GOVERNMENT-WIDE PERFORMANCE PLAN

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1999

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(*Revised February 27, 1998*)

INTRODUCTION

> *In 1993, I actively supported, and was eager to sign, the Government Performance and Results Act. With this budget, I am delighted to send to Congress what the law envisioned—the first comprehensive, Government-wide Performance Plan.*
>
> *In developing this budget, the Administration for the first time could rely on performance measures and annual performance goals that are now included in agency Annual Performance Plans. We have made a good start on the process that the Administration and Congress outlined in enacting the 1993 law.*
>
> *As we continue to implement this law, my Administration will focus more and more attention on how programs work, whether they are meeting their goals, and what we should do to make them better. We look forward to working with the Congress on our shared goal of improving Government performance.*
>
> WILLIAM J. CLINTON
> "The Budget Message of the President"
> February 2, 1998

This year's budget contains the Nation's first comprehensive Government-wide Performance Plan, which has been excerpted here. The plan highlights three aspects of performance:

- Fiscal performance (see Section III, "Creating a Bright Economic Future");
- Management performance (see Section IV, "Improving Performance Through Better Management"); and
- Program performance (see Section VI, "Investing in the Common Good: Program Performance in Federal Functions").

Together, these sections contain the measures and descriptions of program activity contemplated by the Government Performance and Results Act (GPRA).

The performance of Government programs is inextricably linked to the fiscal and economic environment and the management framework in which they operate. The President's commitment to not only balance the budget but to invest in the future while improving public management—to do more with less—has prompted the Administration to maintain or expand programs that demonstrate good performance.

Often, performance is examined only across single organizational units, such as departments or agencies. In Section VI, the budget categorizes activities according to budget "functions." The functional presentation groups together similar programs and begins to show the inter-relationship between their goals. In preparing this year's President's Budget, the Administration, for the first time, relied heavily on key performance measures drawn from agency Annual Performance Plans. These fiscal year 1999 agency plans will be sent to Congress following the transmittal of this budget. By March 2000, agencies will report to the President and Congress on how well they met the performance goals in these plans. These goals are based on the long-term goals and objectives set out in the agency Strategic Plans that were submitted to OMB and Congress in September 1997.

The budget includes a framework and plan for the analysis of tax expenditures (Chapter 5, *Analytical Perspectives*) which aims to improve the assessment of how specific tax expenditures may affect the achievement of agency goals and objectives in the strategic and annual plans. The framework and analyses are a part of the Government-wide Performance Plan. Also included is an analysis of the costs and benefits of regulation (Section

VI, Chapter 32) which complements the Government-wide Performance Plan. Much as with tax and spending policies, the Administration carefully designs and implements regulations to provide the most public benefit for the least cost.

The Administration has made a good start on the process that GPRA envisioned. Nevertheless, more work remains. Agencies will modify Annual Performance Plans to reflect changing circumstances and resource levels, the plans will provide a backdrop for further discussion about allocating resources, and the President's future budgets will contain new and better information. The Administration looks forward to working with Congress and other stakeholders to use these tools to build better performance.

III. CREATING A BRIGHT ECONOMIC FUTURE

III. CREATING A BRIGHT ECONOMIC FUTURE

There is no doubt that the economic strategy we put in place in 1993 created the conditions for the extraordinary private sector growth we have all witnessed... Four straight years of deficit cuts have produced the economic expansion as well as real benefits for ordinary Americans: lower car payments, lower mortgage rates, lower credit card rates. This balanced budget will close a chapter in American history: years—decades in fact—when our people doubted whether Government could work for them and questioned whether our Nation could set and meet goals.

President Clinton
August 1997

For five years, the President has pursued a fiscal and economic policy that has shown remarkable results. Due largely to his 1993 economic plan, the budget deficit, which had hit a record $290 billion in 1992, is not only lower than even the Administration had expected, it's also at its lowest level in a quarter-century. The publicly held debt not only has stopped rising as a share of the economy, but actually has begun to decline. Now, this budget will finish the deficit-cutting job and mark a true milestone in American economic history—the first balanced budget in 30 years.

The President's commitment to lower deficits bore fruit right from the start. Long-term interest rates fell in 1993 and have remained relatively low, helping to spur record levels of business investment. Unemployment and inflation have both continued to fall, bringing the so-called "misery index"[1] to its lowest level in 30 years. The current economic expansion, already the third longest in U.S. history, shows no signs of ending, putting it on track to become the longest in the Nation's history.

Continuing its practice of using conservative economic assumptions, the Administration projects that growth will continue at a steady pace without inflation. Unemployment and interest rates will remain relatively low. Due both to a strong economic outlook and to the 1997 Balanced Budget Act (BBA), the President now proposes a balanced budget for 1999, three years earlier than expected. The economic and fiscal outlook for the longer term, until 2050, also has improved since last year.

Nevertheless, the coming retirement of the baby boom generation points up the need for long-term structural changes that will support the financial health of Social Security and Medicare and ensure that future generations share in the retirement and health security that senior citizens enjoy today.

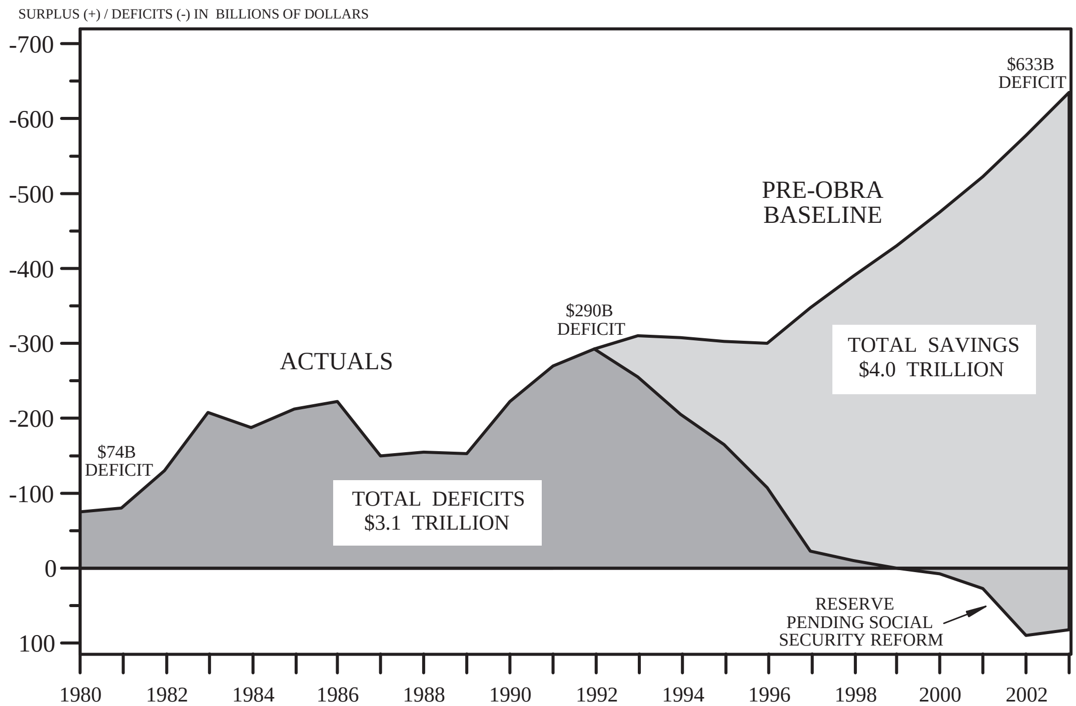
Budgetary Performance

By the time President Clinton took office, the deficit for the previous year, fiscal 1992, had hit a record $290 billion. For the 12 years up to then, annual deficits totaled $2.3 trillion. Never before had the Nation witnessed such an explosion of public debt. Moreover, without changes in policy, public and private forecasters projected that the deficit would keep rising, potentially pushing total public debt, future interest costs, and deficits into an upward spiral without limit (see Chart III–1).

The Administration set out, first and foremost, to cut this massive deficit and to put the budget and economy on a sound,

[1] Over 20 years ago, economist Arthur Okun developed the concept of a "misery index," calculated by adding together the unemployment rate and the rate of inflation, as measured by the Consumer Price Index.

Chart III-1. FINISHING THE JOB: BALANCING THE BUDGET AFTER DECADES OF DEFICITS



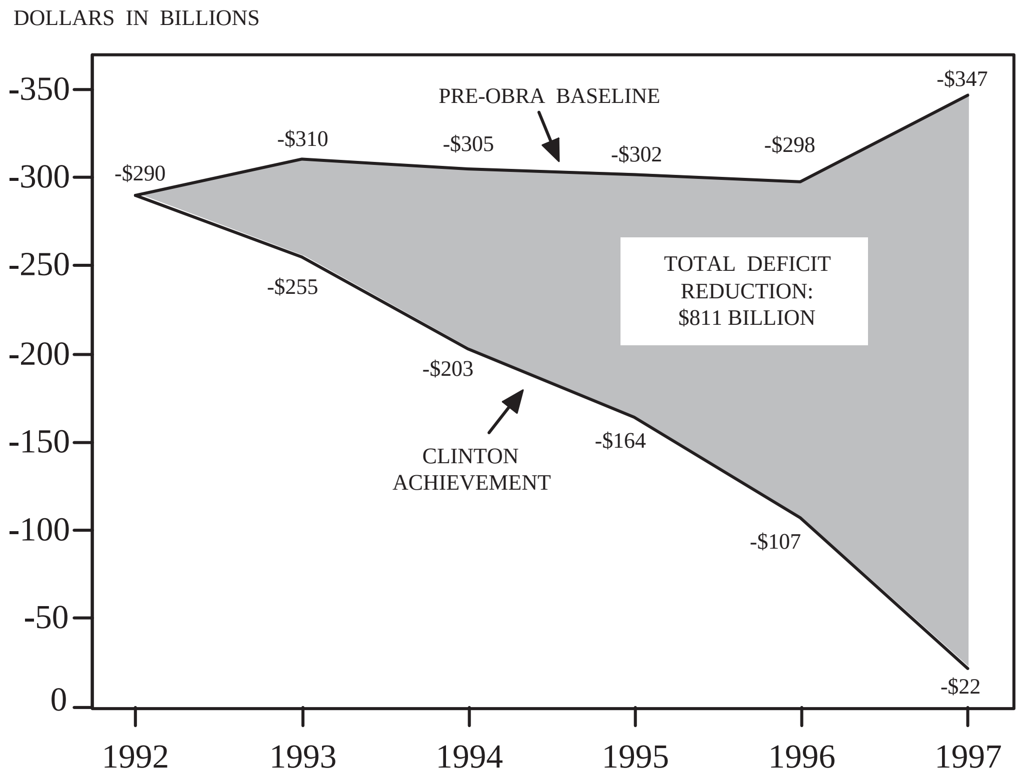
sustainable footing. To that end, the President proposed, and Congress enacted, the Omnibus Budget Reconciliation Act (OBRA) in 1993 as a solid first step toward fiscal responsibility. It has proved to be much more. In the last four years, cumulative deficits and accumulating debt have fallen more than twice as much as the Administration had conservatively projected.

Still, OMB and the Congressional Budget Office (CBO) agreed that the deficit would begin rising again without further action. Consequently, the President worked with Congress to finish the job, enacting the BBA in mid-1997 with the goal of reaching balance in 2002. The Administration now proposes a balanced budget in 1999. In addition, the Administration projects that, together, OBRA and the BBA will reduce the total deficits from 1993 to 2003 by $4.0 trillion—more than the deficits that the Government accumulated from 1981 to 1992.

The Administration has Exceeded Its 1993 Deficit Reduction Pledge: Upon OBRA's enactment, the Administration projected that it would reduce the accumulated deficits from 1994 to 1998 by $505 billion. Clearly, it will exceed that goal. (In fact, in the five years from 1993 to 1997, total deficits are $811 billion lower, as shown in Chart III-2). Each year, the deficit has been lower than the Administration had forecast before the year began. For 1997, the actual deficit of $22 billion was over $150 billion lower than what both OMB and CBO had forecast after OBRA was enacted. All told, the Administration now expects that, combined with a healthy economy, OBRA will reduce the accumulated deficits from 1994 to 1998 by more than twice the projected $505 billion.

The Administration has Ended the Debt Buildup of the 1980s: The Government finances its deficit by borrowing from the public, thereby accumulating its publicly held debt. As a share of Gross Domestic Product (GDP),

Chart III-2. REDUCING THE DEFICIT: THE CLINTON RECORD



Federal debt held by the public[2] reached a post-World War II peak of 109 percent in 1946. Because the economy grew faster than the debt for the next few decades, the debt gradually fell to about 25 percent of GDP in the 1970s. But the exploding deficits of the 1980s sent it back up as a share of GDP. In dollar terms, publicly held Federal debt quadrupled, rising from $710 billion at the end of 1980 to $3.0 trillion by the end of 1992. As a percentage of GDP, it doubled, from about 25 percent to about 50 percent—wiping out all the progress achieved since 1956.

Had this Administration done nothing, the debt would have approached $7 trillion, or 70 percent of GDP, by 2002. Instead, working with Congress, the Administration reversed the debt build-up as a share of GDP, and it now projects that debt will fall below 40 percent of GDP in 2002 (see Chart III–3).

U.S. Budgetary Performance Is Among the World's Best: Counting all levels of government, the total U.S. budget deficit is smaller as a share of GDP than in all other G–7 countries[3] except Canada (see Chart III–4). The reason is not high taxes; the share of GDP devoted to taxes is lower in the United States than in any other leading country. Rather, the reason is relatively low public spending—even though this Nation has a much larger defense establishment than the other G–7 countries.

The Administration has Reduced the Federal Claim on the Economy: By 1992, Federal spending had reached 22.5 percent of GDP, topping its average of 21.2 percent from 1969 to 1997. But, in every budget year under this Administration, spending has equaled a smaller share of GDP than in any year of the

[2] This measure excludes debt held in Federal trust funds. At the end of 1997, the trust funds held over $1.5 trillion of debt that the Federal Government owes to itself. Thus, such debt is both a Government asset and a liability.

[3] The G–7 comprises the world's seven largest industrial powers: the United States, the United Kingdom, Germany, France, Japan, Italy, and Canada.

Chart III-3. DEBT HELD BY THE PUBLIC

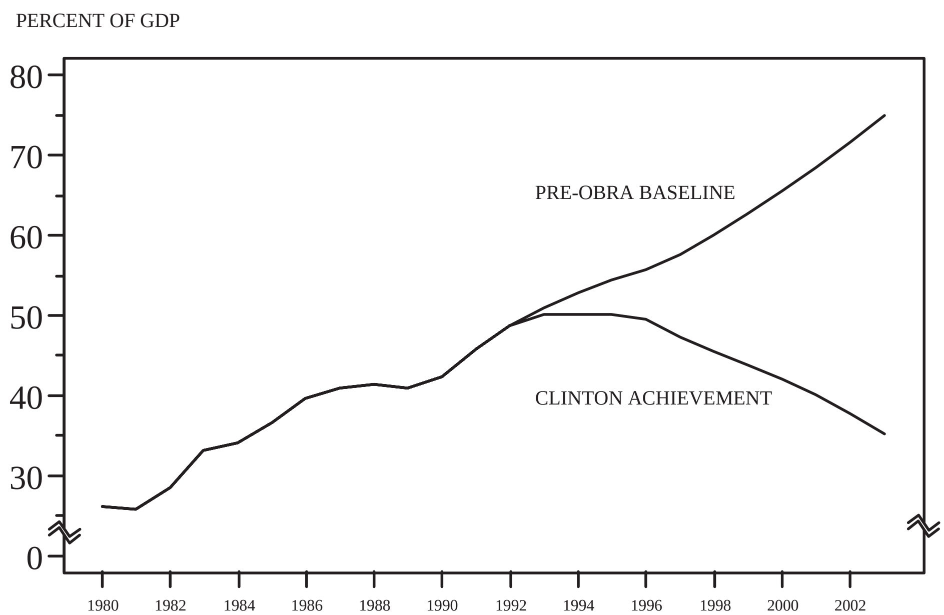
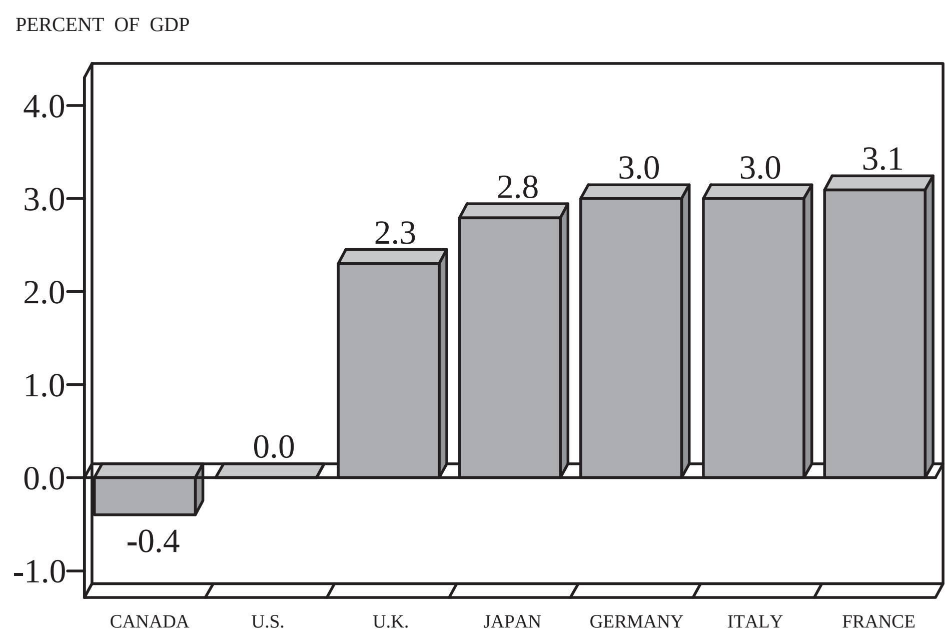


Chart III-4. 1997 GENERAL GOVERNMENT DEFICITS



Source: OECD, Economic Outlook, December 1997.

previous two Administrations. The Administration now projects that, by 1999, spending will fall to 20.0 percent of GDP, its lowest level since the early 1970s.

