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Memo to the President #3: Candidates for a Line-Item Veto in the Commerce, Justice, and State Appropriations Bill

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Passage of the Balanced Budget Act of 1997 has not ended the practice of pork-barrel spending. The FY 1998 appropriations bills Congress soon will send to President Bill Clinton are packed with hundreds of pork-barrel projects and other kinds of wasteful spending items that taxpayers associate with fiscal irresponsibility.

But unlike previous years, the President now has the authority to veto specific line items in these appropriations bills without vetoing the entire bill. This line-item veto authority also extends to non-statutory sources such as the committee reports that accompany all appropriations bills. Typically, committees use these reports to earmark funds for favored projects and programs in detailed instructions to federal agencies.

This new authority means that by erasing wasteful spending, the President can personally lower the budget deficit. The reason is that the Line-Item Veto Act contains a "lockbox" mechanism to ensure that any savings achieved by canceling pork-barrel projects go toward deficit reduction. Thus, the more President Clinton uses his line-item veto authority, the more he can personally reduce next year's budget deficit, currently estimated by the Congressional Budget Office (CBO) at $57 billion.

This series of reports provides the President with a menu of worthy targets for exercising his line-item veto.

House and Senate conferees will soon meet to resolve the differences in their respective versions of the nearly $32 billion Commerce, Justice, and State, the Judiciary and Related Agencies appropriations bill for FY 1998. Each bill recommends roughly $1.5 billion more spending than Congress approved for FY 1997, and each contains dozens of programs worthy of a line-item veto by President Bill Clinton. While conferees still have time to scrub the final bill of wasteful items, the President should ready his veto pen in the event lawmakers choose to avoid the tough decisions.

Many of these programs have been frequent targets of criticism by the government's own watchdogs—the U.S. General Accounting Office (GAO) and agency inspectors general. The Department of Commerce has been a particularly troubled agency, according to its own Office of Inspector General (OIG). Indeed, the OIG could not audit the agency's FY 1996 financial statements "because of material deficiencies in accounting policies, practices, internal controls, data, and automated systems...."[1]

Moreover, the OIG either could not audit or gave poor grades to the financial statements of many agencies within Commerce, including the:

- Bureau of the Census;
- Bureau of Export Administration (BXA);
- International Trade Administration (ITA);
- National Oceanic and Atmospheric Administration (NOAA);
- National Technical Information Service (NTIS); and
- Economic Development Administration (EDA).

Despite these findings, the House increased Census funding by $341 million over FY 1997 and NOAA funding by $167.9 million, while the Senate increased BXA funding by $3.2 million and ITA funding by $10.7 million. The House and Senate did, however, cut the EDA budget by $64.7 million and $153.7 million, respectively.

The House and Senate also cut funding for the Small Business Administration by $124 million and $143.7 million, respectively. These cuts reflect numerous problems identified by government auditors. The GAO has reported, for example, that "for the past three years, the SBA has been unable to accurately project both the subsidy rates for its programs and project resource requirements."[2] Moreover, the SBA's own inspector general estimates that "from $244 million to $316 million a year is loaned to borrowers who have credit elsewhere and are, therefore, ineligible for an SBA-guaranteed loan."[3] The SBA should not be rewarded for its poor performance.

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[1]Office of Inspector General, *Department of Commerce's Consolidated Financial Statements Fiscal Year 1996*, Audit Report No. FSD-9355-7-0001, March 1997, p. i.
[2]U.S. House of Representatives, Report 105-207 to accompany H.R. 2267, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 1998*, July 25, 1997, p. 142.
[3]Small Business Administration, Office of Inspector General, *Sources of Credit Elsewhere for 7(a) Business Loans*, Report No. 5-3-W-010-018, September 18, 1995.

The line-item veto affords the President the ability to correct these problems without vetoing the entire Commerce, Justice, State appropriations bill.

The President should:

1) Line-item veto purely local or "pork-barrel" projects.

