savings of $1.2 billion in 1991 and closed 35 military installations.

New Administration proposals will trim the budget by an additional $2.5 billion in 1991: a cutback in spending for the B-2 bomber, C-17 transport and Advanced Tactical Fighter aircraft programs, and termination of the Follow-on-to-Lance missile, a 280 mile-range nuclear missile designed primarily for use in Europe. These cuts were recommended last March in a Heritage Foundation *Backgrounder*, "Four Imperatives for Cutting the Defense Budget."[4]

On top of these savings, Bush can trim another percent or so from the budget by such measures as:

- **postponing production of the C-17 aircraft;**
- **putting the equivalent of another Army light division in the reserves;**

4 Jay P. Kosminsky, "Four Imperatives for Cutting the Defense Budget," The Heritage Foundation *Backgrounder* No. 757, March 2, 1990.

♦ **slowing down procurement plans for the Army Light Helicopter and other programs geared mainly to meet advanced Soviet forces.**

As important an issue as how the Pentagon budget is cut is the question of which programs are protected from the budget ax. Key areas of the budget which should be protected are: 1) strategic nuclear forces, particularly land- and sea-based intercontinental missile modernization programs; 2) the Strategic Defense Initiative (SDI); 3) Marines and Special Forces most likely to be engaged in combat; 4) research and development, and; 5) programs critical to armed forces morale and professionalism, such as training time and benefits for military personnel.

INTERNATIONAL AFFAIRS

Reduce U.S. Contributions to the World Bank:

Deficit Reduction: $110.6 million

U.S. taxpayers now are committed to $30 billion in loan guarantees to the World Bank, in addition to America's annual contribution. Yet the Bank repeatedly gives out loans contrary to U.S. interests. Funds go to governments in less developed countries that mismanage their economies and waste countless billions of dollars. Moreover, the World Bank continues to increase its loans to less developed countries that have little hope of repaying the loans.

P.L. 480 "Food for Peace" Program:

Deficit Reduction: $146.3 million

Eliminate Food for Peace funding except for temporary food shipments in emergencies like earthquakes, droughts, and famines. This program actually has harmed the economies of the Third World countries by depressing the market prices that local farmers can obtain for their crops.

Agency for International Development (AID) – Foreign Aid:

Deficit Reduction: $3.1 billion

Cut the overall AID budget by 50 percent and phase out the remainder of the program over three years. American economic development assistance has effectively rewarded wasteful and irresponsible economic policies in less developed nations. Any U.S. economic development aid should be given contingent on reforms toward free enterprise, free markets, and local entrepreneurship.

U.S. Contributions to the United Nations:

Deficit Reduction: $190 million

Cut U.S. contributions to those programs that clearly do not serve American interests, completely eliminating funding for those which are fundamentally hostile or ineffective. Specifically: U.N. Food and Agriculture Organization (FAO); U.N. Industrial Development Organization (UNIDO); World Intellectual Property Organization (WIPO); World Health Organization (WHO); World Heritage Fund; U.N. Relief and Works Agency (UNRWA); U.N. Education and Training Program for Southern Africa and the U.N. Trust Fund for South Africa; and the U.N. Development Program (UNDP).

International Monetary Fund (IMF):

Deficit Reduction: $5 million

End all U.S. direct funding of the IMF and prohibit any new U.S. commitments in contingent liabilities. The IMF is now requesting a $60 billion capitol increase which will bring its total operating assets to some $175 billion. It does not need expanded lending authority. Moreover, IMF lending policies actually have led to less economic development in recipient countries because IMF loans tend to cover up for bad economic policies and corrupt governments.

Export Import Bank (Eximbank):

Deficit Reduction: $364 million

Close the Export Import Bank. The Bank's existing loan guarantee commitments should be honored, but the Bank should be forbidden from insuring any new loans. The Bank was established in 1934 to finance U.S. exports to the Soviet Union. In recent years, the Bank loses an average of around $400 million a year financing exports for some of America's largest multinational companies.