Federal Receipts are Higher than Projected, Mainly Due to Economic Growth: In the past five years, spending has been lower, and receipts higher, than the Administration had projected, leading to lower deficits than projected. With regard to the most recent, and quite extraordinary, fall in the deficit from $107 billion in 1996 to just $22 billion in 1997, the answer lies in a continuing surge in receipts and in spending that came in below expectations. That surge is rooted in an especially strong economy. Tax rates have remained constant since 1993.

Some economists predicted that the 1993 targeted tax rate increases on the top 1.2 percent of Americans would slow the economy and actually lead to lower tax collections, particularly among the well-to-do. In fact, tax revenues have soared since 1993—and the largest increases have come at the top. Total Federal receipts have risen nearly eight percent a year since 1992. Federal income tax revenues rose by nearly 25 percent from 1992 to 1995 (the last year for which we have data), but by nearly 50 percent for those with incomes above $200,000.

The President's balanced budget for 1999 results from a drop in spending of 2.5 percent of GDP since 1992 and an increase in revenues of 2.3 percent of GDP over the same period, driven by economic growth. Thus, 52 percent of the total deficit reduction has come from spending cuts, 48 percent from higher receipts.

Economic Performance

By reducing the Federal Government's demand for capital in the financial markets, a falling deficit has freed capital for private investment. At the same time, the promise of future budgetary stability has promoted business confidence. The fiscal improvement has enabled the Federal Reserve to maintain low, stable interest rates that, in turn, have helped prolong and strengthen the economic expansion. The surge in business investment of the last five years shows that these policies are working, and as the budget reaches balance, prospects for continued economic progress are excellent.

The Current Expansion Is the Third Longest: In January 1998, the economy recorded its 82nd straight month of growth, marking the third longest expansion in U.S. history (and the second longest in our peacetime history). If the economy continues to grow through the end of 1998, the current expansion will become the longest in peacetime history, surpassing that of the 1980s. If it continues to grow until February 2000, as most private forecasters expect,[4] the expansion will become the longest of all time, surpassing the 106-month expansion of the 1960s.

The Administration's Fiscal Policy Has Promoted a Sound Expansion: Unsustainable Federal deficits, in part, stimulated both of the longer post-war expansions—the first in the 1960s, the second in the 1980s (see Chart III–5). The economy expanded because the Government expanded, dragging the private sector along; when the Government removed its stimulus, the economy faltered.

In these earlier expansions, the fiscal stimulus came at different times. In the 1960s, the deficit was quite restrained early in the decade, but grew sharply after 1965. In the early 1980s, the "structural deficit"[5] soared to almost five percent of GDP. That large deficit helped pull the economy out of the deep recession of 1981–1982, but the Government's subsequent failure to curb it held up real interest rates, led to the financial problems that marked the end of the decade, and helped bring on the recession of 1990–1991.

In contrast, during the current expansion, the deficit has been shrinking and private investment has propelled the economy forward.

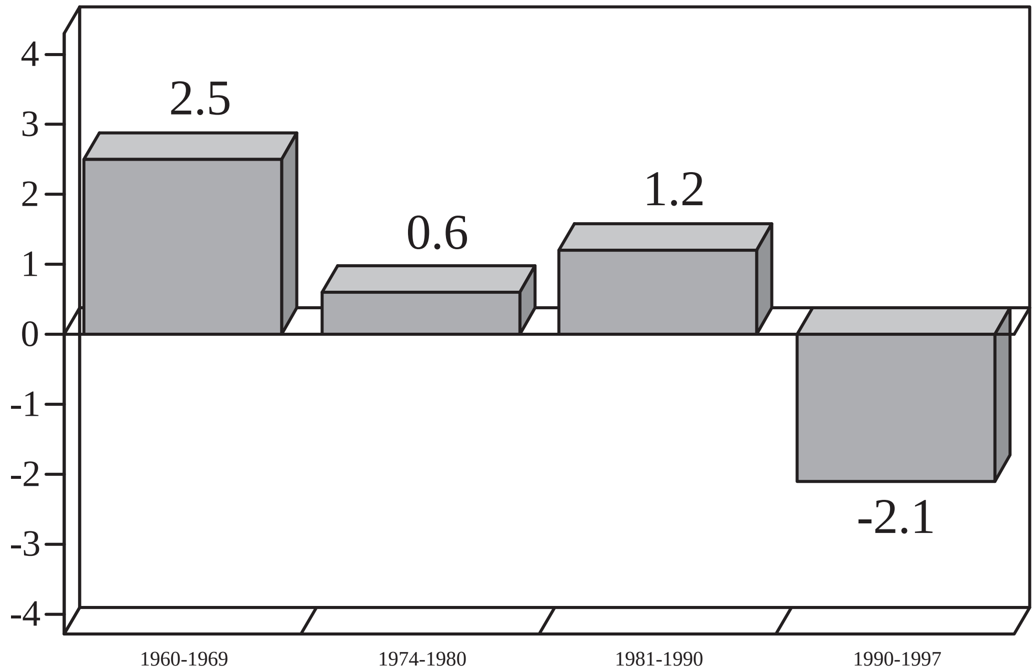
This Expansion is Led by a Strong Private Sector: Under this Administration, the economy has grown at a healthy, inflation-adjusted 3.0 percent a year. But, at least as important, private demand for goods and services has grown even faster than the economy as a whole—3.6 percent a year compared to

[4] According to the December *Blue Chip* survey.

[5] The structural deficit is the deficit that remains after accounting for cyclical changes in the economy as well as purely temporary factors, such as the annual costs and receipts from resolving the thrift crisis.

Chart III-5. CHANGE IN STRUCTURAL DEFICIT AS A PERCENT OF POTENTIAL GDP

(During four longest postwar expansions preceding cyclical peak fiscal year to seventh following fiscal year)



Increase in CBO standardized-employment deficit as a share of potential GDP. Structural deficit is adjusted for deposit insurance, allied contributions to Desert Storm and specturm auctions. Potential GDP is an estimate of a high, standardized level of output over time.

3.0 percent from 1981 to 1989 and 1.3 percent from 1989 to 1993. The Federal Government's direct claim on GDP (mainly, defense and other discretionary spending, excluding transfer payments) has shrunk by 2.6 percent a year. Of the more than 14 million jobs created under this Administration, 93 percent have been in the private sector. In the 1980s, by contrast, the Federal Government's direct claim on GDP grew faster than the private sector's claim.

Why is the contrast important? Because when Federal demands spur economic growth, the economy is more vulnerable to sudden changes in Federal policy—as in the late 1980s when the Government shifted from a defense build-up to a build-down. Though appropriate as the Cold War ended, this shift prompted a painful economic adjustment in many regions. But, when an expansion is led by the investment decisions of thousands of firms and millions of people across the country, the economy is less vulnerable to the sudden swings that can arise from a single policy decision.

A Surge in Business Investment Fueled the Expansion: Since 1992, real business investment in equipment has expanded at an 11.8 percent average yearly rate—more than triple the 3.5 percent annual rate from 1980 through 1992.

Investment growth is important for two reasons:

- Investment adds to the economy's productive capacity, and a larger economy generates more income, leading to higher average living standards. In the final analysis, a stronger economy is a prerequisite to meeting the retirement costs of the baby-boom generation without unduly burdening future workers.
- New equipment embodies advanced technology, making workers who use the equipment more productive. Higher productivity permits larger wage increases without threatening higher inflation.

The "Misery Index" Has Dropped to its Lowest Level in 30 Years: Falling unemployment can "overheat" the economy, leading to higher inflation. In the current expansion, however, both unemployment and inflation have continued to fall, even after the expansion entered its seventh year. In November of last year, unemployment fell to 4.6 percent, its lowest level since 1973. Meanwhile, the core inflation rate (measured by the Consumer Price Index, or CPI, excluding volatile food and energy items), was running at a 2.2 percent annual rate, its lowest since 1966. At the end of 1997, the "misery index"—the sum of inflation and unemployment—was at its lowest level in 30 years (see Chart III–6).

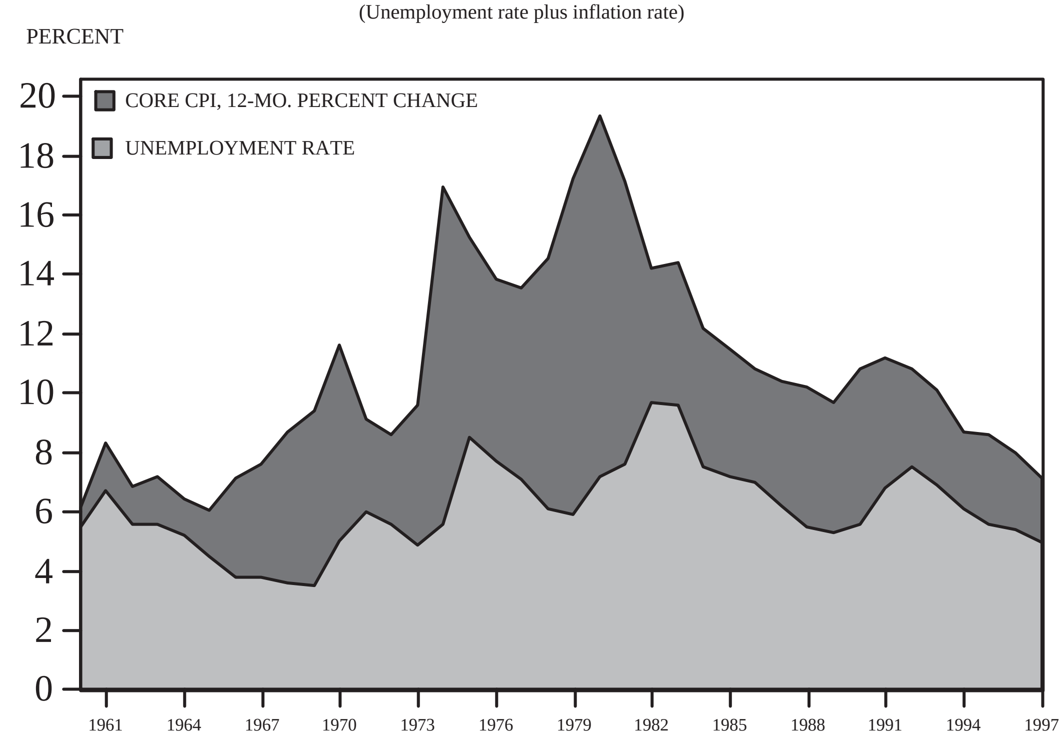
The Near-Term Economic Outlook, 1998–2008

The Administration expects the economy to continue to expand at a healthy rate without inflation. But, growth should moderate from its recent pace. In 1996–1997, real GDP grew at a 3.5 percent average rate, much faster than the economy has been able to sustain in recent decades without higher inflation. Even allowing for somewhat more moderate growth, general macroeconomic conditions would remain very favorable, with both unemployment and inflation remaining near their lowest levels in decades.

Though the economy remains strong, one potentially troublesome development is the financial dislocation in Asia. To maintain growth in the United States and to support stability in Asia, the Administration expects to propose a supplemental appropriation to replenish International Monetary Fund (IMF) resources and, as it did last year, to again propose to provide a contingent credit line to the IMF.

This budget relies on conservative economic assumptions that are close to the consensus among private forecasters, as well as to those of CBO. The Administration is confident that, as the budget reaches balance, the economy could perform even better. Under this Administration, the economy has consistently performed better in virtually all respects

Chart III-6. MISERY INDEX
(Unemployment rate plus inflation rate)



than the Administration or CBO had projected. But, for budget planning, the Administration continues to believe it is prudent to use conservative economic assumptions, the highlights of which include:

Real GDP: Real GDP growth averages 2.0 percent on a fourth-quarter-over-fourth-quarter basis through 2000. For 2001 to 2007, growth averages 2.4 percent a year, the Administration's estimate of potential sustained real growth. Starting in 2008, projected economic growth slows due to the shifting composition of the population. As Americans age, a smaller portion of them will likely be in the workforce. The Administration expects the resulting slowdown in the growth of hours worked to lower real GDP growth.

Unemployment: The civilian unemployment rate rises gradually, from 4.9 percent in 1998 to 5.4 percent in 2001, which is the Administration's conservative estimate of the threshold level of unemployment consistent with stable inflation in the long run.

Inflation: The CPI rises 2.2 percent in 1998–1999, then 2.3 percent a year in the following years. These projections include technical improvements in measuring the CPI. The price index for GDP rises 2.0 percent in 1998, 2.1 percent in 1999, and 2.2 percent in the following years. The gap between the two measures of inflation, which has been larger in the past, narrows due to recent and expected methodological improvements in both indexes. Without these improvements, measured inflation would rise slightly more.

Interest rates: Interest rates, already lower than a year ago, remain below levels of recent years as the budget approaches balance. The yield on 10-year Treasury notes reaches 5.7 percent by 2001; on a discount basis, the 91-day Treasury bill rate drops to 4.7 percent.

The Administration does not try to project the business cycle beyond the next year or so. The expansion will surely end at some point, though no signs of a downturn have emerged. But even allowing for future recessions, projected economic growth averages 2.4 percent from 2001–2007, and projected unemployment averages about 5.4 percent. In some years, growth will be faster and unemployment lower, while in others, growth and employment will fall short of these projections. But, because the Administration expects the growth and unemployment assumptions to hold on average over this period, they provide a sound, prudent basis for projecting the budget. Similarly, the Administration expects inflation and interest rates to average near the projections shown in Table III–1, although year-to-year fluctuations surely will occur.

Investing in Economic Statistics

Our democracy and economy demand that public and private leaders have unbiased, relevant, accurate, and timely information on which to base their decisions. But rapid changes in the economy and society, and funding levels that do not enable statistical agencies to keep pace with them, increasingly threaten the relevance and accuracy of America's key statistics.

Economic data, in particular, are not only key indicators for fiscal and monetary policy; they also underlie Federal, State, and local income projections, investment planning, and business decisions. In recent years, active public debate has focused on the measuring of GDP, CPI, and many other indicators that are widely used, explicitly and implicitly, in public and private decision-making. Small but essential investments to address these measurement issues will allow our statistical system to track the economy more accurately and, in the process, help both Government and the private sector better allocate their limited resources.

The budget proposes such carefully targeted investments, ranging from improvements in data (including statistics on service industries, construction, and State and local government), to the development of more accurate summary statistics from those data (such as GDP and the National and Personal Income estimates), to greater public access to Government data (including electronic distribution). These initiatives are documented in greater detail in Chapter 11 of *Analytical Perspectives,* "Strengthening Federal Statistics."