A number of programs within the Commerce, Justice, State appropriations bill fund projects that should be the responsibility of state or local governments, not the federal government. All to often, Members of Congress use these programs to "bring home the bacon." The line-item veto is a very effective tool to rid the budget of these pork-barrel projects. Examples include:

- **Economic Development Administration.** Over the past three decades, the EDA has expanded into an expensive conduit for congressional earmarks. According to the Congressional Research Service, "when EDA was created, approximately 12% of the Nation was eligible for aid; estimates now run as high as 90%."[4] Yet when the GAO reviewed the available research on economic development programs, it was "unable to find any study that established a strong causal linkage between a positive economic effect and an agency's economic development assistance."[5]

  Some of the amounts funneled to various projects by EDA in recent years include[6]:

  - $45,000 to Spooner, Wisconsin, to "address the impacts of wood supply disruption during times of unusual circumstances such as floods";
  - $1.25 million to the city of Charleston, South Carolina, to construct, test, and evaluate a one-quarter-scale model mass transit system;
  - $76,000 to Dallas, Texas, for "infrastructure improvements in the Farmers Market Area";
  - $321,122 to the Economic Development Assistance Consortium in Boston, Massachusetts, to prepare "12 evaluative research papers that examine: US economic development policy; public and private sector involvement; and degrees of responsibility";
  - $2.6 million to the Los Angeles Area Chamber of Commerce for "LA trade telecommuting for exports"; and
  - $130,000 to the city of Oakland, California, for the Oakland Produce and Flower Market Distribution Center.

[4]Bruce K. Mulock, "Economic Development Administration: Reinvention or Elimination," Congressional Research Service *Issue Brief*, May 8, 1996, p. 5.
[5]U.S. General Accounting Office, *Impact of Economic Development Assistance*, GAO/RCED-97-103, April 3, 1996, p. 2.
[6]Heritage Foundation analysis using the FY 1995 Federal Assistance Award Data System.

2) Line-item veto programs that benefit specific industries or corporations.

The line-item veto should be a particularly effective tool in erasing funding for programs that directly or indirectly benefit businesses or industries—so-called corporate welfare. The Commerce, Justice, State appropriations bill is full of programs to assist and subsidize small and large firms. Programs that deserve a veto include:

- **Minority Business Development Agency.** The primary function of the MBDA is to show minority businesses how to apply for and receive federal set-aside contracts under the Small Business Administration's Section 8(a) program. Yet a 1994 audit found that 70 percent of 8(a) award recipients were millionaires.[7]

- **National Marine Fisheries Service.** The NMFS, a $325 million per year agency within the National Oceanic and Atmospheric Administration, has the contradictory responsibilities of protecting marine resources and promoting commercial fishing interests. It spends about $28 million per year on industry-oriented programs, including $500,000 for the Hawaii Stock Management Plan, $410,000 for the Fisheries Cooperative Institute, and $8.5 million for the Washington Crab License Buy-Back program.

- **Advanced Technology Program.** The ATP spends $200 million per year funding commercial research and development projects. Many of the largest beneficiaries of this spending—either as individual recipients or as partners in joint ventures—include America's largest corporations. The top 10 ATP recipients, according to an MSNBC study of data provided by the ATP, are:

1. IBM	$111,279,738
2. General Motors	$ 82,134,245
3. General Electric	$ 75,449,636
4. Ford	$ 66,457,718
5. Sun Microsystems	$ 50,113,692
6. Texas Instruments Inc.	$ 45,545,315
7. Sarnoff Corp.	$ 38,270,692
8. United Technologies Corp.	$ 37,173,594
9. National Center for Manufacturing Sciences	$ 37,011,925
10. Philips	$ 36,518,489

Moreover, the GAO has found it difficult to measure the ATP's impact on spurring new commercial research projects. On the one hand, 63 percent of grant recipients never looked for other sources of funding before applying to ATP; on the other, half of the firms that made the final cut but ultimately did not receive grants continued their projects with private-sector funds.

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[7] Angie Cannon, "Soaked by Small Biz: Feds Aid Minority Millionaires," *New York Daily News*, June 11, 1995, p. 26; see also Small Business Administration, Office of Inspector General, "Audit Report," September 1994.

Thus, concludes the GAO, "ATP has funded research projects that would have been funded by the private sector as well as those that would not."

3) Line-item veto redundant or obsolete programs.