SCIENCE, SPACE, AND TECHNOLOGY

NASA – Space Station:

Deficit Reduction: $1.7 billion

Delay federal funding of the planned Space Station Freedom for two years. This period should be used for further study of less expensive options such as encouraging privatization of commercial space activity, or sponsorship of a joint public-private venture.

NASA – Mars Project:

Deficit Reduction: $150 million

Delay federal funding of the proposed manned mission to Mars. The entire Mars program is estimated to cost as much as $400 billion, according to the Congressional Budget Office (CBO). While a manned landing on Mars is a noble goal further thought should be given toward less expensive priorities.

Superconducting Super Collider (SCS):

Deficit Reduction: $218 million

Cease funding of the SSC. The SSC would be the world's largest, and most powerful, high energy particle accelerator, with a projected total cost of $8 billion to construct and $270 million annually to operate. The SSC will drain funds from less exotic, and less costly, research projects with greater commercial potential.

ENERGY

Naval Petroleum Reserves (NPR):

Deficit Reduction: $1.6 billion

Sell the NPRs through a well-publicized public stock offering. For over seventy years the federal government has owned and operated commercial oil fields at Elk Hills, California, and Teapot Dome in Wyoming in case of a national emergency. Since these reserves account for about 1 percent of U.S. domestic output, the government has no reason to continue operating these sites.

Federal Dams: The Five Regional Power Marketing Administrations (PMA):

Deficit Reduction: $5 billion

Sell the Power Marketing Administrations through public stock offerings. With few exceptions, the government has not reviewed or revised its policy for pricing the electrical output of these dams since the 1930s, when many of them were built. Consumers of PMA electricity receive over $1.5 billion worth of subsidies yearly. The federal Treasury could be receiving more than $4 billion per year if the government let buyers bid for the electricity. Underpriced federal power even lights gambling casinos in Las Vegas.

The Tennessee Valley Authority (TVA):

Deficit Reduction $5 billion

Sell the TVA through a public stock offering after dividing it into three or four independent power generating companies. The TVA, which is a government-owned corporation created in 1933 to bring electricity to the Tennessee River Valley, is effectively bankrupt. Of TVA's $22 billion in assets, some $15 billion are inoperative. The only way to ensure service to this region is to sell it to the private sector.

Uranium Enrichment Enterprise:

Deficit Reduction: $1.8 billion

Sell the U.S. uranium enrichment facilities to the private sector. The logical buyers for this enterprise are current employees, in addition to the 108 commercial nuclear power plants located in the U.S. that purchase the uranium.

Fossil Energy Research and Development:

Deficit Reduction: $383.7 million

Eliminate the Fossil Energy Research and Development programs which support research and development for new technologies intended for commercial markets. Alternatively, the government should require private sector cost sharing for all federal energy research and development expenditures with commercial applications. The government should impose a 50 percent up-front cost-sharing charge before launching new research projects and recoup 100 percent of the federal investment if the technology is eventually commercialized.

Rural Electrification Administration (REA):

Deficit Reduction: $2 billion

Eliminate the REA by phasing out REA loans by 1993 and selling existing loans to private investors and commercial banks. The REA was created in 1935 to bring electricity, and later telephone service, to rural areas of the country. Today, 99 percent of rural residents have electricity and 96 percent have phone service. Yet REA still distributes $2 billion in below-market cost loans each year.

Clean Coal Technology Program (CCTP):

Deficit Reduction: $151.5 million

Eliminate funding for the CCTP, which was created to assist private industry in developing environmentally safer coal technologies. The federal government currently is funding 60 percent of the program's costs while private industry funds the remainder. Since private industry is the beneficiary of this program, it should bear the full costs. Alternatively, regulations should be changed to allow power companies to use cleaner fuels.

Energy Conservation Programs:

Deficit Reduction: $340.6 million

Eliminate funding for energy conservation programs which support research and development of technologies intended for future use by the private sector. Since private industry potentially may receive lucrative benenfits from this technology, it should bear the full costs.