Table III–1. ECONOMIC ASSUMPTIONS [1]

	Actual 1996	Projections						
		1997	1998	1999	2000	2001	2002	2003
Gross Domestic Product (GDP):								
Levels, dollar amounts in billions:								
Current dollars	7,636	8,080	8,430	8,772	9,142	9,547	9,993	10,454
Real, chained (1992) dollars	6,928	7,187	7,357	7,503	7,652	7,820	8,008	8,199
Chained price index (1992 = 100), annual average	110.2	112.5	114.6	116.9	119.5	122.1	124.8	127.5
Percent change, fourth quarter over fourth quarter:								
Current dollars	5.6	5.5	4.0	4.1	4.3	4.6	4.6	4.6
Real, chained (1992) dollars	3.2	3.6	2.0	2.0	2.0	2.3	2.4	2.4
Chained price index (1992 = 100)	2.3	1.9	2.0	2.1	2.2	2.2	2.2	2.2
Percent change, year over year:								
Current dollars	5.1	5.8	4.3	4.1	4.2	4.4	4.7	4.6
Real, chained (1992) dollars	2.8	3.7	2.4	2.0	2.0	2.2	2.4	2.4
Chained price index (1992 = 100)	2.3	2.0	1.9	2.0	2.2	2.2	2.2	2.2
Incomes, billions of current dollars:								
Corporate profits before tax	677	729	754	768	790	805	830	851
Wages and salaries	3,633	3,868	4,057	4,237	4,424	4,623	4,840	5,068
Other taxable income [2]	1,693	1,786	1,859	1,915	1,975	2,046	2,128	2,213
Consumer Price Index (all urban): [3]								
Level (1982–84 = 100), annual average	157.0	160.7	164.1	167.7	171.5	175.5	179.5	183.6
Percent change, fourth quarter over fourth quarter	3.2	2.0	2.2	2.2	2.3	2.3	2.3	2.3
Percent change, year over year	2.9	2.4	2.1	2.2	2.3	2.3	2.3	2.3
Unemployment rate, civilian, percent:								
Fourth quarter level	5.3	4.8	5.0	5.2	5.4	5.4	5.4	5.4
Annual average	5.4	5.0	4.9	5.1	5.3	5.4	5.4	5.4
Federal pay raises, January, percent:								
Military [4]	2.6	3.0	2.8	3.1	3.0	3.0	3.0	3.0
Civilian [5]	2.4	3.0	2.8	3.1	3.0	3.0	3.0	3.0
Interest rates, percent:								
91-day Treasury bills [6]	5.0	5.0	5.0	4.9	4.8	4.7	4.7	4.7
10-year Treasury notes	6.4	6.4	5.9	5.8	5.8	5.7	5.7	5.7

[1] Based on information available as of early December 1997.

[2] Rent, interest, dividend and proprietor's components of personal income.

[3] Seasonally adjusted CPI for all urban consumers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets. Projections reflect scheduled changes in methodology.

[4] Beginning with the 1999 increase, percentages apply to basic pay only; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.

[5] Overall average increase, including locality pay adjustments.

[6] Average rate (bank discount basis) on new issues within period.

The Near-Term Budget Outlook, 1998–2003

The Administration projects that the budget will reach balance in 1999—ending an era of continuous deficits that lasted 30 years (see Chart III–7). By definition, projections are imprecise; the further into the future, the more imprecise. But, the Administration is committed to close the structural budget deficit and keep the budget in balance—as long as the economy maintains normal levels of unemployment.

The Outlook has Improved Since the Balanced Budget Act: Last summer, OMB and CBO both projected that the BBA would not produce a balanced budget until 2002. Since then, the budget outlook has improved. Economic growth has continued to exceed expectations, and inflation has remained low. The resulting changes in the Administration's economic and technical projections have reduced the projected deficits and moved the expected year of balance ahead to 1999 (see Chart III–8).

Chart III-7. BUDGET SURPLUS(+)/DEFICIT(-)

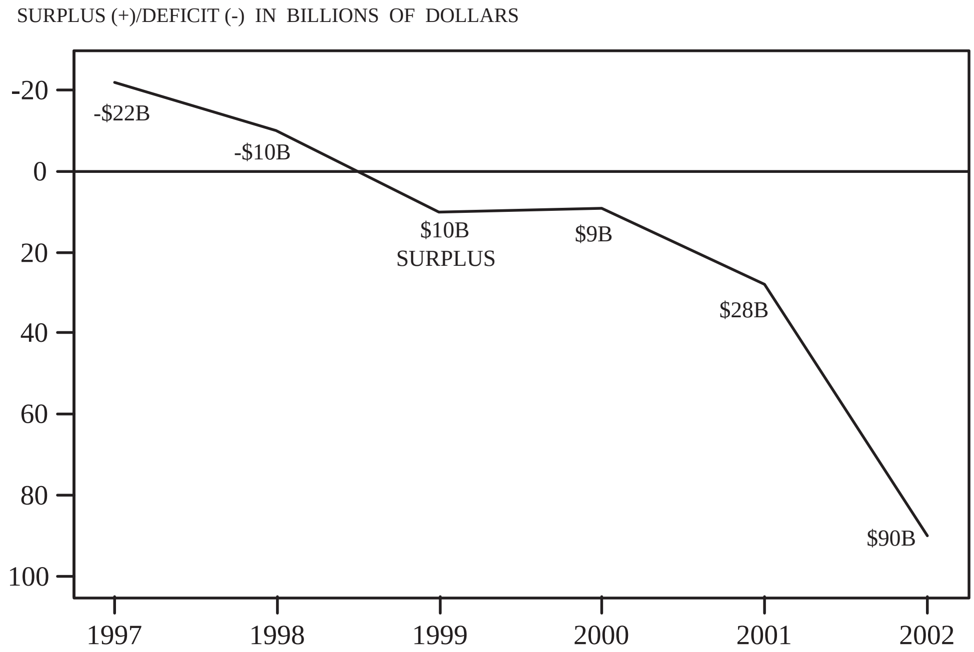
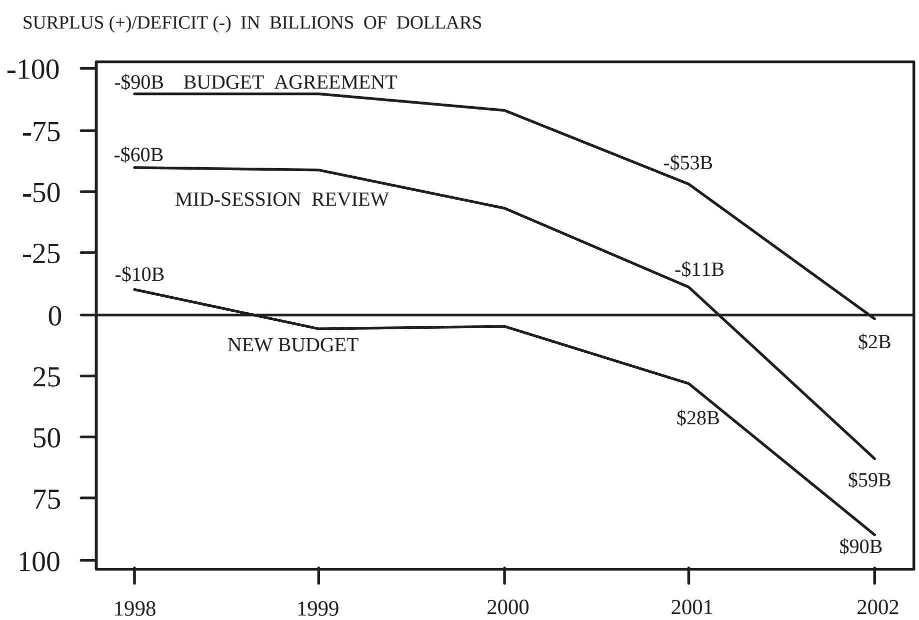


Chart III-8. CHANGES IN THE ESTIMATES OF THE BUDGET DEFICIT



IV. IMPROVING PERFORMANCE THROUGH BETTER MANAGEMENT

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> *We had to reject the idea of those who say we should do nothing with Government and reject those who say we should try to do everything. Instead, we gave the American people a Government that is very much smaller, more focused, but more committed to giving people the tools and conditions they need to make the most of their lives.*
>
> President Clinton
> October 1997

The President has challenged the Federal Government to do more with less—and with good reason.

Departments and agencies, which once could count on more funds from year to year, no longer can; indeed, with the Administration committed to balancing the budget, some agencies will get less.

Public demands for more and better services have not shrunk, however. Americans continue to want good schools, a clean environment, high-quality health care, and secure retirement benefits. Thus, the Government must satisfy these demands by managing better and improving the performance of programs.

The Administration has answered the call. Vice President Gore, working with the departments, agencies, and inter-agency working groups, and drawing on the expertise of the private sector, has led an unprecedented effort to cut the size of the Federal Government and make it more efficient and effective. Through these reinvention efforts, the Administration has saved $137 billion over the last five years.

The Administration has cut the civilian Federal work force by over 316,000[1] employees, creating the smallest work force in 35 years and, as a share of total civilian employment, the smallest work force since 1931. Almost all of the 14 Cabinet Departments have cut their work forces; only the Justice Department's work force is growing due to the Administration's expanded war on crime and drugs, while the Commerce Department's work force is growing due to the decennial census (see Charts IV–1 and IV–2).

But the work is not done, and the Administration has an ambitious agenda to continue reinventing Government so that it is more effective, more efficient, and more responsive to the American people. This section highlights the key parts of this "Management Agenda"[2]:

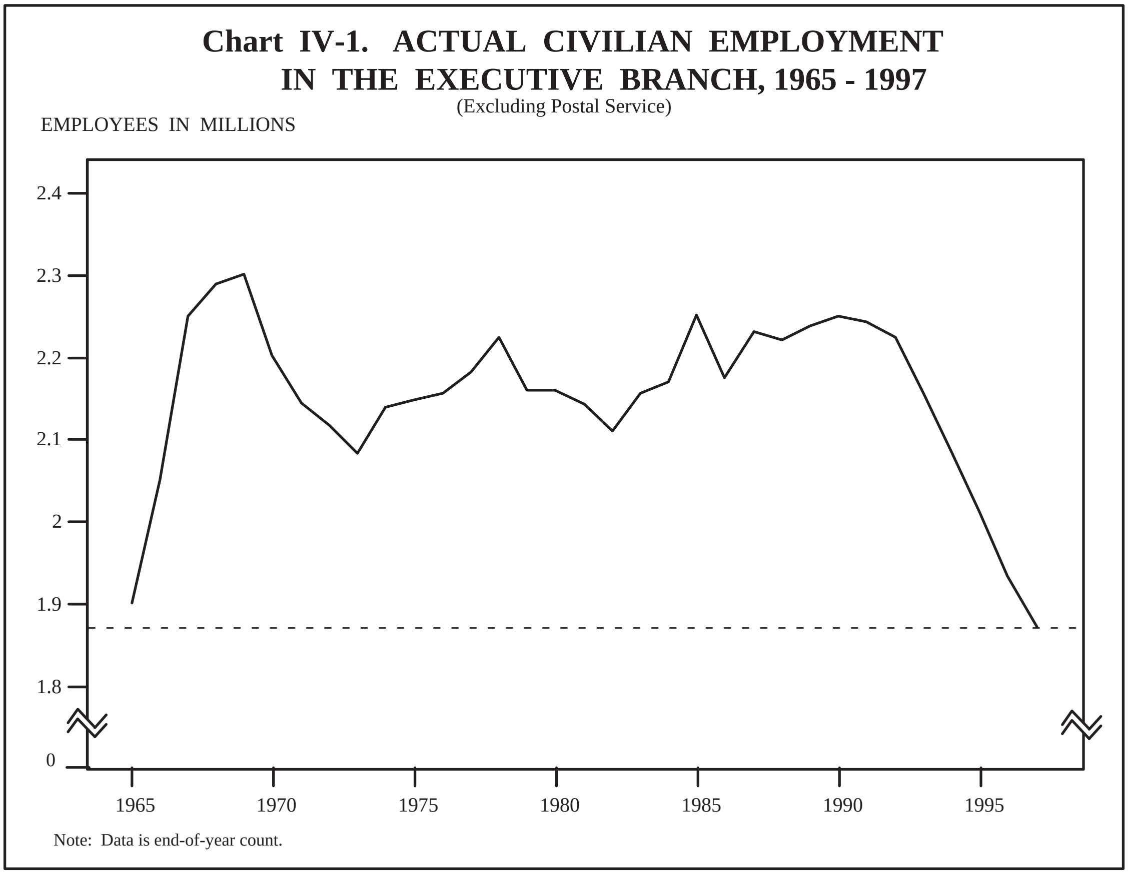
- The National Performance Review's (NPR) efforts to reinvent entire agencies;
- The Administration's top management objectives;
- The Administration's management support initiatives; and
- The activities of inter-agency working groups.

The NPR: Reinventing Agencies to Serve Americans

The NPR has introduced important changes across the Government that have improved services and cut costs—from streamlined drug approvals at the Food and Drug Administration to better customer service at the Social Security Administration; from procurement reforms that have saved $12.3 billion to the pending sale of the Naval Academy's 800-acre dairy farm in Annapolis, Md. Now, the NPR is moving from reinventing processes

[1] As of September 30, 1997.

[2] For more information on the issues discussed in Section IV, see the footnotes that list websites on the Internet.



within agencies to reinventing agencies in their entirety in order to create customer-oriented, results-driven organizations that focus on performance.

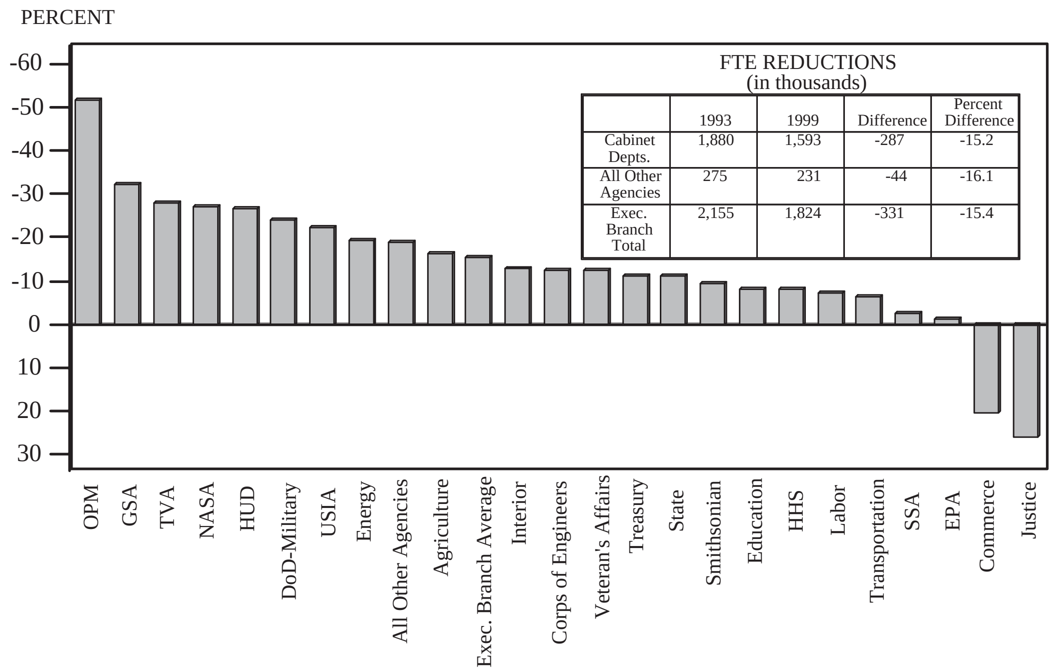
Over the next three years, the NPR will work with the agencies that interact most with individuals and businesses to improve performance and enable the American people to more quickly enjoy better service and regain their confidence in Government. Following the examples of America's best-run companies, the NPR will help these agencies align their management systems to better serve their customers. These agencies already have the key building blocks in place: strategic plans, annual performance plans, and budgetary resources. The next step is to better integrate their information technology, human resource systems, and service processes so that they better focus on customers.

In addition, the Vice President has challenged the leaders of 32 agencies, with over 1.4 million full-time equivalent (FTE) positions, to commit to achieving significant, concrete, measurable goals over the next three years. These "High Impact Agencies" include the Immigration and Naturalization Service, National Park Service, and Social Security Administration (see Table IV–1).

"You should focus your efforts in three areas—partnerships, the use of information technology, and customer service," the Vice President instructed the heads of these agencies last summer. "Yours are the agencies that shape the public's opinion of Government and can redeem the promise of self-government. Public cynicism about Government is a cancer on democracy. Reinvention isn't just about fixing processes, it's about redefining priorities and focusing on the things that matter."

Working with the NPR, these agencies have developed over 200 specific, measurable commitments that they will complete by the year 2000. They involve improving services

Chart IV-2. PROJECTED CIVILIAN FTE CHANGES ON A PERCENT BASIS, 1993 - 1999 CABINET DEPARTMENTS AND SELECTED INDEPENDENT AGENCIES



	1993	1999	Difference	Percent Difference
Cabinet Depts.	1,880	1,593	-287	-15.2
All Other Agencies	275	231	-44	-16.1
Exec. Branch Total	2,155	1,824	-331	-15.4

Notes: The Executive Branch total excludes Postal Service. The 1993 base, which is the starting point for calculating the 272,900 FTE reduction required by the Federal Workforce Restructuring Act, is 2.2 million.

in areas that Americans care about.[3] Major performance goals include:

- *Improving student aid delivery:* The Education Department will determine, within four days, the eligibility of students and families who apply for student aid electronically, cutting the processing time in half.
- *Speeding aid to disaster victims:* Through partnerships with Federal, State, local, and voluntary agencies, the Federal Emergency Management Agency will act on all requests to meet victims' needs for water, food, and shelter within 12 hours of a disaster event, with the intent to coordinate services within 72 hours of a Presidential declaration of disaster.
- *Finding the right agency on the first try:* The General Services Administration will restructure Federal listings in the blue pages of local telephone books, ensuring that Americans can find the Government service they need the first time they look.
- *Reducing time for clearance at U.S. airports:* Working with the Agriculture Department and the Customs Service, the Justice Department's Immigration and Naturalization Service will clear international passengers at airports in 30 minutes or less while improving enforcement and regulatory processing.
- *Reducing injury and illnesses in the workplace:* The Labor Department's Occupational Safety and Health Administration will cut injury and illness rates by a fifth in at least 50,000 of the most hazardous workplaces.
- *Increasing access to Federal recreation opportunities:* The National Park Service will create, with other Federal natural resource agencies, an integrated Nation-wide outdoor recreation information system that gives all Americans electronic access to information about recreation on Federal

[3] The NPR's home page, at **www.npr.gov**, links to the performance commitments of each agency.