Because outmoded, obsolete, or inefficient programs rarely die in Washington, a myriad of bureaus, agencies, and programs duplicate each other's performance throughout the government. The President should use the line-item veto to thin these redundant programs. Candidates for pruning in the Commerce, Justice, and State appropriations bill include:

- **International Trade Administration.** Commerce's International Trade Administration is one of at least 19 Cabinet departments and independent federal agencies responsible for export promotion and management. In FY 1996, these 19 programs cost taxpayers some $2.8 billion. Vice President Albert Gore's National Performance Review (NPR) noted that "the duplication and fragmentation found within the entire federal export bureaucracy is mirrored within the Commerce Department itself."[8]

- **Economic Development Administration.** The EDA is one of at least 62 community and economic development programs throughout the government. Notes the Congressional Budget Office: "Because of the competitive nature of EDA grants, local governments do not incorporate that type of aid into their budget plans; hence, eliminating future EDA funding would not impose unexpected hardships on communities."[9]

- **National Telecommunications and Information Administration.** Costing over $50 million per year, the NTIA largely duplicates the work of the Federal Communications Commission in managing the broadcast spectrum and the work of the Corporation for Public Broadcasting in subsidizing children's educational programming. While there is debate over the need for the FCC and the CPB, there certainly is no need for the NTIA.

4) Line-item veto programs that don't work or which have a long history of failure.

Despite clear evidence of failure, Congress often refuses to terminate programs because of the political muscle of the entrenched interest groups that depend on taxpayer funding. The President should use the line-item veto to do what Congress cannot bring itself to do: retire these failed programs. Among those that deserve a veto:

- **Maritime Administration.** By providing $200 million to $350 million per year in subsidies to shipowners since 1970 and extensively regulating all facets of U.S.-based commercial shipping, the Maritime Administration has succeeded in reducing America's once-mighty commercial shipping industry to a small fleet of government-dependent vessels. The U.S.-flag fleet, which numbered 843 vessels in 1970, now has only about 350 vessels that depend

[8]Office of the Vice President, "Recommendation DOC02: Provide Better Coordination to Refocus and Leverage Federal Export Promotion," Accompanying Report of the National Performance Review, September 1993.
[9] Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, August 1996, p. 265.

on taxpayer subsidies. Only about 4 percent of water-borne cargo imported and exported from the United States is carried on U.S.-flag carriers.[10]

- **Legal Services Corporation.** Despite LSC spending of $200 million to $300 million per year, ostensibly to provide legal assistance to the poor, only a small percentage of poor people actually benefit from LSC services. The LSC does, however, excel at filing frivolous lawsuits. For example:
  - LSC lawyers filed a lawsuit in New Jersey challenging state welfare reform initiatives that have reduced out-of-wedlock births.
  - Florida Rural Legal Services is trying to stop public housing authorities from evicting residents for drug-related offenses.[11]
  - In 1996, Legal Services in New York sued a mental health facility for trying to evict a violent patient.

The following list details programs and projects outlined in the reports accompanying the House and the Senate versions of the Commerce, Justice, State appropriations bill. Conferees soon will negotiate the differences between the two bills, after which the conference report must be approved by the House and Senate before being sent to the President for his signature.

[10] *Balancing America's Budget: Ending the Era of Big Government*, ed. Scott A. Hodge (Washington, D.C.: The Heritage Foundation, 1997), p. 221.
[11] William Cooper, "One Strike Public Housing Drug Policy Backfires," *The Palm Beach Post*, April 22, 1997, p. 1B.

Summary
Candidates for a Line-Item Veto in the Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill for FY 1998

The following list illustrates the types of programs and projects the President should target for veto. The list is by no means exhaustive.

Department of Commerce	**House Bill**	**Senate Bill**
International Trade Administration		
Trade Development	$58.9 million	$65.7 million
Market Access and Compliance	$18.5 million	$17.8 million
Import Administration	$30.9 million	$30.9 million
U.S. & Foreign Commercial Service	$176.2 million	$170.6 million
Economic Development Administration		
Title I Public Works program	$178 million	$87.2 million
Title IX Economic Adjustment Assistance	$29.9 million	$63.7 million
Defense Conversion	$89 million	$70 million
Planning	$24 million	$19.5 million
Technical Assistance/University Centers	$9.1 million	$N/A
Trade Adjustment Assistance	$9.5 million	$9.5 million
Research	$500,000	$N/A

(The Senate Bill "strongly urges EDA to consider applications" for 13 specific projects, including a passenger terminal and control tower at the Bowling Green/Warren County, Kentucky, regional airport; Jackson Falls Heritage Riverpark in Nashua, New Hampshire; Rodale Center at Cedar Crest College in Lehigh Valley, Pennsylvania; a National Canal Museum economic development project in Easton, Pennsylvania; and repair and improvement of the Cranston Street Armory in Providence, Rhode Island.)[12]

Minority Business Development Agency	$25 million	$28 million
National Telecommunications and Information Administration		
Salaries and Expenses	$17.1 million	$16.5 million
Public Broadcasting Facilities, Planning, and Construction	$16.7 million	$25 million

(The Senate Bill "recommends the use of $5,000,000 of these grant funds to assist public broadcasting stations in converting or adapting to the new digital broadcasting systems....")