Energy Supply, Research and Development Activities:

Deficit Reduction: $2 billion

Eliminate funding for Energy Supply, Research and Development Activities which support research and development on technologies ranging from solar power to magnetic fusion. Continue funding on "pure scientific research" projects. Over the last fifteen years, the government has spent billions on research projects that have brought little or no return to the government or the private sector. For instance, over $10 billion was spent on nuclear energy research even though ten years has passed since the last U.S. commercial reactor was built.

NATURAL RESOURCES AND ENVIRONMENT

Bureau of Land Management (BLM):

Deficit Reduction: $3 billion

Sell the most marketable portions of the 340 million acres of Western land owned by the Bureau of Land Management and transfer ownership of the remaining land to the respective states. This should include the same 600,000 acres of land classified as "in urbanized areas or with residential, commercial, or industrial value," in addition to the 350,000 acres of federal property classified as "no longer needed for federal purposes." Private buyers could include: environmental groups, recreational associations, ranchers, mining interests, or individual citizens. Federal ownership of Western land is an historical anomaly with no environmental or economic purpose. These are lands that were not transferred to the private sector under the Homestead Act, state land grants, and similar means in the 19th and early 20th centuries.

Bureau of Reclamation – Water and Construction Projects:

Deficit Reduction: $665 million

Close down the Bureau of Reclamation, which was formed in 1902 to promote economic development in the arid West. Begin by withholding all appropriations for new water projects which the Bureau itself recommends. Also, transfer all water distribution and pricing responsibilities to the private sector, thus bringing market efficiencies to the very inefficient and inequitable Western water market.

Offshore Oil and Gas Leasing:

Deficit Reduction: $800 million

End current moratoria on exploration and drilling of the Outer Continental Shelf (OCS). Technology can prevent the oil spills that drilling restrictions are intended to prevent. Experience of the past two decades demonstrates that offshore drilling need not damage the environment. Most spills occur as a result of shipping oil over long distances, not from offshore drilling.

Arctic National Wildlife Refuge (ANWR) Leasing:

Deficit Reduction: $1 billion

Lease the Arctic National Wildlife Refuge (ANWR) tracks immediately through competitive bidding under standard Department of Interior leasing guidelines. According to a 1987 Department of Interior study, ANWR oil could bring $38 billion in new revenue to the federal Treasury.

Powder River Basin Coal:

Deficit Reduction: $2 billion

Sell the federally-owned coal that lies under the privately-owned surface land in the Powder River Basin in Wyoming. The sale should be accomplished through competitive auctions, or possibly through the public sale of stock in a newly created coal management corporation.

U.S. Forest Service – Road Building:

Deficit Reduction: $224 million

Discontinue subsidized road building for private timber companies. The U.S. Forest Service is the world's largest road builder. Under its direction over 342,000 miles of roads have been built, eight times the mileage of the U.S. Interstate Highway System. This program is extremely harmful to the environment, yet it continues only because the Forest Service claims that timber sales yield considerable revenues to the U.S. Treasury. According to the Wilderness Society, these claims are false: the Forest Service actually has averaged $406 million in annual losses since 1982.

Land Acquisition – U.S. Forest Service and National Park Service:

Deficit Reduction: $210 million

Cancel all new land purchases by the U.S. Forest Service and the National Park Service. The federal government already owns 727 million acres of property. Only the Soviet Union and China own more public land. The government should begin to facilitate the purchase and stewardship of existing federal holdings by private conservation organizations.

Recreational Lands – User Fees:

Deficit Reduction: $1 billion

Raise entrance fees for federal recreational lands to reflect the costs of maintenance and operations. Congress prevents federal land management agencies, such as the National Park Service, the Army Corps of Engineers, and the National Forest Service, from charging fees for use of most public lands and facilities. Minimal fees collected by the Park Service, about $55 million, do not come close to covering the agency's annual outlays of $729 million. Meanwhile, the fragile environment of these parks suffers near irreparable stress because there is no market mechanism to regulate visitorship.