Table IV–1. High Impact Agencies

Agriculture:
- Animal and Plant Health Inspection Service
- Food Safety and Inspection Service
- Food and Consumer Service
- Forest Service

Commerce:
- Bureau of the Census
- U.S. and Foreign Commercial Service/International Trade Administration
- Patent and Trademark Office
- National Weather Service

Defense:
- Acquisition Reform

Education:
- Student Financial Assistance

Environmental Protection Agency

Federal Emergency Management Agency

General Services Administration

Health and Human Services:
- Food and Drug Administration
- Administration for Children and Families
- Health Care Financing Administration

Interior:
- National Park Service
- Bureau of Land Management

Justice:
- Immigration and Naturalization Service

Labor:
- Occupational Safety and Health Administration

National Aeronautics and Space Administration

Office of Personnel Management

Small Business Administration

Social Security Administration

State:
- Bureau of Consular Affairs

Transportation:
- Federal Aviation Administration

Treasury:
- Customs Service
- Internal Revenue Service
- Office of Domestic Finance/Financial Management Service

U.S. Postal Service

Veterans Affairs:
- Veterans Health Administration
- Veterans Benefits Administration

lands, recreation use permits, and reservations.

- *Speeding Social Security information:* The Social Security Administration will provide overnight electronic Social Security number verification for employers. Today, verification can take up to two weeks.

Priority Management Objectives

The Administration plans to "provide management leadership to ensure the faithful execution of the enacted budget, programs, regulations, and policies," and to "work within and across agencies to identify solutions to mission critical problems."[4] For 1999, the Administration will focus on 22 key management objectives (see Table IV–2).

[4] See OMB's Strategic Plan, at www.whitehouse.gov/WH/EOP/OMB/Special__Emphasis/stratplan.html.

Table IV–2. PRIORITY MANAGEMENT OBJECTIVES

Inter-agency Objectives	
Year 2000	Manage the year 2000 computer problem in a timely and cost-effective manner to ensure that no critical Federal programs fail as a result of this problem.
GPRA	Implement the Government Performance and Results Act in a timely and compliant manner to improve agency program performance.
Financial Management	Present performance and cost information in a timely, informative and accurate way, consistent with Federal accounting standards. Assure the integrity of Federal financial information by completing audits and gaining unqualified opinions for all Chief Financial Officer Act agencies and on the Federal Government as a whole.
Information Technology	Improve the use of information technology and decrease the number of troubled investments in technology.
Selected Inter-Agency Systems	Improve the use of information technology and eliminate unnecessary duplication by developing a Simplified Tax and Wage Reporting System (STAWRS) and the International Trade Data System (ITDS). STAWRS will allow small businesses to file tax information electronically with the IRS instead of providing duplicate information to Federal, State, and local governments. ITDS will connect existing agency systems so that importers, exporters, and others involved in international trade will benefit from "one-stop shopping" for information collection and retrieval.
Acquisition Reform	Provide greater customer satisfaction through acquisition reform in terms of price, timeliness, quality, and productivity; increase use of performance-based service contracting.
Loan Portfolio Management	Improve loan portfolio management by encouraging the use of electronic loan origination, loan underwriting, and reporting on the status of major loan portfolios that will provide faster and more economical loan processing.
Debt Collection	Improve debt collection for major receivable accounts by effectively using the tools provided by the Debt Collection Improvement Act of 1996 (referral to private collection agencies, referral to Treasury for offset, and asset sales).
International Credit Programs	Improve agency loan management servicing, portfolio tracking and credit budgeting policies and procedures. More accurate financial records, which use consistent accounting standards, will result in improved repayment practices and increased collections. (The Agency for International Development, Overseas Private Investment Corporation, Export Import Bank, Defense Security Assistance Agency, Defense Export Loan Guarantee Program, and Agriculture have about $130 billion in outstanding loans and guarantees to foreign obligors.)
Statistical Programs	Strengthen the quality, utility, accessibility and cost-effectiveness of Federal statistical programs.
Regulation	Maximize the social benefits of regulation while minimizing the costs and burdens of regulation.

Table IV–2. PRIORITY MANAGEMENT OBJECTIVES—Continued

Agency-Specific Objectives	
Defense	Develop a plan with specific milestones to obtain an unqualified audit opinion on Defense's financial statement.
Defense	Increase outsourcing and privatization of military department infrastructure functions closely related to commercial enterprises, and of Defense Logistics Agency, Defense Finance and Accounting Service, and Defense Health Program functions.
Education	Modernize the management of student aid benefit delivery by reforming contracting, system development, and program oversight practices.
Energy	Use prudent contracting and business management approaches that emphasize results, accountability, and competition; improve timeliness; minimize costs; and ensure customer satisfaction.
Housing and Urban Development	Implement HUD's 2020 Management Reform Plan to: (a) restore public trust by achieving and demonstrating competence in implementing HUD's programs, and (b) restructure the way HUD operates to empower people and communities. Implementation of HUD's management reform plan began in June 1997 and will extend to 2002. HUD will periodically measure changes in its performance to assess the impact of reform.
Interior: Bureau of Indian Affairs	Seek to settle disputed tribal trust fund balances, make comprehensive reforms to the operation of tribal and individual Indian trust asset and trust funds management, and implement a recently introduced legislative proposal to consolidate ownership of highly fractionated Indian lands.
Transportation: Federal Aviation Administration (FAA)	FAA Reform: Implement a personnel system that, without increasing costs, empowers managers to effectively hire, reward, promote, discipline, and remove employees, while at the same time protecting employee rights. Implement a financial system that accurately relates services to costs that can be reflected in user charges. Reduce developmental risk and total life-cycle cost of FAA major information technology investment/air traffic control modernization systems.
Treasury: Financial Management Service (FMS)	Implement a number of changes at FMS to increase electronic payments, collections, and debt collection; and improve the accuracy and timeliness of Government-wide accounting and reporting.
Treasury: Internal Revenue Service (IRS)	Position the IRS to move forward with the Modernization Blueprint and undertake an incremental modernization, including year 2000 conversion, resulting in centralized data bases that would stimulate significant improvements in customer service, compliance and financial reporting.
Veterans Affairs	Work to consolidate infrastructure (hospitals, regional offices, data centers) where service improvements and efficiencies can be achieved.
Social Security Administration	Reduce the processing time for disability claims and appeals in the Disability Insurance and Supplemental Security Income programs at lower administrative cost with neutral impact on program costs.

Agency managers have the primary responsibility to achieve these performance goals; they must actively and effectively carry out both inter-agency and agency-specific initiatives. OMB will help agencies develop specific measures[5] and implement detailed action plans to ensure that they make progress toward meeting these commitments.

The Government-wide management initiatives described below will help achieve several of these inter-agency objectives.

Year 2000 Computer Problem: The Administration is committed to ensuring that agency computer systems correctly process the year 2000. The report, "Getting Federal Computers Ready for 2000," which the Administration sent to Congress with last year's budget, outlines the Administration's strategy.[6] Agencies report quarterly on their progress, as does the Administration as a whole. The Administration's most recent report states that the estimated cost of addressing the problem stands at $3.9 billion; agencies have identified 8,589 mission-critical systems, 26 percent of which are compliant; and all agencies are renovating their systems. That report also establishes a Government-wide goal of completing the implementation of all mission-critical systems by March 1999. The budget proposes adequate funding to address the problem. For example, the Defense Department will spend $275 million and the Treasury Department will spend $312 million.

Government Performance and Results Act (GPRA): All agencies have sent Congress their strategic plans under the Results Act, and will be sending their annual performance plans as well after the budget is transmitted. Nearly 100 departments and agencies have prepared strategic plans and are preparing annual performance plans. By March 2000, these agencies will submit clear, concise annual performance reports on their progress toward the goals they set in their annual plans.

Agency Audited Financial Statements: For 1996, 22 of the 24 largest agencies have produced audited financial statements, as required by the Government Management and Reform Act (GMRA). On these statements, six agencies already have received unqualified opinions: the Energy Department, General Services Administration, National Aeronautics and Space Administration, Nuclear Regulatory Commission, Small Business Administration, and Social Security Administration. The Chief Financial Officers (CFOs) have projected when their agencies will issue unqualified and timely audited financial statements (see Table IV–3).

As part of a GMRA-authorized pilot program, 12 agencies are issuing Accountability Reports for 1997, enabling them to provide, in one place, reader-friendly information about their programs and operations, including their audited financial statements. In 1998, OMB and the CFO Council will conduct a final assessment of the pilot program and, based on the results, will work with Congress on legislation to turn the pilot into a permanent, Government-wide program. Twenty-one of the 24 agencies have committed to producing an Accountability Report for 1999.

[5] For information on performance measures for priority management objectives, see OMB's home page, at www.whitehouse.gov/WH/EOP/OMB/Special__Emphasis.

[6] For more information on the year 2000 issue and other information technology issues, see the Chief Information Officers Council web site (www.cio.fed.gov).

Table IV–3. Financial Statement Performance Goals

Financial Statements	1996 Actual	Estimate			
		1997	1998	1999	2000
Audits Completed	22	23	24	24	24
Agencies with Unqualified Opinion	6	12	16	21	23
Agencies with Unqualified and Timely Opinion	4	9	16	21	23

Government-Wide Audited Financial Statements: GMRA also requires the first Government-wide audited financial statements for 1997. The Government's ability to obtain an unqualified opinion on its Government-wide statements is hampered, however, by the lack of adequate financial management systems to capture the data that would satisfy Federal accounting standards requirements. OMB plans to work with the agencies to resolve these problems in time for the Government to receive such an opinion on its 1999 statements.[7]

Information Technology Investments: Investments in information technology can help Government to work better and cost less. For the best return on investment, agencies are following the successful practices of private firms—reengineering, creating disciplined capital programming processes, and developing information technology architectures—to ensure that the investments provide workable solutions to problems at a reasonable cost. (For performance information with regard to information technology investments for 1999 and beyond, see Table IV–4.)

Table IV–4. Program Performance Benefits From Major Information Technology Investments

(Budget authority, in millions of dollars)

Program/Project	1997 Actual	1998 Estimate	1999 Proposed	Program Performance Benefits [1]
Agriculture: Common Computing Environment.[2]	21	41	45	Allows "one-stop service" for farmers at local Agriculture Department offices.
Commerce: Advanced Weather Interactive Processing System.	100	117	69	Improves the accuracy of forecasts. Lowers the costs of generating forecasts through reduced staffing requirements. A component "The Advance Hydrological Prediction System" will provide 60-day flood warnings with 90-percent accuracy.
Commerce: Census 2000.	26	80	199	Reduces errors, the number of temporary employees needed, and publication costs.
Defense: Defense Message System.	154	197	207	Provides timely, reliable, accountable, and secure messaging and electronic mail directory services to tactical, organizational and individual users. Defense estimates lifecycle cost savings of over $600 million.
Education: Direct Student Lending.	141	187	220	Supports loan origination and servicing of a portfolio that will grow to more than $55 billion in 1999.
Education: National Student Loan Data System.	27	21	27	Improves the Government's collection of defaulted loans and integrity of participating institutions.
Education: PELL Grant Systems.	7	7	7	Distributes grant funds to institutions and supports sound financial management.
Education: Guaranteed Student Loan Data System.	23	24	30	Improves the Government's collection of defaulted loans.
Education: Student Aid Application System.	49	51	63	Assists institutions and students by providing a standardized way to determine financial aid eligibility.
Energy (DOE): Telecommunications Integrator Services (TELIS) contract.[3]	2	100	123	Lowers operating and maintenance costs and improves sharing of information by promoting interoperability of telecommunications systems.
Health and Human Services: Medicare Information Technology System.[4]	75	40	45	Simplifies and streamlines claims processing, eligibility, and managed care information systems while improving service to Medicare customers.

[7] For more information on financial management performance commitments, see the CFO Status Report and Five-Year Plan at the OMB web site (**www.whitehouse.gov/WH/EOP/OMB/Finance/**).

Table IV–4. Program Performance Benefits From Major Information Technology Investments—Continued

(Budget authority, in millions of dollars)

Program/Project	1997 Actual	1998 Estimate	1999 Proposed	Program Performance Benefits [1]
Health and Human Services: Federal Parent Locator Service, including the National Directory of New Hires and the Federal Case Registry.	25	28	29	Assists States in locating out-of-State, non-custodial parents who owe child support by matching quarterly wage, new hire, and unemployment insurance data with national registry of child support cases. This system will increase interstate collections by $3 billion over ten years.
Housing and Urban Development: Information Technology Investments.	48	90	90	Provides better internal controls and oversight of federal grants, verification of the eligibility of recipients, timely and accurate payment of funds, and oversight and servicing of FHA mortgages.
Interior: Automated Land Management Records System.	42	33	35	Improves the quality of, and access to, land, resources, and title information for public land managers and adjacent land owners.
Interior: American Indian Trust System.	3	4	10	Ensures that trust income is allocated based upon accurate land ownership information.
Justice: Integrated Automated Fingerprinting Identification System.	84	84	48	Allows the FBI to process routine identification requests in 24 hours and urgent requests in two hours.
Justice: National Criminal Information Center 2000.	8	....	....	Provides law enforcement agencies across the country real-time access to sophisticated databases on criminals and criminal activity.
Justice: Information Sharing.	....	....	50	Promotes sharing of investigative data bureauwide.
Labor: ERISA Filing Acceptance System.	6	3	([5])	Increases the speed, accuracy, and integrity of information that three agencies use to safeguard private pensions.
State: Diplomatic and Consular Systems Modernization.[6]	146	260	283	Improves delivery and management of information required by diplomatic and consular officers overseas to support the Nation's foreign policy goals and ensure U.S. border security.
Transportation: Federal Aviation Administration Air Traffic Control System Modernization.	1,233	1,306	1,410	Maintains and improves capability to promote the safe, orderly, and expeditious flow of air traffic. Reduces the accident rate by 80 percent of baseline levels by 2007.
Treasury: Information Technology Investments.	....	325	323	Provides advanced funding for redesign of tax administration systems and operations, improving the timeliness and quality of taxpayer data, and thereby significantly enhancing customer service and collection activities. Increases automated calls answered from 16 million to 30 million.
Treasury: Treasury Communications System.[7]	129	187	200	Provides secure data transmission and information services worldwide for Treasury bureaus.
Treasury: Automated Commercial Environment.	12	11	56	Supports business process redesign, systems architecture, development, and implementation for systems to replace Customs' Automated Commercial System.
Veterans Affairs: VA Medical Enrollment System.	1	80	73	Allows automation of veterans' eligibility status and tracking of veteran demographics.
Environmental Protection Agency: Toxic Release Inventory System.	8	7	8	Helps to improve the environment by maintaining data related to certain toxic chemical uses. The data are available to EPA staff, State and local governments, educational institutions, industry, environmental and public interest groups, and the general public. This allows for search requests to be fulfilled within 48 hours 95 percent of the time.
National Aeronautics and Space Administration: Earth Observing System Data Information System.	235	210	257	Supports spacecraft control, science data processing, and Earth science data management, archiving, and distribution. Will archive 560 terabytes and deliver 3.4 million data products by end of 1999.

Table IV–4. Program Performance Benefits From Major Information Technology Investments—Continued

(Budget authority, in millions of dollars)

Program/Project	1997 Actual	1998 Estimate	1999 Proposed	Program Performance Benefits [1]
Social Security: Automation Investment Fund.	235	190	....	Provides more than 2,400 workyears in productivity gains for SSA and State Disability Determination Services.
General Services Administration: FTS2001 Program.[8]	10	13	11	Beginning in 1999, will offer the Federal Government low-cost, state-of-the-art, integrated voice, data, and long-distance telecommunications. Replaces the FTS2000 contracts for similar services that expire in 1998.
Nuclear Regulatory Commission: Agency Document Access and Management System.	2	7	4	Implements workprocess improvement review and increases staff efficiency through improved information access and elimination of redundant data entry. Reduces maintenance costs by replacing aging legacy hardware and minimizing custom software.
Office of Personnel Management: Retirement System Modernization.	....	2	5	Completes development of agency-wide information technology architecture and development of retirement system modernization program requirements.
Interagency: Simplified Tax and Wage Reporting System.	1	....	2	Reduces employers' tax and wage reporting burden.
Interagency: International Trade Data System.	6	6	5	Reduces burden on exports and imports, speeds up shipments, and improves the quality of trade statistics.
Interagency: Data Center Consolidation.	....	100	100	Saves money by requiring all Federal agencies to consolidate or collocate their data processing centers to fewer larger, more efficient, and cost effective locations, either within the Government or with a private sector provider.
Interagency: Land Mobile Radio Narrowbanding.[9]	....	....	130	Allows a 50-percent increase in number of radios that can operate in current spectrum, promoting interoperability among users.