Information Infrastructure Grants	$21.5 million	$11 million

[12]In the past, committees often would include specific directions to agencies on how to spend appropriated funds. Apparently hoping to avoid the President's line-item veto, some committees now are "encouraging" agencies to fund particular projects with the expectation that the results will be essentially the same.

(The Senate Bill "urges" NTIA to consider the following proposals: a statewide information network at the University of Montana and a proposal from Marshall University, West Virginia, for the development of an intranet distribution distance education network. The Senate "directs" NTIA to provide the necessary funding to the Olympic Committee organization in Salt Lake City, Utah, for telecommunications facilities for the Winter Olympic Games in 2002.)

Technology Administration

Salaries and Expenses	$8.5 million	$8.8 million
National Institute of Standards and Technology	$692.5 million	$603.8 million
Including:		
Scientific and Technical Research and Services	$282.8 million	$276.8 million
Electronics and Electrical Engineering	$38.1 million	N/A
Manufacturing Engineering	$18.9 million	N/A
Chemical Science and Technology	$31.8 million	N/A
Physics	$30.3 million	N/A
Material Sciences and Engineering	$50.9 million	N/A
Building and Fire Research	$13.4 million	N/A
Computer Science and Applied Mathematics	$47.2 million	N/A
Technology Assistance	$19.3 million	N/A
Research Support	$28.6 million	N/A
Industrial Technology Services	$298.6 million	$311 million
Advanced Technology Program	$185.1 million	$200 million
Manufacturing Extension Partnership Program	$113.5 million	$111 million
Construction of Research Facilities	$111.1 million	$16 million

National Oceanic and Atmospheric Administration

National Ocean Service

Mapping and Charting	$30.1 million	$48 million

National Marine Fisheries Service

Resource Information:		
Chesapeake Bay Studies	$1.89 million	$1.89 million
New England Stock Depletion	$1 million	$1 million
Hawaii Stock Management Plan	$500,000	$ N/A
Gulf of Maine Groundfish Survey	$565,000	$567,000
Fisheries Cooperative Institute	$410,000	$0.0

State and Industry Assistance Programs:		
Interjurisdictional Fisheries Grants	$2.6 million	$3.5 million
Anadromous Grants	$2.1 million	$3 million
Interstate Fish Commissions	$6 million	$8 million

Fisheries Development Program:
Hawaiian Fisheries Development ....$0.0..........................$750,000
Salmon License Buy-Back ....$ N/A.................$3.5 million
Washington Crab License Buy-Back ....$ N/A.................$8.5 million

Department of State and Related Agencies

Educational and Cultural Exchange Programs..............................$193.7 million...$200 million
Muskie Exchange Program ....$ N/A....................$6 million
Humphrey Exchange Program ....$ N/A....................$5 million
Mansfield Fellowships ....$ N/A.................$2.2 million
Irish Management Center ....$ N/A....................$1 million
United States–Mexico Conflict Resolution Center...........$ N/A......................$500,000
Institute for Representative Government ....$ N/A......................$400,000
Eisenhower Exchange Fellowship Program...................................$600,000.................$570,000
East–West Center ....$ 0.0.....................$22 million
North/South Center ....$ 0.0.......................$3 million

Related Agencies

Maritime Administration ....$138.95 million....$137 million
Operating-Differential Subsidies ....$51 million...........$135 million
Maritime Guaranteed Loan Program.................................$38.45 million........$33 million

Legal Services Corporation..$141 million..........$300 million

Small Business Administration..$728.23 million.$708.63 million
Salaries and Expenses ....$235.04 million...$246.1 million

Non-Credit Initiatives:
Small Business Development Centers (SBDCs)...............$75.5 million.........$75.8 million
(Of this amount, the Senate bill recommends $35,000 to the Vermont SBDC to "conduct a pilot project for a study of the current state of commerce on the Internet.")
Women's Demonstration Projects ....$3 million..........................$ N/A
(According to the Senate bill, the "SBA should consider funding a demonstration project in Vermont with the Northern New England Tradeswomen, Inc.")