Environmental Protection Agency (EPA) – Enforcement Activities:

Deficit Reduction: $200 million

Allow independent, private environmental auditors to take over the (EPA) monitoring of industry compliance with EPA standards. EPA currently spends nearly $800 million on the Abatement, Control, and Compliance program. Yet, much of this monitoring could be accomplished through the private markets, as is done with financial auditing.

EPA – Wastewater Treatment Construction Grants:

Deficit Reduction: $2 billion

Eliminate the wastewater treatment construction grants program; which provide initial capital to states' Revolving Funds for loans to local governments to construct treatment facilities. The $50 billion spent in this program since 1972 has encouraged local governments to build "gold-plated" treatment facilities rather than look for lower-cost and more environmentally safe alternatives.

National Oceanic and Atmospheric Administration (NOAA):

Deficit Reduction: $40 million

Impose a $100 annual licensing fee on fishermen for the right to fish in federal waters. Other fishing user fees should also be reviewed. The National Marine Fisheries Service spends over $100 million a year promoting fishing and conserving fishing resources in federal waters. Fishermen should pay for some of the benefit they receive.

Bureau of Mines:

Deficit Reduction: $180 million

Close the Bureau of Mines. The Bureau's important data gathering activities should be merged with other research agencies within the Department of Interior. The research and development facilities of the Bureau should be closed, or sold to the private sector which has a direct financial interest in conducting some of this research.

Federal Helium Reserves:

Deficit Reduction: $60 million

Sell the federal helium reserves and the Exell helium refining plant near Amarillo, Texas. Between 1929 and 1961 the federal government was virtually the sole supplier of helium. The private market now is flourishing and should not have to compete with subsidized government helium.

The National Weather Service (NWS):

Deficit Reduction: $60 million

Institute user fees that reflect the true cost of service. Additionally, close or contract out any activities that compete with the private sector. There are approximately 100 private companies in the U.S. preparing and disseminating weather forecasts to businesses and the public on a commercial basis.

AGRICULTURE

Farm Subsidies:

Deficit Reduction: $10 billion

Discontinue direct subsidies to farmers and the federal crop price support programs managed by the Agricultural Stabilization and Conservation Service and the Commodity Credit Corporation. Farm subsidies are anti-consumer, and are especially burdensome for low-income families. Farm subsidies add as much as $10 billion to food prices for American households.

Moreover, according to Cato Institute scholar, James Bovard, "With the $260 billion that government and consumers have spent on farm subsidies since 1980, Uncle Sam could have bought every farm, barn, and tractor in thirty-three states."[5]

Federal Crop Insurance Corporation (FCIC):

Deficit Reduction: $500 million

Phase out FCIC, which insures farmers against crop losses resulting from natural disasters such as droughts, floods, hurricanes, fire, and insect infestation. The government should use measures to promote a more mature private crop insurance industry. While participation in FCIC currently is voluntary, farmers receiving any level of agricultural subsidies or loans should be required to purchase crop insurance from private insurers. The role of the FCIC should be relegated to that of a reinsurer of private insurance firms.

Agriculture Extension Service:

Deficit Reduction: $190 million

Reduce the Agriculture Extension Service budget by half and phase out the remainder of the program over three years. The County Cooperative Extension Program was established in 1914, at a time when 35 percent of Americans lived on farms. Though only 2.2 percent now reside on farms, the program continues. The training, education, and marketing assistance activities of the Extension are duplicated by dozens of other state and local programs in addition to private groups such as the American Farm Bureau Association.

COMMERCE AND HOUSING CREDIT

Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"):

Deficit Reduction: $500 million

Begin the process to phase out over ten years all special government benefits enjoyed by FNMA and FHLMC. Place a temporary annual fee of 0.25 percent on all single-family and multifamily mortgages sold to or guaranteed by FNMA or FHLMC. This fee should be paid by borrowers, collected by lenders, and passed through to the Treasury. Reduce the cap on the maximum mortgage amount that can be held or traded by FNMA or FHLMC to 150 percent of local conventional home loan values. Remove the exemption from Securities and Exchange Commission reporting requirements that each enjoy.