[1] Required under the Clinger-Cohen Information Technology Management Reform Act.
[2] Previously called the Field Service Center Initiative
[3] Budget authority for non-DOE agencies using the TELIS contract vehicle is $1.5 million, $77 million, and $99 million in 1997, 1998, and 1999, respectively.
[4] Succeeds the Medicare Transaction System.
[5] 1997 and 1998 figures represent capital investment to set up the system. 1999 numbers are operational costs. For consistency, 1999 is zero for capital costs and $4.5 million in operational costs.
[6] Includes user fees and budget authority
[7] Funded through Treasury's working capital fund, not annual appropriations.
[8] Cost numbers are not budget authority, but agency contributions to the Information Technology Fund for expenses associated with the FTS2001 Program. These numbers do not include the cost of transitioning to the new contracts.
[9] Total of Departments of Justice, the Treasury, Agriculture, and Transportation investments.

Procurement: Changes in law and regulatory policy continue to help agencies get more value from what they buy, improving Government's performance along the way. With fewer Government-specific requirements to meet and with more flexibility, contracting officials can increasingly buy commercial items and, in the process, pay less while they gain access to the most current technology. Agencies can communicate more with industry and more directly link Government's needs to the market's capabilities. The Administration will build on these improvements so that Federal acquisition practices can match those of the most successful companies. For instance, by the end of 1999: 15 agencies will have a system in place to evaluate contractor performance on all non-exempt contracts over $100,000; agencies will make 60 percent of all transactions under $2,500 with the Government charge card; and OMB will work with agencies to increase, by 30 percent, the number of model performance-based service statements of work available for agency use.

Performance Based Service Contracting (PBSC): PBSC requires that, in procuring a service, the Government outline its needs in measurable, mission-related terms—not prescribe precisely how contractors do the work, and not describe its needs too vaguely. With PBSC, agencies pay for results, not effort or process, enabling contractors to determine the best, most cost-effective ways to do the job. Preliminary results of a Government-wide PBSC pilot project show that it cut prices 15 to 20 percent while increasing Government's satisfaction with contractor performance. The Administration believes that PBSC offers great potential to reap savings and other benefits in the roughly $100 billion that the Government spends a year on service contracts. Agencies plan to convert about 1,000 contracts, valued at $20 billion, to PBSC over several years. In 1999, agencies project that they will convert at least 700 contracts, worth $9 billion, to PBSC.

Loan Portfolio Management: Because the Federal Government is the Nation's single largest source of credit, agency credit programs and performance measures should address each major phase of credit management—credit extension, account servicing, and special collection. For each phase of this new initiative, agencies will more widely use modern electronic business processes to improve customer service, cut costs, and improve collection. For credit extension, agencies will ensure that individuals and entities applying for credit are eligible in terms of income and are not delinquent on a Federal claim. For account servicing, agencies will work together to ensure that accurate monthly information is available on the status of loans. A consortium of single family loan programs run by the Departments of Housing and Urban Development, Agriculture, and Veterans Affairs will provide a forum for its program delivery partners to speed their use of electronic reporting on the status of accounts.

Debt Collection Management: The 1996 Debt Collection Improvement Act (DCIA) created more tools for the Treasury Department and individual agencies to reduce losses and increase collections. In the special collection phase, when a loan becomes seriously delinquent—over 180 days overdue—Treasury will help the agency by intercepting other Federal payments to the delinquent borrower and applying them to the delinquent account. Treasury can also cross-service debts that are over 180 days overdue by referring them to private collection agencies. A principle of sound credit management for most Federal loan programs is that once a loan is delinquent for over one year, the agency should sell the debt or write it off as uncollectible, as appropriate. The Federal Credit Policy Working Group will review write-off practices and redesign loan sales policy in order to cut the growth of delinquencies and boost Federal collections of delinquent debt. By January 1999, the Federal Credit Policy Working Group, in cooperation with the CFO Council, will work to reduce delinquencies by 10 percent and increase collections by $95 million from the 1997 level.

Management Support Initiatives

The activities described above do not encompass all of the Administration's management efforts. Indeed, the Administration continues to work on a host of other initiatives—from providing more Federal services electronically to improving the management of credit programs—that will help reach the goal of creating a Government that "works better and costs less."

Access America: This plan, which the Vice President is spearheading, is designed to make Government services available electronically to all Americans who seek them. More specifically, the plan calls for, among other things, conducting electronically those transactions that individuals, States, localities, businesses, law enforcement agencies, and others most often request; ensuring high standards of privacy and security for these transactions; and providing the necessary infrastructure and skills in Government to support the vision. A Government-wide task force is leading implementation efforts.[8]

Electronic Commerce Security: Electronic commerce is the use of computers and networks to buy and pay for goods and services, accept regulatory filings, and provide public services—making Government more convenient and cost-effective. For agencies and the public to enjoy those benefits, however, they must be sure that their information is going to whom it should—and to no one else. An important tool for providing that security is the digital signature, but the private institutions and the rules for managing those signatures are just emerging. Through efforts of the Government Information Technology Services Board and others, the Federal Government is aligning Federal electronic commerce security

[8] For further details, see **www.gits.fed.gov.**

practices with this emerging private infrastructure.

Data Center Consolidation: The Government can save money by consolidating large computer centers, thereby eliminating duplication in facilities, staff, computer hardware and software, and related services. Large-scale data processing service contracts, such as GSA's Virtual Data Center contract, make outsourcing for the related services sensible and cost-effective. OMB has directed agencies to significantly reduce the number of agency data centers to save substantial sums of money for the Government.

Budgeting for Results: In preparing the budget, the Administration had, for the first time, agency strategic plans, annual performance plans, and performance measures to help decide how to allocate resources. In general, however, the budget structure and charging practices do not make it easy to match costs with a specific program. First, the budget does not charge all of a program's resources to that program; instead, the budget subsidizes programs by paying for certain activities centrally. Second, not all budget accounts are as well-aligned as they might be with the programs they finance. As a result, in some cases, the quality of budgeting, management, and resource acquisition all suffer.

Good budgeting is predicated on the ability to compare costs and benefits, at least roughly, across all programs every year. In some cases, current practices distort such comparisons. Good management requires that managers focus on, and are held accountable for, getting the best results for the resources they have. Managers should be free to allocate resources as they see fit, and to obtain competitive, performance-oriented procurement.

To better integrate budgeting with performance planning and reporting, as GPRA envisions, OMB will work with agencies to review their budget account structures and, in consultation with the Budget Officers Advisory Council and the CFO Council, develop legislation to enable agencies to charge programs' accounts uniformly and comprehensively for the resources they use. As these proposals take shape, OMB will consult with the Congressional Budget Office, the General Accounting Office, and congressional committees on next steps.

Competition: Competition spurs efficiency. Federal agencies that provide administrative and other support services need the stimulus of competition to sharpen their skills, improve their performance, and cut their costs. As a result, for buying commercial goods and services, the Administration is encouraging agencies to consolidate common administrative services, and to compete those and other services with one another and with the private sector on a level playing field to provide the best deal for the taxpayer, in accordance with the March 1996 revised OMB Circular A–76 Supplemental Handbook. More competition will spur new technologies, new capital, and new management techniques to help improve performance, while creating greater opportunities for Federal and private employees and their customers. The Secretary of Defense, for instance, has announced that the department will evaluate over 41,000 FTE positions for their possible conversion to the private sector or other agencies in 1999, and evaluate over 150,000 FTE through 2001.

Error Reduction: The Administration is launching an effort to reduce errors in Federal programs that lead to waste, fraud, or abuse. Federal agencies will work together to identify common sources of error and enable the Government to develop more integrated solutions, thus saving money for the taxpayers. For 1999, the Administration will focus on increasing accuracy and efficiency in three areas: program eligibility verification; financial and program management; and debt collection.

- *Eligibility verification:* Many agencies run benefit and credit programs in which eligibility depends, at least in part, on an applicant's income or other financial resources, and other criteria, such as marital status and number of dependents. These programs include small business loans, student loans and grants, veterans pensions, rental housing assistance, income maintenance, nutrition support, and others. Generally, applicants must submit financial and other data on forms that agencies use to determine eligibility. When applicants provide false or erroneous information about their income or personal status, they may receive benefits for which they are ineligible, and may deprive eligible applicants from the assistance they deserve. A better verification process for credit and benefit programs can reduce errors significantly and allocate resources more fairly.

- *Financial and program management:* Agencies often can address the sources of errors within programs by changing their financial or management practices. For example, transaction analysis software can help agencies identify improper billing trends or high-risk operations. In addition, agencies could recoup the interest lost due to overpayments to vendors by charging the vendors for those funds, and the Administration is drafting legislation to enable the Treasury Department to assess those charges. Also, more audits and other integrity initiatives will help agencies identify errors earlier. The biggest payoffs come when agencies prevent errors up front or quickly identify them before losses mount.
- *Debt collection:* Although most efforts to improve accuracy focus on prevention, some bad debt is inevitable. In trying to collect, agencies face the major obstacle of finding both the debtor and his or her employer. For example, the Education Department devotes about 70 percent of its collection efforts to locating debtors. Agencies could collect debt more effectively by better using data, subject to appropriate privacy protections, that's already in Government databases such as the National Directory for New Hires, which should be fully on line in early 1998 and which provides some of the Federal Government's most timely information for debt collection purposes.

Inter-Agency Working Groups: Using Network Management for Better Performance

The Administration relies on inter-agency groups to develop certain policies, and to identify and implement ways to better manage Federal resources. The groups meet regularly to initiate action, undertake projects, exchange information, set priorities, and recommend policy direction.

In 1993, President Clinton established the President's Management Council (PMC), comprising the Chief Operating Officers of the largest Federal departments and agencies, to improve management of the Executive Branch. The PMC has undertaken a number of initiatives, including:

- *Rightsizing:* Leading efforts to reduce the number of Federal civilian employees without unnecessarily disrupting the work force.
- *Procurement reforms:* Identifying performance measures to help agencies assess improvements in the procurement process, and supporting implementation of Electronic Commerce and Performance-Based Service Contracting initiatives.
- *Field office restructuring:* Identifying appropriate criteria for restructuring activities within agencies; and recommending various approaches to restructuring.
- *Overseas missions:* Implementing a cost-sharing process for foreign missions.
- *Labor-Management partnerships:* Supporting partnerships through continuous communication with union leaders; and fostering culture change at all organizational levels.
- *Customer service:* Facilitating the development of customer service standards in agencies and the delivery of Customer Service Reports.

The President's Council on Integrity and Efficiency (PCIE), comprising 27 Presidentially-appointed Inspectors General (IGs) and other key integrity officials, focuses on two main objectives:

- mounting collaborative efforts to address integrity, economy, and effectiveness issues that transcend individual agencies; and
- increasing the professionalism and effectiveness of IG personnel across the Government.

The PCIE, for example, has recommended controls for Federal electronic benefits programs and reviewed the next generation of Federal Government credit card programs. In addition to setting basic standards for IG investigations, audits, and inspections, the PCIE has confronted new challenges, from implementing the 1993 Government Performance and Results Act to developing the Federal Financial Statement Audit Manual.[9]

A reinvigorated Joint Financial Management Improvement Program (JFMIP) will use added resources to help agencies in financial systems improvement efforts. In 1999, JFMIP will revise the Federal Supply Schedule for Federal financial systems, and continue to develop systems standards and other guidance documents.

Table IV–5 lists the priorities of several other inter-agency working groups: the National Partnership Council, the CFO Council, the Chief Information Officer (CIO) Council, the Electronic Processes Initiative Committee, the Federal Credit Policy Working Group, and the Federal Procurement Council.

Table IV–5. PRIORITIES OF INTER-AGENCY WORKING GROUPS

National Partnership Council

President Clinton established the National Partnership Council in October 1993 to enlist the Federal labor relations program as an ally in reinvention, and to refocus Federal labor relations from adversarial litigation to cooperative problem solving. Among the NPC's key objectives for 1998 are the following:

- Bring high-level attention to partnership issues to ensure that partnerships are established and working effectively throughout the Federal Government.
- Continue to focus on partnerships experiencing problems and help them overcome barriers.
- Encourage partnerships to address major NPR objectives, such as increasing efficiency, improving service, and reducing cost.

Chief Financial Officers Council

Authorized by the CFOs Act, the CFO Council is a Government-wide body that addresses critical cross-cutting financial issues by working collaboratively. The Council consists of the CFOs and Deputy CFOs of the 24 largest Federal agencies and senior officials of OMB and Treasury. The CFO Council's priorities are:

- Improve financial management systems.
- Effectively implement the Government Performance and Results Act.
- Issue accounting standards and financial statements.
- Develop human resources and CFO organizations.
- Improve the management of receivables.
- Ensure management accountability and control.
- Modernize payments and business methods.
- Improve the administration of Federal assistance programs.

Chief Information Officers Council

The CIO Council's role includes: developing recommendations for information technology management policy, procedures, and standards; identifying opportunities to share information resources; and assessing and addressing the Federal Government's needs for an information technology work force. The Council consists of CIOs and Deputy CIOs from 28 large Federal agencies, two CIOs from small Federal agencies, and representatives from OMB and two information technology boards. The CIO Council's priorities are:

- Define an interoperable Federal information technology architecture.
- Ensure information security practices that protect Government services.
- Lead the Federal year 2000 conversion effort.
- Establish sound capital planning and investment practices.
- Improve the information technology skills of the Federal work force.
- Build relationships through outreach programs with Federal organizations, Congress, industry, and the public.

[9] For more on PCIE activities, see IGnet (**www.ignet.gov**).

Table IV–5. PRIORITIES OF INTER-AGENCY WORKING GROUPS—Continued

Electronic Processes Initiative Committee (EPIC)

The President's Management Council established EPIC to integrate end-to-end business processes electronically, with an emphasis on procurement and finance. EPIC consists of senior officials from DOD, the General Services Administration, Treasury, and OMB. The EPIC priorities are:

- Use a multi-purpose smart card to support reengineering of business and administrative processes.
- Integrate electronic buying and paying processes.
- Efficiently and effectively process intra-governmental transfers that contribute to unqualfied financial statements.

Federal Credit Policy Working Group

This inter-agency forum provides advice and assistance to OMB, Treasury, and Justice in formulating and implementing Government-wide credit management policy. Membership consists of representatives from the major credit and debt collection agencies and OMB. The Federal Credit Policy Working Group's priorities are:

- Effective implementation of the Debt Collection Improvement Act.
- Use of the Internet for credit management, especially for lending, underwriting, and portfolio status reporting.
- Sale of loan assets that are over a year delinquent.
- Review agency write-off practices and Government-wide policy.
- Improve prescreening of loan applications to validate eligibility and application data.

Federal Procurement Council

The Federal Procurement Council, which consists of the Senior Procurement Executives from major Federal agencies, meets regularly with OMB to discuss ways to improve the procurement process. The Federal Procurement Council's priorities are:

- Promote agency use of commercial buying practices by increasing the use of performance-based service contracting, past performance in administering current contracts and selecting new contractors, electronic commerce as an enabler, and other innovative buying strategies.
- Promote the Federal procurement work force's use of good business judgment within an adaptable system of flexible rules and procedures that allow professionals, working in a continuous learning environment, to use discretion.
- Collaborate with budget, financial, and information technology management offices to improve agency planning and management of capital asset procurement.
- Promote national socioeconomic procurement policies consistent with fostering the efficiency and effectiveness of the procurement system.
- Promote the use of a globally competitive industrial base, integrating facilities and operations serving the Government market with those serving the commercial market by reducing Government-unique requirements that restrict full integration.
- Increase customer satisfaction by routinely providing quality products and services, on time, and within budget.

VI. INVESTING IN THE COMMON GOOD: PROGRAM PERFORMANCE IN FEDERAL FUNCTIONS

11. OVERVIEW

The commitment of the President and Congress to balance the budget—and keep it in balance—means that, if all Federal programs want to continue receiving funds, they will have to distinguish themselves by demonstrating good, measurable performance. Policy makers will have to allocate resources to programs that can prove they are well-run and can successfully produce results.

The Administration's focus on results is not new. As the Administration said in last year's budget:

> Led by Vice President Gore's National Performance Review, the Administration has made real progress in creating a Government that, in the words of the NPR, "works better and costs less." We have eliminated layers of bureaucracy, cut paperwork burdens, scrapped thousands of pages of regulations and, most important, improved service to Government's customers—the American people.

The President's commitment to better performance was a key reason that he actively supported, and eagerly signed, the 1993 Government Performance and Results Act (GPRA). In this budget, the Administration highlights three aspects of performance:

- Fiscal performance (see Section III, "Creating a Bright Economic Future");
- Management performance (see Section IV, "Improving Performance Through Better Management"); and
- Program performance, which is contained in this section.