5 James Bovard, *The Farm Fiasco* (San Francisco: Institute for Contemporary Studies Press, 1989), p 1.

Federal Housing Administration (FHA):

Deficit Reduction: $1 billion

The FHA may soon become the next Savings and Loan Crisis. The FHA must be held to the same capital requirements as private mortgage insurers: 4 percent. Also, require a minimum downpayment of 5 percent of the mortgage amount from homebuyers obtaining FHA insurance. Default rates are exceedingly high for loans with less than 5 percent downpayments. Impose on lenders a 5 percent coinsurance requirement on all FHA-insured loans, and discontinue FHA mortgage insurance on second homes or investor properties.

Small Business Administration (SBA):

Deficit Reduction: $340 million

Close the SBA and sell all outstanding loans to the private sector. The SBA has been a dismal failure, with around 12 percent lost each year on the $3 billion of loan guarantees it issues. As many as 20 percent of SBA direct loans default. Only two-tenths of 1 percent of all small businesses in the nation receive SBA loans. To be eligible for SBA direct and guaranteed loans small businesses must have been rejected by two previous banks. As a result, SBA loans divert venture capital away from enterprises that seem likely to succeed to those with are more likely to fail.

Federal Communications Commission Auctioning of the Electromagnetic Spectrum:

Deficit Reduction: $2.3 billion

Auction licenses for unassigned frequencies of the electromagnetic spectrum to the highest bidder, with the revenues from the auction going to the U.S. Treasury. Auctioning is a more efficient and equitable method of assigning frequencies.

TRANSPORTATION

Interstate Commerce Commission (ICC):

Deficit Reduction: $43 million

Complete the deregulation of the trucking industry, and abolish the ICC. Remaining ICC functions should be distributed to other agencies. The ICC's rail regulatory functions, for instance, should be moved to the Department of Transportation, while its consumer protection functions could be handled by the Federal Trade Commission.

Urban Mass Transportation Administration (UMTA):

Deficit Reduction: $2 billion

Eliminate all federal transit operating subsidies immediately, since they subsidize inefficiency in transit operations. Cost-sharing by local governments should be raised to 50 percent from 25 percent on all new projects. Despite a $40 billion investment in urban transit projects over the past quarter century, 10 percent fewer transit trips were taken in 1986 than in 1963, the year before the program began. Much of the $40 billion in federal aid has been spent on gold-plated transit projects which attract few riders.

Amtrak:

Deficit Reduction: $500 million

Sell Amtrak to the private sector in the same manner as the sale of Conrail. While Amtrak is becoming more self-sufficient than in the past, federal subsidies to Amtrak average about $25 per passenger trip.

Federal Highway Administration:

Deficit Reduction: $4 billion

Declare the interstate highway system complete. Over 98 percent has been completed, any further construction should be done by the states or by private companies using toll road arrangements. Eliminate funding for all highway "demonstration" projects. Allow states to impose tolls to cover the cost of maintaining and extending roads that have received no more than 75 percent federal funding. This would lift the current ban on direct user fees for primary and urban roads, but continue the ban on tolls on portions of the interstate highway system.

Federal Aviation Administration (FAA):

Deficit Reduction: $2 billion

Eliminate payments for aviation from the general treasury, except for the estimated 15 percent of FAA costs due to military use. The success of airline "in-air" deregulation should be extended to "on-the-ground" operations. The Department of Transportation should be more aggressive in selling airports to private firms or contracting out a greater portion of airport management.

Maritime Administration:

Deficit Reduction: $400

Repeal the "cargo preference" requirement for exports shipped and financed by the U.S. government. Although the Maritime Administration's activities originally were designed to promote U.S. national security interests, today many of its programs – particularly the "cargo preference" law – are little more than protectionist measures intended to shield the U.S. shipping industry from foreign competition. Protectionism for U.S. shipping interests adds to the costs of U.S. exporters and thus harms America's competitiveness.

United States Coast Guard:

Deficit Reduction: $500 million

Charge fees for Coast Guard services, such as aids to navigation, boat towing, and ice breaking, which benefit easily identifiable users. Conduct a comprehensive inventory of Coast Guard property holdings and begin to sell unnecessary land and facilities.

COMMUNITY DEVELOPMENT

Community Development Block Grants (CDBGs):

Deficit Reduction: $2.5 billion

End the Community Development Block Grant program, and apply $500 million of the program's funding toward tax abatement in federal enterprise zones in blighted areas.

Farmers Home Administration (FmHA):

Deficit Reduction: $3 billion

Close the FmHA and shift all low-income housing programs to the Department of Housing and Urban Development. Repeal the 1987 congressional prohibition on further sales of FmHA loans to the private sector. Sell off the mounting inventories of defaulted properties as FmHA accumulates them. FmHA has been a disaster. The General Accounting Office estimated that 1987 losses totaled $13 billion, pushing FmHA's accumulated deficit to a staggering $42 billion. The situation is getting worse each year.

Appalachian Regional Commission (ARC):

Deficit Reduction: $108 million

Abolish the Appalachian Regional Commission. Since this program was enacted in 1965, the federal government has spent nearly $6 billion in this economically distressed region, two-thirds of that investment on roads. The ARC duplicates fourteen federal rural aid programs provided by the Departments of Transportation, Labor, and Agriculture.

EDUCATION

Impact Aid:

Deficit Reduction: $764 million

Eliminate the Impact Aid program which is intended to compensate local governments for the ostensible cost of educating school children of federal employees. This program was established during World War II based on the erroneous premise that military bases and other federal facilities are a "cost" for local communities.

Bilingual Eduction Programs:

Deficit Reduction: $100 million

Cut federal funding for bilingual eduction by 50 percent and remove all restrictions on the instructional methods adopted by local schools. The remaining funds should be given to local school districts to develop the programs they deem most appropriate and effective.

Stafford Student Loan Program:

Deficit Reduction: $1 billion

Reform the Stafford Student Loan program by eliminating all federal interest rate subsidies to students after they leave school. Serious study should be given to imposing a 10 percent to 15 percent co-insurance requirement on lenders. Default rates on student loans are nearing 15 percent, and nearly 3 million Americans now hold delinquent loans, worth $5.5 billion to the federal Treasury.

Howard University:

Deficit Reduction: $100 million

Reduce total federal support for Howard University by 50 percent. Although Howard University, in Washington, D.C., is a private institution, it receives nearly $200 million annually in federal support. Howard should be required to develop a plan for self-sufficiency over ten years using a graduated matching grant system.

College Work Study Program (CWS):

Deficit Reduction: $606 million

End the federal role in the College Work-Study program, which makes grants to participating institutions that provide part-time jobs for disadvantaged graduate and undergraduate students. Nearly all of the students who take advantage of this program already collect student aid in other forms. The federal government should not have to pay for both a student's education and his or her part-time job.

Corporation for Public Broadcasting:

Deficit Reduction: $150 million

Reduce funding for the Corporation for Public Broadcasting to $80 million and phase out support over the next three years. With today's boom in cable television and the rental movie market, taxpayer supported television and radio, if it was ever justified, is now unnecessary and should be ended.

National Foundation on the Arts and the Humanities:

Deficit Reduction: $210 million

Reduce by two-thirds federal funding for the National Foundation on the Arts and Humanities which gives grants to the National Endowment for the Arts and the National Endowment for the Humanities; then expand the Challenge Grants program currently operated by the National Endowment for the Arts. Funding would be phased out over three years. There is no shortage of private financial support devoted to the arts and humanities. The American

Association of Fund-Raising Councils calculates that in 1987 private donations to "arts, culture, and the humanities" was $6.41 billion.