Together, these sections constitute what GPRA contemplated—the Nation's first comprehensive, Government-wide Performance Plan.

The performance of Government programs is inextricably linked to the fiscal and economic environment and the management framework in which they operate. The President's commitment to not only balance the budget but to invest in the future while improving public management—to do more with less—has prompted the Administration to maintain or expand programs that demonstrate good performance.

Often, experts look at performance only across single organizational units, such as departments or agencies. In this section, the budget categorizes activities according to budget "functions" in order to group similar programs together and begin to present the relationship between their goals. This year, for the first time, the Administration relied heavily on key performance measures and annual performance goals that were drawn from agency Annual Performance Plans. They were first articulated in the context of the long-term goals and objectives in the Strategic Plans that agencies submitted to OMB and to Congress in September 1997.

In preparing this budget, the Administration studied the measures and goals of the Annual Performance Plans and took a hard look at what the public is getting for what it is financing. Thus, the Administration has made a good start on the process that GPRA envisioned. Nevertheless, more work remains. Agencies will modify Annual Performance Plans to reflect changing circumstances and resource levels, the plans will provide a backdrop for further discussion about allocating resources, and the President's future budgets will contain new and better information.

The Administration looks forward to working with Congress and other stakeholders to use these tools to create better performance.

Table 11–1. FEDERAL RESOURCES BY FUNCTION

(In billions of dollars)

Function	1997 Actual	Estimate 1998	1999	2000	2001	2002	2003
NATIONAL DEFENSE:							
Spending:							
Discretionary Budget Authority	266.2	268.6	271.6	277.0	284.8	288.1	298.0
Mandatory Outlays:							
Existing law	–1.2	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0
Credit Activity:							
Direct loan disbursements	....	*	....	0.2	0.3	0.3	0.3
Guaranteed loans	....	*	0.2	0.2	1.2	1.2	1.2
Tax Expenditures:							
Existing law	2.1	2.1	2.1	2.1	2.2	2.2	2.2
INTERNATIONAL AFFAIRS:							
Spending:							
Discretionary Budget Authority	18.2	19.0	20.2	19.2	18.9	18.8	18.8
Mandatory Outlays:							
Existing law	–3.8	–4.5	–4.1	–3.8	–3.6	–3.4	–3.2
Credit Activity:							
Direct loan disbursements	1.8	2.1	2.0	2.8	1.8	1.5	1.5
Guaranteed loans	13.0	12.8	12.2	12.7	13.4	13.9	13.9
Tax Expenditures:							
Existing law	7.1	7.7	8.3	9.0	9.6	10.3	11.0
Proposed legislation	....	....	–0.6	–1.4	–1.5	–1.5	–1.6
GENERAL SCIENCE, SPACE, AND TECHNOLOGY:							
Spending:							
Discretionary Budget Authority	16.6	17.9	18.5	18.5	18.7	19.0	19.1
Mandatory Outlays:							
Existing law	*	*	*	*	*	*	*
Tax Expenditures:							
Existing law	1.1	2.6	1.4	1.1	0.9	0.8	0.8
Proposed legislation	....	0.4	0.8	0.6	0.3	0.1	*
ENERGY:							
Spending:							
Discretionary Budget Authority	4.2	2.8	3.5	3.2	3.1	3.0	3.0
Mandatory Outlays:							
Existing law	–3.4	–2.8	–4.6	–3.3	–3.3	–3.3	–3.3
Credit Activity:							
Direct loan disbursements	1.0	2.0	1.6	1.4	1.3	1.3	1.5
Tax Expenditures:							
Existing law	2.0	2.0	2.0	2.1	2.0	2.0	1.9
Proposed legislation	....	–*	0.4	0.6	0.6	0.8	1.2
NATURAL RESOURCES AND ENVIRONMENT:							
Spending:							
Discretionary Budget Authority	22.4	23.2	22.6	22.3	22.0	22.0	22.3
Mandatory Outlays:							
Existing law	0.1	1.1	0.7	0.8	0.7	0.5	0.7
Proposed legislation	....	....	0.2	0.2	0.3	0.3	0.3
Credit Activity:							
Direct loan disbursements	*	*	*	*	*	*	0.1
Tax Expenditures:							
Existing law	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Proposed legislation	....	....	–0.1	–0.1	–0.1	–0.1	–0.1
AGRICULTURE:							
Spending:							
Discretionary Budget Authority	4.2	4.3	4.1	3.9	3.9	3.9	3.8
Mandatory Outlays:							
Existing law	5.0	6.4	7.0	6.8	5.4	5.4	5.6
Proposed legislation	....	....	–0.2	–0.3	–0.2	–0.2	–0.2
Credit Activity:							
Direct loan disbursements	6.4	7.4	8.7	8.5	7.7	7.2	6.9

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1997 Actual	Estimate 1998	1999	2000	2001	2002	2003
Guaranteed loans	4.0	7.3	6.9	6.9	6.9	6.9	6.9
Tax Expenditures:							
Existing law	0.7	0.7	0.7	0.8	0.8	0.8	0.8
COMMERCE AND HOUSING CREDIT:							
Spending:							
Discretionary Budget Authority	2.8	3.2	3.3	5.1	2.9	2.9	2.9
Mandatory Outlays:							
Existing law	–17.6	0.2	0.7	7.1	8.2	8.4	7.7
Proposed legislation	....	–*	–0.3	–0.4	–0.4	–0.4	–0.4
Credit Activity:							
Direct loan disbursements	8.7	2.7	1.5	1.4	1.3	1.3	1.3
Guaranteed loans	180.1	190.5	200.7	203.8	205.9	206.4	210.4
Tax Expenditures:							
Existing law	186.9	183.6	182.7	188.7	196.1	203.5	210.3
Proposed legislation	....	–0.3	–0.4	–0.4	–0.3	–0.3	–0.4
TRANSPORTATION:							
Spending:							
Discretionary Budget Authority	38.7	41.4	41.8	42.3	42.6	43.1	43.7
Mandatory Outlays:							
Existing law	2.3	2.4	2.2	2.2	1.9	1.2	1.8
Proposed legislation	....	*	0.1	0.1	0.1	*	–*
Credit Activity:							
Direct loan disbursements	0.2	0.2	0.2	*	*	*	*
Guaranteed loans	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Tax Expenditures:							
Existing law	1.4	1.4	1.4	1.5	1.5	1.6	1.6
Proposed legislation	....	....	*	*	*	*	*
COMMUNITY AND REGIONAL DEVELOPMENT:							
Spending:							
Discretionary Budget Authority	13.0	8.7	9.2	8.0	7.8	7.7	7.8
Mandatory Outlays:							
Existing law	0.3	–0.1	–0.4	–0.4	–0.1	–0.2	–0.5
Proposed legislation	....	....	*	0.1	0.1	0.2	0.2
Credit Activity:							
Direct loan disbursements	2.2	2.2	2.0	2.3	2.4	2.3	2.3
Guaranteed loans	0.9	1.8	2.0	2.0	2.2	2.3	2.3
Tax Expenditures:							
Existing law	1.4	1.7	1.9	2.0	2.0	1.9	1.7
Proposed legislation	....	....	*	*	0.1	0.2	0.2
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:							
Spending:							
Discretionary Budget Authority	42.5	46.4	48.6	49.1	49.4	49.3	48.9
Mandatory Outlays:							
Existing law	13.7	13.1	12.1	11.2	10.9	10.1	12.1
Proposed legislation	....	–0.2	1.8	2.9	3.5	4.0	4.4
Credit Activity:							
Direct loan disbursements	10.3	13.3	13.7	14.5	15.3	16.1	17.0
Guaranteed loans	19.5	25.1	25.7	27.3	28.8	30.4	32.0
Tax Expenditures:							
Existing law	27.4	33.8	57.3	59.5	61.1	62.9	64.6
Proposed legislation	....	*	1.0	2.9	3.2	2.8	2.7
HEALTH:							
Spending:							
Discretionary Budget Authority	25.1	26.4	27.5	28.3	29.2	30.5	33.0
Mandatory Outlays:							
Existing law	100.9	106.3	115.0	122.4	131.6	141.3	152.4
Proposed legislation	....	....	*	0.1	0.2	–0.1	–0.1

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1997 Actual	Estimate 1998	1999	2000	2001	2002	2003
Credit Activity:							
Direct loan disbursements	*	....	....	....	....	....	....
Guaranteed loans	0.1	0.2	0.1	*	*	....	....
Tax Expenditures:							
Existing law	75.5	80.6	85.9	91.5	97.6	104.4	112.1
MEDICARE:							
Spending:							
Discretionary Budget Authority	2.6	2.7	2.6	2.6	2.6	2.6	2.7
Mandatory Outlays:							
Existing law	187.4	195.4	204.7	214.2	230.1	232.5	253.4
Proposed legislation	....	....	–0.1	–*	–0.2	–0.3	–0.3
Credit Activity:							
INCOME SECURITY:							
Spending:							
Discretionary Budget Authority	22.7	31.9	33.0	36.7	37.8	39.0	40.3
Mandatory Outlays:							
Existing law	191.4	198.4	210.0	219.7	227.6	233.7	243.1
Proposed legislation	....	0.1	1.5	1.8	2.3	2.6	2.7
Credit Activity:							
Direct loan disbursements	0.1	0.1	*	*	....	....	....
Guaranteed loans	*	*	0.1	0.1	0.1	0.1	*
Tax Expenditures:							
Existing law	101.4	104.0	103.7	105.6	106.5	107.6	109.1
Proposed legislation	....	*	0.1	0.2	0.3	0.3	0.3
SOCIAL SECURITY:							
Spending:							
Discretionary Budget Authority	3.5	3.2	3.2	3.2	3.2	3.2	3.2
Mandatory Outlays:							
Existing law	362.3	378.1	392.8	409.2	427.0	446.9	467.4
Proposed legislation	....	....	*	0.1	0.1	0.2	0.2
Tax Expenditures:							
Existing law	23.6	24.8	26.0	27.2	28.4	29.8	31.3
VETERANS BENEFITS AND SERVICES:							
Spending:							
Discretionary Budget Authority	18.9	19.0	18.9	18.9	18.9	18.9	19.6
Mandatory Outlays:							
Existing law	20.7	24.0	24.4	25.4	26.7	30.8	31.9
Proposed legislation	....	....	–0.2	–0.4	–0.9	–4.3	–3.9
Credit Activity:							
Direct loan disbursements	1.3	2.0	0.2	0.2	0.2	0.2	0.1
Guaranteed loans	24.3	24.8	23.4	22.9	23.4	22.8	23.3
Tax Expenditures:							
Existing law	3.0	3.1	3.3	3.5	3.7	3.9	4.2
ADMINISTRATION OF JUSTICE:							
Spending:							
Discretionary Budget Authority	22.9	24.2	25.7	24.6	24.4	24.6	25.1
Mandatory Outlays:							
Existing law	0.1	1.4	0.6	0.3	0.1	0.2	0.2
Proposed legislation	....	*	0.1	0.1	*	*	*
Credit Activity:							
GENERAL GOVERNMENT:							
Spending:							
Discretionary Budget Authority	11.8	12.5	13.0	12.1	12.2	12.0	12.1
Mandatory Outlays:							
Existing law	0.7	0.4	1.0	1.2	0.9	0.9	1.0
Proposed legislation	....	....	3.5	4.0	4.7	5.1	5.5
Credit Activity:							
Direct loan disbursements	0.2	....	....	....	....	....	....

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1997 Actual	Estimate 1998	1999	2000	2001	2002	2003
Tax Expenditures:							
Existing law	47.2	49.2	51.0	52.9	54.8	56.7	58.5
Proposed legislation	....	....	*	0.1	0.1	0.2	0.2
NET INTEREST:							
Spending:							
Mandatory Outlays:							
Existing law	244.0	242.7	241.8	236.5	233.5	227.1	220.6
Proposed legislation	....	....	*	*	*	*	*
Tax Expenditures:							
Existing law	0.9	1.0	1.0	1.1	1.1	1.2	1.2
ALLOWANCES:							
Spending:							
Discretionary Budget Authority	....	....	3.2	....	....	....	....
Mandatory Outlays:							
Credit Activity:							
UNDISTRIBUTED OFFSETTING RECEIPTS:							
Spending:							
Mandatory Outlays:							
Existing law	–50.0	–46.4	–42.5	–45.8	–47.2	–55.5	–48.3
Credit Activity:							
FEDERAL GOVERNMENT TOTAL:							
Spending:							
Discretionary Budget Authority	536.3	555.4	570.6	575.0	582.5	588.6	604.2
Mandatory Outlays:							
Existing law	1,053.0	1,115.2	1,160.5	1,202.8	1,249.5	1,275.7	1,341.6
Proposed legislation	....	–*	6.5	8.4	9.8	7.1	8.4
Credit Activity:							
Direct loan disbursements	32.2	32.0	29.8	31.3	30.5	30.2	30.9
Guaranteed loans	242.3	262.9	271.6	276.5	282.5	284.4	290.6

* $50 million or less.

12. NATIONAL DEFENSE

Table 12–1. FEDERAL RESOURCES IN SUPPORT OF NATIONAL DEFENSE
(In millions of dollars)

Function 050	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	266,180	268,598	271,616	276,957	284,786	288,090	298,048
Mandatory Outlays:							
Existing law	–1,169	–997	–1,035	–1,033	–1,020	–1,009	–978
Credit Activity:							
Direct loan disbursements	....	7	....	175	345	319	334
Guaranteed loans	....	20	176	216	1,236	1,164	1,205
Tax Expenditures:							
Existing law	2,080	2,095	2,120	2,140	2,160	2,180	2,200

The Federal Government will allocate over $271 billion in 1999 to defend the United States, its citizens, its allies, and to protect and advance American interests around the world. National defense programs and activities ensure that the United States maintains strong, ready, and modern military forces to promote U.S. objectives in peacetime, deter conflict, and if necessary, successfully defend our Nation and its interests in wartime.

Over the past half-century, our defense program has deterred both conventional and nuclear attack on U.S. soil, and brought a successful end to the Cold War. Today, the United States is the sole remaining superpower in the world, with military capabilities unsurpassed by any nation. As the world's best trained and best equipped fighting force, the U.S. military continues to provide the strength and leadership that serve as the foundation upon which to promote peace, freedom, and prosperity around the globe.

Department of Defense (DOD)

The DOD budget provides for the pay, training, operation, basing, and support of U.S. military forces, and for the development and acquisition of modern equipment to:

- Shape the international environment by sustaining U.S. defense forces at levels sufficient to undertake our strategy of engagement, and conducting programs to reduce weapons of mass destruction, prevent their proliferation, and combat terrorism;
- Respond to the full spectrum of crises by deploying forces overseas and maintaining capabilities to mobilize forces stationed on U.S. soil;
- Prepare for an uncertain future by giving U.S. forces the military hardware that employs the best available technologies; and
- Ensure that the U.S. military remains the world's most prepared and capable force by sustaining force readiness levels and reengineering business practices to improve operations.

To achieve these objectives, DOD sustains the following capabilities.

Conventional Forces: Conventional forces include ground forces such as infantry and tank units; air forces such as tactical aircraft; naval forces such as aircraft carriers, destroyers, and attack submarines; and Marine Corps expeditionary forces. The Nation needs conventional forces to deter aggression and, when that fails, to defeat it. Funds to support these forces cover pay and benefits for military personnel; the purchase, operation, and maintenance of conventional systems such as tanks, aircraft, and ships; the purchase of ammunition and spare parts; and training.

Mobility Forces: Mobility forces provide the airlift and sealift that transport military personnel and materiel throughout the world. They play a critical role in U.S. defense strategy and are a vital part of America's response to contingencies that range from humanitarian relief efforts to major theater wars. Airlift aircraft provide a flexible, rapid way to deploy forces and supplies quickly to distant regions, while sealift ships allow the deployment of large numbers of heavy forces together with their fuel and supplies. The mobility program also includes prepositioning equipment and supplies at sea or on land near the location of a potential crisis, allowing U.S. forces that must respond rapidly to crises overseas to quickly draw upon these prepositioned items.

Strategic Nuclear Forces: Strategic nuclear forces are also important to our military capability. They include land-based intercontinental ballistic missiles, submarine launched ballistic missiles, and long-range strategic bombers. Within treaty-imposed limits, the primary mission of strategic forces is to deter nuclear attack against the United States and its allies, and to convince potential adversaries that they will never gain a nuclear advantage against our Nation.

Supporting Activities: Supporting activities include research and development, communications, intelligence, training and medical services, central supply and maintenance, and other logistics activities. In particular, the Defense Health Program provides health care through DOD facilities as well as through the CHAMPUS medical insurance program and TRICARE—its companion program.

DOD Performance

DOD has identified broad objectives and key performance indicators and quantitative measures that will determine whether it is achieving its major goals.

Shaping the International Environment: DOD's first goal is to shape the international environment by participating in international security organizations, such as NATO, and improving our ability to work cooperatively with our friends and allies. Such efforts are designed to promote regional stability and security, and reduce the threat of war. Their failure could lead to a major conflict affecting U.S. interests.