Job Training Partnership Act (JTPA):

Deficit Reduction: $3.9 billion

Terminate the Job Training Partnership Act, which is designed to provide job training for poor youth through block grants to the states, in addition to federally managed programs, such as the Job Corps. Government directed job training programs have a long history of failure. More often than not, job training programs have simply been a boondoggle for private operators and bureaucrats. There are other methods of achieving the same end that should be tried, such as: the Earned Income Tax Credit, lowering the minimum wage, repealing occupational licensing laws at the local level, or, perhaps, eliminating any tax burden on individuals below the poverty line.

Job Corps:

Deficit Reduction: $767 Million

If JTPA is not eliminated, Congress should at least terminate the Job Corps program which is intended to provide training for disadvantaged, unemployed youth. It should discontinue the construction of all new centers, and sell off the remaining centers under government control. Job Corps has a twenty-five year record of failure. According to the Office of Management and Budget, the Job Corps is the most expensive job training program administered by the Department of Labor. Training costs per youth average between $15,000 (privately managed facilities) and $21,000 (federally managed centers) for an eight month session.

Trade Adjustment Assistance:

Deficit Reduction: $196 million

Eliminate all funding for Trade Adjustment Assistance, which is intended to aid workers whose jobs have been lost due to import competition. Workers who lose their jobs as a result of foreign competition should not receive government benefits that exceed the assistance available to those laid off due to domestic competition.

Community Services Block Grants (CSBGs):

Deficit Reduction: $300 million

End the Community Services Block Grant (CSBG) program, created in 1981 by consolidating several federally-funded community action programs that had been part of Lyndon Johnson's Great Society efforts. The $90 million remaining in this program's $390 million budget should be directed toward federal tax abatement in enterprise zones in blighted areas. A recent General Accounting Office (GAO) study found that more than 30 percent of CSBG funds are used to defray the administrative costs incurred by local social service agencies as a result of local and federal regulations. The Davis-Bacon wage-setting law can add 25 percent to administrative costs, and local building and zoning codes can add 15 percent to 25 percent to the cost of building low-income housing.

HEALTH CARE

National Institutes of Health (NIH):

Deficit Reduction: $1.14 billion

Reduce by 30 percent funding for the NIH, which fund biomedical research in a variety of health care areas. During the 1980s, as much as 30 percent of NIH extramural grant funds went to recipients' indirect overhead costs rather than basic research. Institute a graduated matching-grant program which would require recipients to find additional sources of support for their work. This would also act as a check on the validity of the research conducted.

Health Resources and Services Administration (HRSA):

Deficit Reduction: $370 million

Reduce by 20 percent funding for the HRSA. Transfer control of community health centers, migrant centers, and black lung clinics to the states by transforming HRSA funds into a Primary Care Block Grant. Reducing the strings attached to this block grant would allow each state to tailor assistance to meet unique local primary care needs.

Consumer Product Safety Commission (CPSC):

Deficit Reduction: $35 million

Abolish the CPSC. Consumers and firms do not need the CPSC. The legal system has more than adequate protection against defective products. Moreover, product monitoring is handled very capably by private firms, such as Underwriters Laboratory, Inc., and publications, such as *Consumer Reports*.

INCOME SECURITY

Civil Service Employee Retirement:

Deficit Reduction $3 billion

Bring Civil Service Retirement benefits in line with private sector packages. Such reforms should include: raising the federal retirement age from 55 to 65; eliminating the lump-sum retirement option; calculating retirement benefits based on an average of the five highest annual salaries in an employee's earnings history, rather than the current top three years earnings base; and reducing cost-of-living adjustments (COLAs) from the full Consumer Price Index to the CPI less 1 percent. The government pays out over $30 billion a year to two million civil service retirees. The unfunded liabilities of the civil service retirement system are mushrooming to potentially catastrophic levels, $1 trillion by some accounts.

Unemployment Insurance:

Deficit Reduction: $2 billion

Reform the Federal-State Unemployment Insurance program, which will pay out $19.5 billion to unemployed workers this year. Initial reforms should include delaying the 26 weeks of unemployment benefits for unemployed workers for two weeks, and allowing firms to opt out of the program if instead they establish and make payments to Personal Unemployment Insurance and Training Accounts for all employees. Another long-term reform is to give workers tax incentives for purchasing individual unemployment insurance.

Privatize Public Housing:

Deficit Reduction: $1.3 billion

Take steps to begin privatizing public housing. There are approximately 1.4 million public housing units nationwide, managed by 3,300 local public housing authorities. Federal expenditures now total over $6.5 billion a year.

1) Offer all public housing developments nationwide for sale to the highest bidder. An estimated 20 percent would be purchased in the first year, yielding immediate savings to the federal government (as well as income from sales).

2) Require purchasers to maintain the properties sold as privately-managed public housing for five years. Purchasers would underwrite all maintenance and operating costs and freeze rents at pre-sale levels, with annual increases for inflation. After five years, purchasers would own property free and clear, with the option to convert to other uses or retain as low-income housing.

3) Use the proceeds from the sale of public housing units to fund housing vouchers for displaced tenants, and apply the balance to deficit reduction. Twice as many poor can be assisted with vouchers than is possible with public housing.

Child Nutrition Programs:

Deficit Reduction: $1 billion

Eliminate $1 billion of the $4.9 billion in federal grants to states which compensate for families with incomes over 130 percent of the poverty level who participate in School Lunch programs, School Breakfast programs, and Child Care Feeding programs. Families with incomes below 130 percent of the poverty level with children in schools that do not participate in the meals program should be given additional food stamps or government cash assistance equal to the amount of subsidy in the child nutrition program.

Aid to Families With Dependent Children (AFDC), MEDICAID, and Related Welfare Benefits:

Deficit Reduction: $6.5 billion

Limit to seven years the time that a family can remain on the Aid to Families with Dependent Children assistance rolls. This will reduce the current welfare rolls by roughly one-third and reduce total state and federal spending by $10.2 billion. There are 3.7 million families currently receiving AFDC assistance; and, these families will, on average, stay on the program 11.5 years. Two million of the current beneficiaries will receive benefits over ten years, with an on-average stay of 16.5 years. This prolonged welfare dependence provides an unsuitable environment for raising young children.

Low Income Home Energy Assistance:

Deficit Reduction: $1.4 billion

Immediately end the Low Income Home Energy Assistance program and replace it with a scaled-back program to provide only emergency and temporary energy aid to very low-income families facing disconnection of their utilities.

VETERANS BENEFITS

Veterans Medical Benefits:

Deficit Reduction: $3 billion

Convert veterans' health benefits to a reimbursement system, paying for treatment by private doctors, hospitals, and nursing homes, with full coverage provided for treatment of service-related disabilities and tapered coinsurance charges for treatment of nonservice-related disabilities. Also, reduce VA medical staff levels over several years in areas where adequate alternative treatment facilities exist. VA health care equipment and buildings located in these areas should be sold to the private sector or closed. .

JUSTICE

Legal Services Corporation:

Deficit Reduction: $306 million

Eliminate funding for the Legal Services Corporation which is intended to provide legal assistance to low-income individuals. Encourage the use of private-non profit dispute resolution organizations and give vouchers to those who need other legal assistance. The Legal Services Corporation has betrayed its mission by involving itself in political advocacy work, not legal aid to the poor.

The Bureau of Prisons:

Deficit Reduction: $100 million

Begin gradually to contract with private corrections firms to administer and operate prison facilities, including the "special need" facilities, such as juvenile institutions and illegal immigration facilities as well as the minimum security. Also, finance the construction and expansion of federal prisons through lease-purchase arrangements.

FEDERAL PAY

Federal Blue Collar Salaries:

Deficit Reduction: $900 million

Reevaluate the pay rates for non-key jobs. Reform the step classification system within each occupational grade level to bring federal pay into line with private sector pay rates.

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