Evaluating DOD's performance in this area includes an assessment of:

- The ability of U.S. forces to enhance and sustain security relationships with friends and allies, enhance coalition warfighting, promote regional stability and support U.S. regional security objectives, deter aggression, and prevent or reduce the threat of conflict. For example, in 1999, the United States and Russia will conduct one Joint Theater Ballistic Missile Defense command post exercise.
- DOD's success in implementing threat reduction programs and arms control agreements, including inspection, verification, and monitoring programs.
- DOD's achievement of the force structure objectives of the Quadrennial Defense Review (QDR).

Responding to the Full Spectrum of Crises: DOD must be able to respond to the full spectrum of crises, from small-scale contingencies to two nearly simultaneous major theater wars.

In 1999, DOD and the relevant services will meet the following performance goals:

- The Air Force will maintain 20 Air Force Fighter wing equivalents, four air defense squadrons, 89 strategic bombers, and 550 intercontinental ballistic missiles.
- The Navy will maintain 11 aircraft wings and 314 battle force ships, including 12 aircraft carriers and 18 ballistic-missile submarines.
- The Army will maintain four active corps headquarters, 18 active and National Guard divisions, two active armored cavalry regiments, and 15 National Guard enhanced readiness brigades.
- The Marine Corps will maintain three active and one reserve divisions, three active

and one reserve wings, and three active and one reserve force service support groups.

Overseas presence, mobility, and the sustaining of a capable force structure are all key to DOD's ability to respond effectively to crises. DOD's effectiveness will be determined, in part, by the ability of U.S. forces "forward deployed" (that is, on site around the world) and those deploying from U.S. bases to rapidly converge at the scene of a potential conflict to deter hostilities and protect U.S. citizens and interests in times of crisis.

- In the Pacific, DOD will deploy one Army division, one Marine expeditionary force, two Air Force fighter wing equivalents, one Navy carrier battle group, and one amphibious ready group with an embarked Marine expeditionary unit.
- In Europe, DOD will maintain one Army armor division and one Army mechanized infantry division, two Air Force fighter wing equivalents, one carrier battle group, and one amphibious ready group with an embarked Marine expeditionary unit.
- In Southwest Asia, DOD will deploy at least one Air Force fighter wing equivalent, one carrier battle group, and one amphibious ready group with an embarked Marine expeditionary unit, in addition to materiel prepositioned in the region.

The amount of sealift and airlift capacity must be sufficient to meet deployment timelines for deterring and defeating large-scale, cross-border aggression in two distant theaters in overlapping time frames, and to sustain U.S. forces engaged in two major theater wars.

- In 1999, DOD will attain an organic strategic airlift capability of 26.5 million ton miles a day and will attain a surge sealift capacity of 7.8 million square feet.

Preparing Now for an Uncertain Future: U.S. forces must maintain a qualitative superiority over potential adversaries by pursuing a focused procurement and research and development program. Achieving this goal depends on ensuring that:

- DOD will acquire modern and capable weapon systems and will deliver them to U.S. forces in 25 percent less time, while ensuring that costs do not grow more than one percent a year by the year 2000 and meeting required performance specifications.

Remaining the World's Most Ready and Capable Force: Attaining this goal depends on four elements: ensuring the readiness of military units; retaining and recruiting high-quality personnel; strengthening and enhancing quality of life programs for military members and their families; and providing equal opportunity throughout the armed services.

DOD has identified specific milestones to measure progress in each area, such as the amount of training that individual units accomplish, the availability and operability of equipment, and the achievement of recruiting and retention goals.

- Several factors determine overall unit readiness, such as training, quality and availability of equipment, and number of personnel and, in 1999, DOD will ensure that all of its units meet their specified readiness goals.
- On average, the Army will attain 800 tank miles a year; the Air Force will achieve 20 flying hours per crew a month; the Marine Corps will fully execute its mission training syllabus; and the Navy will execute 50.5 deployed and 28 non-deployed ship steaming days per quarter.

In 1999, DOD also will:

- Recruit 191,300 new members of the armed services, obtain 60 percent of recruits from the top half of those tested for service, and achieve a 50 percent enlisted retention rate after the first term.
- Achieve all of its projected targets for its civilian work force reductions.

Exploiting the Revolution in Military Affairs: DOD will follow the strategy of Joint Vision 2010, developed by the Chairman of the Joint Chiefs of Staff, to transform U.S. forces for the future, and it will exploit emerging information technologies to reshape the way it fights and prepares for war.

Reengineering DOD's Infrastructure: DOD must develop new, innovative approaches to manage and reduce infrastructure costs. Following the end of the Cold War, the United States began a major reduction of its military forces. DOD's cuts in infrastructure costs, however, have not kept pace. To make further cuts, DOD plans to adopt innovative management techniques and technological practices. In addition, DOD will submit legislation to Congress proposing two more rounds of base closures and realignments in 2001 and 2005.

DOD has identified specific goals around which to focus the reform of business affairs.

By 1999, DOD will:

- Produce a Facility Strategic Plan to guide the acquisition, operation, maintenance, repair, renovation, and replacement of its physical plant.

By 2000, DOD will:

- Ensure that U.S. forces can achieve visibility of 90 percent of DOD materiel assets, while resupplying military peacekeepers and warfighters and reducing the 1997 average order-to-receipt time by half.
- Dispose of $2.2 billion in excess National Defense Stockpile inventories and $3 billion in unneeded Government personal property, while reducing supply inventory by $12 billion.
- Simplify purchasing and payment by using purchase card transactions for 90 percent of all DOD micropurchases, while reengineering the requisitioning, funding, and ordering processes.
- Create a world-class learning organization by offering 40 or more hours a year of continuing education and training to DOD's acquisition-related work force.
- Complete the disposal of half of the surplus real property, while privatizing 30,000 housing units.
- Cut paper acquisition transactions by half from 1997 levels through electronic commerce and electronic data interchange.
- Eliminate layers of management by streamlining processes, while cutting DOD's acquisition-related work force by 15 percent.

Department of Energy (DOE) Performance

DOE contributes to our national security mainly by reducing the global danger from nuclear weapons and other weapons of mass destruction. DOE is committed to maintaining confidence in the nuclear weapons stockpile without testing, as required under the Comprehensive Test Ban Treaty; to strengthen the nuclear nonproliferation regime; to work with states of the former Soviet Union to improve control of nuclear materials; to develop improved technologies to detect, identify, and respond to the proliferation of weapons of mass destruction and illicit materials trafficking; and to aggressively clean up the environmental legacy of nuclear weapons programs.

The budget proposes $12.1 billion to meet DOE's national security objectives, of which $6.1 billion is for ongoing national security missions to support DOD and other agencies.

DOE will achieve the following performance goals:

- Maintain and refurbish specific warheads in 1999, and certify that standards for safety, reliability, and performance of the nuclear weapons stockpile are met.
- Develop advanced simulation, modeling, and experimentation technologies to replace underground testing by 2004, including installing a computer system capable of three trillion operations per second in 1999.
- Dismantle about 500 nuclear weapons.
- Jointly, with Russia, test and demonstrate technologies to dispose of surplus weapons plutonium and begin to develop a pilot scale plutonium conversion system in Russia, design a full-scale pit disassembly and conversion facility, and procure mixed-oxide irradiation services in the United States.
- Complete 85 percent of the development of the next generation nuclear reactor plant for the Navy's new attack submarine.

The remaining $6 billion of DOE's national security funding addresses the environmental legacy of nuclear weapons activities.

DOE will meet the following performance goals:

- Reduce the number of geographical sites requiring high-risk environmental cleanup from 87 to 42 by the end of 1999.
- Close one high-level waste storage tank at the Savannah River site; and
- Stabilize and safely store or dispose of radioactive and hazardous wastes, including 37 tons of spent fuel, 134,000 cubic meters of low-level waste, about 150 canisters of high-level waste, 0.3 tons of plutonium at the Hanford site, and initial shipments of transuranic wastes at the Waste Isolation Pilot Plant, which will be opened for disposal in May 1998.

Other Defense-Related Activities

Other activities that support national defense and that are implementing performance measurement include programs involving the:

- Coast Guard, which supports the defense mission through overseas deployments for engagements with friends and allies, port security teams, boarding and inspection teams for enforcing U.N. sanctions, training, aids to navigation, international icebraking, equipment maintenance, and support of the Coast Guard Reserve;
- Federal Bureau of Investigation, which conducts counterintelligence and surveillance activities;
- Maritime Administration, which helps maintain a fleet of active, military useful, privately owned U.S. vessels that would be available in times of national emergency;
- Arlington National Cemetery, which is developing an expansion plan for using contiguous land sites that will be vacated by the Army, Navy, and Marine Corps; and
- Selective Service System, which is modernizing its registration process to promote military recruiting among registrants. This spirit of volunteerism will be achieved in partnership with the America's Promise group, private corporations, and the armed services.

Accurately Recognizing and Reporting Veterans Benefits

The Nation has long viewed veterans programs as a key way to attract the high-quality people needed for our volunteer armed forces. Americans recognize veterans benefits as an appropriate part of the compensation provided for service in the military. Veterans programs are inextricably linked with national defense; without defense, veterans programs would not exist.

Because the Veterans Affairs Department funds and administers these benefits, however, the Federal Government has accounted for them differently than other defense-related budget costs. They appear in the budget's Veterans Benefits and Services function, not the National Defense function.[1] Also, the budget does not report the full size of these obligations. Rather than recognize the benefits and future Federal obligations that military members earn through their service, the budget reports only the amounts paid in a single year to veterans. Thus, neither the Defense Department (DOD) nor Congress gets a full picture of defense personnel costs when making decisions about the size and scope of our military, making it far harder to consider which package of benefits might best attract and retain quality military personnel. Finally, the 1993 Government Performance and Results Act encourages policy makers to align missions and related Government programs in the budget.

The Administration, which plans to work with Congress this year to address this problem, believes that any of the following four options would improve the current budgetary treatment of veterans programs, enabling the Government to more accurately measure the true cost of our national defense: (1) move the veterans-related discretionary accounts into the Defense function; (2) fund veterans entitlements on an accrual basis in DOD's budget and fund discretionary veterans programs in the Defense function; (3) fund veterans entitlements on an accrual basis in DOD's budget and display veterans spending in related functions (e.g., Education); or (4) fund veterans entitlements on an accrual basis in DOD's budget and continue to reflect veterans spending in its current function.

Table 12–2 below shows the estimated annual charges to DOD's military personnel account from pre-funding veterans benefits.

Table 12–2. ACCRUING VA BENEFITS FOR CURRENT MILITARY PERSONNEL

(Notional Costs of Accruing and Actuarially Funding VA Benefits in DOD Budget)

Program	Percentage of DOD Basic Pay[2]	1999 DOD Notional Cost (in millions of dollars)
VA Compensation	11.6%	3,960
Active Duty Education	1.6%	546
VA Loans	0.2%	68
Vocational Rehabilitation and Counseling	0.9%	307
VA Pensions	2.5%	853
VA Burial	0.1%	34
Total VA Benefits	**16.9%**	**5,768**

[1] For a more detailed discussion of veterans programs, see Chapter 26, "Veterans Benefits and Services."
[2] Basic pay for military personnel does not include benefits, special and incentive pay or bonuses, or housing and subsistence allowances.

13. INTERNATIONAL AFFAIRS*

Table 13–1. FEDERAL RESOURCES IN SUPPORT OF INTERNATIONAL AFFAIRS
(In millions of dollars)

Function 150	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	18,150	19,034	20,150	19,234	18,947	18,836	18,777
Mandatory Outlays:							
Existing law	–3,754	–4,464	–4,130	–3,764	–3,637	–3,396	–3,201
Credit Activity:							
Direct loan disbursements	1,755	2,148	2,050	2,770	1,831	1,548	1,524
Guaranteed loans	13,022	12,826	12,188	12,747	13,357	13,867	13,884
Tax Expenditures:							
Existing law	7,090	7,685	8,305	8,950	9,625	10,335	11,045
Proposed legislation	....	....	–580	–1,356	–1,456	–1,545	–1,634

The Administration proposes $20.2 billion for International Affairs programs in 1999, including arrears on contributions to the multilateral development banks (MDBs). By fully funding these programs, the United States can continue to provide critical international leadership to accomplish key strategic goals, such as enhancing national security, fostering world-wide economic growth, supporting the establishment and consolidation of democracy, and improving the global environment and addressing other key global issues. The State Department outlined these goals more fully in its September 1997 report, "United States Strategic Plan for International Affairs."

The performance goals that follow are from agency strategic or performance plans. In addition to these goals, agencies have established other performance goals for themselves to ensure that they fulfill their legislative mandates in ways that also contribute to U.S. national interests.

National Security

U.S. security depends on active diplomacy, steps to resolve destabilizing regional conflicts, and vigorous efforts to reduce the continuing threat of weapons of mass destruction. Strong diplomatic engagement depends on a clear foreign policy vision, built on a vigorous, carefully coordinated process of formulating policy.

A strong, active United Nations enhances U.S. diplomatic efforts, and the budget proposes to fund assessed contributions to this and other international organizations, as well as annual assessed and voluntary peacekeeping contributions. The budget also proposes the necessary funds to support the Middle East peace process through the Economic Support Fund (ESF) and the Foreign Military Financing (FMF) programs. ESF also provides direct assistance to address the root causes of other regional conflicts, such as the lack of fair and effective systems of justice, and FMF also provides funds to help the incoming NATO members—Poland, Hungary, the Czech Republic, and other East European nations.

Economic and reconstruction assistance and police training are critical to our effort to support the Dayton Accords on Bosnia, and funding under the FREEDOM Support Act helps foster the transition to market democracies in the former Soviet Union. Finally,

*Revised February 27, 1998.

the budget fully supports further progress on our efforts to control weapons of mass destruction by funding the Arms Control and Disarmament Agency (ACDA) and other programs that seek to negotiate cuts in, or the elimination of, such weapons.

Relevant agencies will meet the following performance goals in 1999:

- The State Department, in seeking to advance the Middle East peace process, will achieve significant progress towards fulfilling the goals of the Oslo Accord.
- The State Department will avert or defuse regional conflicts where critical national interests are at stake through bilateral U.S. assistance and U.N. peacekeeping activities.
- The State and Defense Departments will ensure that the armed forces of NATO's "candidate countries" can operate in a fully integrated manner with other NATO forces upon their planned entry into NATO.
- The State and Defense Departments and the Agency for International Development (USAID) will achieve significant progress toward implementing the Dayton Accords in Bosnia.
- The State Department and USAID will help Russia and the other former Soviet republics strive to achieve a per capita Gross Domestic Product (GDP) growth rate, a share of GDP generated by the private sector, and an average of Freedom-House indicators of democratic and political liberties higher than the comparable 1997 levels.
- The State Department and ACDA will achieve full compliance with, and verification of, treaties regarding weapons of mass destruction and, if necessary, combat suspected development programs.
- The State Department will fully certify mission critical systems for year 2000 compliance and complete a world-wide upgrade of the information technology infrastructure that supports U.S. embassies and consulates.

Economic Prosperity

International affairs activities increase U.S. economic prosperity in four ways.

First, the U.S. Trade Representative (USTR), supported by the State Department and other agencies, works to reduce barriers to trade in U.S. goods, services, and investments by negotiating new trade liberalizing agreements and strictly enforcing existing agreements.

Second, the Export-Import Bank (Eximbank) and the Trade and Development Agency (TDA) provide grant and credit financing to correct market distortions that can put U.S. exports at a competitive disadvantage, and the budget provides a major increase in Eximbank funding to cover increased demand from U.S. exporters. The Overseas Private Investment Corporation (OPIC) provides investment insurance and financing for development projects with U.S. trade benefits.

Third, development assistance from the MDBs and USAID, along with debt reduction, help increase economic growth in developing and transitioning countries, creating new markets for U.S. goods and services and reducing the economic causes of instability in these regions.

Fourth, the International Monetary Fund (IMF) is instrumental in maintaining the underlying economic prerequisites for prosperity world wide by mitigating the effects of country and regional financial crises, such as those recently experienced in Asia, while helping individual developing countries to create and maintain stable market-oriented economies.

Relevant agencies will meet the following performance goals in 1999:

- USTR will negotiate cuts in specific, identified barriers to U.S. and global trade, many of which will require fast-track negotiating authority, and will effectively enforce international trade agreements.
- The Export-Import Bank will develop new mechanisms to expand the availability of financing for U.S. exports by pioneering joint ventures with the private sector, as well as innovative financing programs that

will increase the Bank's support for small and medium-sized exporters.

- OPIC will increase, from 1997 levels, the amount of U.S. investment in developing countries assisted through OPIC-sponsored projects.
- TDA will increase, from 1997 levels, the ratio of TDA-supported exports to TDA expenditures and the percentage of TDA projects that ultimately yield U.S. exports.
- USAID, through bilateral assistance, and the Treasury Department, through its contributions to the MDBs, will provide assistance that helps to increase the real annual per capita GDP growth rate from 1997 levels in developing countries.
- Treasury will work to provide the IMF with sufficient resources to address monetary crises in Asia and other parts of the world and reduce the amount of supplemental U.S. bilateral resources needed to address these crises.
- The Administration will work with Congress to enact the African Growth and Opportunity Act and implement the President's Partnership for Economic Growth and Opportunity in Africa Initiative.

American Citizens and U.S. Borders

The State Department, through the U.S. passport office and the network of embassies and consulates overseas, helps and protects Americans who travel and reside abroad—most directly through various consular services, including citizenship documentation and help in emergencies. The Department also helps to control how immigrants and foreign visitors enter and remain in the U.S. by effectively and fairly administering U.S. immigration laws overseas and screening applicants, in order to deter illegal immigration and prevent terrorists, narcotics traffickers, and other criminals from entering the United States.

The State Department will meet the following performance goals in 1999:

- Improve U.S. passport security by issuing U.S. passports with a digitized passport photo.
- Maintain uninterrupted screening capabilities to ensure that only qualified applicants receive visas for travel to the United States.
- Complete the world-wide modernization of consular systems and meet year 2000 requirements, thus ensuring border security.

Law Enforcement

The expansion and rising sophistication of transnational crime represents a growing threat to the property and well-being of U.S. citizens. In particular, the threat of terrorism and the continued supply of illegal drugs to the United States represent direct threats to our national security. The budget funds the State Department's diplomatic efforts to convince other countries to work cooperatively to address international criminal threats; it also funds assistance and training that helps other countries combat corruption, terrorism, and illegal narcotics, and provides the developing countries with economic alternatives to narcotics cultivation and export.

The State Department, working with the Departments of Justice, Treasury, and Defense, will meet the following performance goals in 1999:

- Increase, from 1997 levels, the number of foreign governments that enact and enforce legislation to combat corruption, money laundering, and other transnational criminal activities.
- Reduce, from 1997 levels, the hectares of coca and opium poppies being cultivated in producing countries.

Democracy

Advancing U.S. interests in the post-Cold War world often requires efforts to support democratic transitions, address human rights violations, and promote U.S. democratic values. The budget supports these efforts in two ways. First, it funds the State Department's diplomatic efforts that discourage other nations' interference with the basic democratic and human rights of their citizens, and it funds direct foreign assistance through USAID and other agencies that helps countries develop the institutions and legal structures for the transition to democracy. Second, it promotes democracy by funding exchanges of people and ideas with other countries. The exchange, training, and foreign broadcasting programs of the U.S. Information Agency (USIA) seek to spread U.S. democratic values throughout the world and ensure that Americans understand and value the peoples and cultures of other nations.

Relevant agencies will meet the following performance goals for 1999:

- The State Department, USAID, and USIA will provide assistance that lead to the improvement of Freedom House ratings of countries in which the United States is assisting the transition to democracy.
- As a result of State Department diplomacy and direct assistance, the instances of human rights abuses as reported by the State Department in the annual U.S. Report on Human Rights will be reduced from 1997 levels.
- USIA will increase, from 1997 levels, the support for democracy, democratic institutions, and human rights in selected countries that participate in USIA programs, as measured through polling.

Humanitarian Response

U.S. values demand that we help alleviate human suffering from foreign crises, whether man-made or natural, even in cases with no direct threat to U.S. security interests. The budget provides the necessary funds to address and, where possible, try to prevent, humanitarian crises through USAID's Foreign Disaster Assistance and Transition Initiatives programs, through the State Department's Migration and Refugee Assistance program, and through food aid provided under "Public Law 480" authorities. Much of this funding is implemented through U.S. private voluntary organizations that provide humanitarian, as well as development, assistance overseas. The budget also funds a significant contribution to the UNICEF program of the United Nations, and a significant increase for U.S. bilateral demining efforts to address the growing humanitarian crisis caused by landmines in areas of former conflict.

Relevant agencies will meet the following performance goals for 1999:

- USAID, in conjunction with other public and private donors, will provide humanitarian assistance that will maintain the nutritional status of children aged five or under living in regions affected by humanitarian emergencies.
- The State Department will reduce refugee populations, from 1997 levels, through U.S.-sponsored integration, repatriation, and resettlement activities.
- The State Department will increase, from 1997 levels, the number of mines detected and neutralized.

Global Issues

The global problems of environmental degradation, population growth, and the spread of communicable diseases directly affect future U.S. security and prosperity. As a result, the Nation has targeted significant diplomatic and assistance efforts to address these issues. For example, the State Department's negotiation of the Kyoto global climate change treaty and USAID's five-year, $1 billion global climate change assistance effort will reduce the threat of this global problem. Full funding of current commitments and arrears to the Global Environment Facility remains critical to this effort.

Similarly, U.S. leadership, USAID assistance efforts, and funding of the U.N. Population Fund are critical to maintain the rate of increase in global prosperity, reduce the pressures of illegal immigration on the U.S. economy, and help alleviate the causes of regional conflict. U.S. support, mainly through USAID, for bilateral and multilateral activities to reduce the global threat of AIDS, malaria, tuberculosis, and other communicable diseases not only saves the lives of millions of children world-wide but also reduces the direct threat to the United States that these diseases pose if they spread unchecked.

Finally, the volunteer programs of the Peace Corps serve U.S. national interests by promoting mutual understanding between Americans and the people of developing or transitional nations and providing technical assistance on a range of issues to interested countries that request it.

Relevant agencies will meet the following performance goals in 1999:

- The State Department and USAID, working with the Environmental Protection Agency and with other bilateral and multilateral donors, through diplomacy and foreign assistance will slow the rate of increase, from 1997 levels, of climate change gas emissions among key developing nation emitters.
- USAID will provide assistance in conjunction with other donors that will cut, from 1997 levels, the total fertility rates in developing countries.
- USAID, working with the Department of Health and Human Services and with other bilateral and multilateral donors, will provide assistance that will reduce, from 1997 levels, the infant mortality rate and the rate of new cases of AIDS, malaria, tuberculosis and other critical communicable diseases in developing countries.
- The Peace Corps will provide opportunities for 50 percent more Americans than in 1997 to enter service as new volunteers.
- The Peace Corps will increase Americans' understanding of other peoples by tripling, from 1997 levels, the number of American teachers participating in the World Wise Schools partnership with Peace Corps volunteers, bringing the total number of teachers to 10,000.

14. GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Table 14–1. FEDERAL RESOURCES IN SUPPORT OF GENERAL SCIENCE, SPACE, AND TECHNOLOGY

(In millions of dollars)

Function 250	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	16,641	17,914	18,459	18,479	18,735	18,977	19,091
Mandatory Outlays:							
Existing law	25	40	37	37	34	31	31
Tax Expenditures:							
Existing law	1,075	2,555	1,440	1,055	905	820	795
Proposed legislation	....	365	802	608	261	124	49

Science and technology are the principal agents of change and progress, with over half of the Nation's economic productivity in the last 50 years attributable to technological innovation and the science that supported it. Appropriately enough, the private sector makes many investments in technology development. The Federal Government, however, also has a role to play—particularly when risks are too great or the return to companies is too small.

Within this function, the Federal Government supports areas of science at the cutting edge, through the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and the Department of Energy (DOE) science programs. The activities of these agencies contribute to greater understanding of the world we live in, ranging from the edges of the universe to the smallest imaginable particles, and to new knowledge that may or may not have immediate applications to improving our lives. Because the results of basic research are unknowable in advance, the challenge of developing performance goals for this area is formidable.

Each of these agencies has a tradition of funding high-quality research and contributing to the Nation's cadre of skilled scientists and engineers. To continue this tradition, and as a general goal for activities under this function, at least 80 percent of the research projects [1] will be reviewed by appropriate peers and selected through a merit-based competitive process.

An important Federal role in this area is to construct and operate major scientific facilities and capital assets for multiple users. These include telescopes, satellites, oceanographic ships, and particle accelerators. Many of today's fast-paced advances in medicine and other fields rely on these facilities.

As general goals:

- Agencies will keep the development and upgrade of these facilities on schedule and within budget, not to exceed 110 percent of estimates.
- In operating the facilities, agencies will keep the operating time lost due to unscheduled downtime to less than 10 percent of the total scheduled possible operating time, on average.

[1] Measured by the amount of funds allocated, not the number of projects.

The budget proposes $18.5 billion to conduct these activities. The Government also seeks to stimulate private investment in these activities through over $2 billion a year in tax credits and other preferences for research and development (R&D).

National Aeronautics and Space Administration

The budget proposes $12.3 billion for NASA activities in this function. While NASA's funding represents just 12 percent of total Federal funds for R&D, NASA serves as the lead Federal agency for R&D in civil space activities, working to expand frontiers in air and space to serve America and improve the quality of life on Earth. NASA pursues this vision through balanced investment in space science, Earth science, space transportation technology, and human exploration and development of space.

The 1999 goals for these enterprises follow.

Space Science programs, for which the budget proposes $2.1 billion, are designed to enhance our understanding of how the universe was created, the formation of planets, and the possible existence of life beyond Earth. NASA has enjoyed major successes of late, including the landing on Mars with Mars Pathfinder.

- NASA space science will successfully launch its four planned spacecraft missions—Mars 98 lander, Stardust, and two Explorer missions—within 10 percent of its schedule and budget.
- NASA space science will increase its contribution to the general knowledge base and to education, as reflected by its contributions to a college space science textbook, to a level at least equal to the 1996 level of 27 percent.
- The NASA Advisory Council will rate all near-term space science objectives as being met or on schedule. Examples of objectives include: investigate the composition, evolution and resources of Mars, the Moon, and small solar system bodies such as asteroids and comets; identify planets around other stars; and observe the evolution of galaxies and the intergalactic medium.

Earth Science programs, for which the budget proposes $1.4 billion, focus on increasing our understanding of the total Earth system and the effects of natural and human-induced changes on the global environment through long-term, space-based observation of Earth's land, oceans, and atmospheric processes. NASA will launch the first in a new series of Earth Science spacecraft in 1998.

- NASA Earth Science will successfully launch its four planned spacecraft missions—Quikscat, the Advanced Land Imager, a Geostationary Operational Environmental Satellite, and the Shuttle Radar Topography mission—within 10 percent of its schedule and budget.
- NASA will obtain new data on precipitation, land surface, and climate, and will deliver the data to users within five days.
- NASA's Advisory Council will rate all near-term earth science objectives as being met or on schedule. Examples of objectives include: observe and document land cover and land use change and impacts on sustained resource productivity; and understand the causes and impacts of long-term climate variations on global and regional scales.

Space Transportation Technology programs, for which the budget proposes $400 million, work with the private sector to develop and test experimental launch vehicles that cut the cost of access to space.

- The X-33 program will begin flight tests in 1999 and demonstrate, by year-end, key technologies to cut the cost of space transportation. These technologies will be directly scaleable to the mass fraction (less than 10 percent empty vehicle weight) required for future reusable launch vehicles and meet the following operational requirements: flights faster than Mach 13; 48-hour and seven-day ground turnarounds; and 50-person maintenance crews.
- The X-34 program will perform 25 flight tests in one year, starting no later than March 1999, to demonstrate the operational parameters of future reusable launch vehicles. These parameters include:

recurring costs under $500,000; 24-hour ground turnarounds; safe abort landings; landings in cross winds up to 20 knots; and flights through rain and fog.

Human Exploration and Development of Space (HEDS) programs, for which the budget proposes $5.8 billion, focus on human space exploration. In 1997, HEDS programs supported the successful launch of eight Space Shuttle flights, a continuous U.S. presence on the Russian Mir space station, and continued construction of the International Space Station. In 1998, assembly of the International Space Station will begin in Earth orbit.

For 1999, the performance goals include the following:

- NASA will successfully complete Phase 2 (the first ten assembly flights) of the International Space Station within performance, schedule, and budget targets.
- NASA will ensure that space shuttle safety, reliability and cost will improve, by achieving seven or fewer flight anomalies per mission, successful on-time launches 85 percent of the time, and a 13-month flight manifest preparation time.
- NASA will expand human presence and scientific resources in space by increasing the amount of crew time in orbit to 185 weeks.
- NASA-supported scientific research in life and microgravity sciences will broaden, as indicated by a rise in the number of resulting journal publications to 1,600.

National Science Foundation

NSF-supported activities have led to breakthroughs and advances in many areas, including superconducting materials, Doppler radar, the Internet and World Wide Web, medical imaging systems, computer-assisted-design, genetics, polymers, plate tectonics, and global climate change. While NSF represents just three percent of Federal R&D spending, it supports nearly half of the non-medical basic research conducted at academic institutions. NSF also provides 30 percent of Federal support for mathematics and science education. NSF programs involve over 25,000 senior scientists; 50,000 other professionals, graduate students, and undergraduate students; and 120,000 K-12 teachers.

The budget proposes $3.7 billion in 1999 for NSF, which it would invest in four key program functions:

Research Project Support: Over half of NSF's resources support research projects performed by individuals and small groups, instrumentation, and centers.

- An independent assessment will judge NSF's portfolio of research programs to have the highest scientific quality and an appropriate balance of projects characterized as high-risk, multidisciplinary, or innovative.
- NSF will ensure that all of its new announcements of research opportunities and proposal solicitations will contain an explicit statement encouraging proposers to integrate their research activities with improving education or public understanding of science.
- NSF will increase the percentage of competitive awards going to new investigators to at least 30 percent, a 2.6-percent rise over a baseline of 27.4 percent.

Facilities: Facilities such as observatories, particle accelerators, research stations, and oceanographic research vessels provide the platforms for research in fields such as astronomy, physics, and oceanography. About 20 percent of NSF's budget supports large, multi-user facilities required for cutting-edge research. NSF facilities will meet the function-wide goals to remain within cost and schedule, and to operate efficiently.

Education and Training: Education and training activities, accounting for 20 percent of NSF's budget, revolve around efforts to improve teaching and learning in science, mathematics, engineering, and technology at all education levels. Education and training projects develop curriculum, enhance teacher training, and provide educational opportunities for students from pre-K through undergraduate degrees. NSF also contributes to the education of future scientists and engineers by supporting graduate students and postdoctoral programs.

- Over 80 percent of schools participating in a systemic initiative program will: 1) implement a standards-based curriculum in science and mathematics; 2) further professional development of the instructional workforce; and 3) improve student achievement on a selected battery of tests, after three years of NSF support.
- NSF will fund intensive professional development experiences for at least 75,000 precollege teachers.

Administration and Management: NSF does not operate programs or laboratories; rather, the agency supports research and education activities, conducted primarily at colleges and universities, selected through a competitive, merit-based process.

Performance goals for 1999 include:

- processing 70 percent of grant proposals within six months of receipt, and
- publishing 95 percent of program announcements at least three months before proposals are due.

Department of Energy

DOE provides major scientific user facilities and sponsors basic scientific research in specific fields, such as high energy and nuclear physics and materials, chemical, biological, and environmental sciences. It supports over 60 percent of federally-funded research in the physical sciences.

The budget proposes $2.5 billion for DOE science programs, which include high energy and nuclear physics, basic energy sciences, biological and environmental research, and computational technology research. These programs support scientific facilities for high energy and nuclear physics, and also support the research performed by the users of the facilities. They also provide and operate synchrotron light sources, neutron sources, supercomputers, high-speed networks, and other instruments that researchers use in fields ranging from biomedicine to agriculture, geoscience, materials, and physics. These state-of-the-art scientific facilities provide the cutting edge experimental and theoretical techniques that provide insights into dozens of applications, and they are available, on a competitive basis, to researchers funded by NSF, other Federal agencies, and public and private entities. DOE's facilities will meet the function-wide goals to remain within cost and schedule, and to operate efficiently.

The 1999 goals for these programs follow.

Basic Energy Sciences (BES) supports basic research in the natural sciences for new and improved energy techniques and technologies, and to understand and mitigate the environmental impacts of energy technologies.

- BES will start construction of the Spallation Neutron Source to provide beams of neutrons used to probe and understand the physical, chemical, and biological properties of materials at an atomic level—leading to better fibers, plastics, catalysts, and magnets and improvements in pharmaceuticals, computing equipment, and electric motors.
- An independent assessment will judge BES research programs to have high scientific quality.

Computational Technology Research (CTR) performs long-term computational, technology, and advanced energy projects research through an integrated program in applied mathematical sciences, high performance computing and communications, information infrastructure, advanced energy projects research, and laboratory technology research.

- CTR will complete prototype development of the "virtual lab" approach and implement at least three program trial applications.
- Users will judge that computer facilities and networks have met 75 percent of their requirements.

Biological and Environmental Research (BER) provides fundamental science to develop the knowledge to identify, understand, and anticipate the long-term health and environmental consequences of energy production, development, and use.

- BER will complete sequencing of 40 million subunits of human DNA to submit to publicly accessible databases.

- BER will complete 70 percent of the genetic sequencing of over 10 additional microbes with significant potential for waste cleanup and energy production.

High Energy and Nuclear Physics (HENP) strives to deepen understanding of the nature of matter and energy at the most fundamental level, as well as understanding of the structure and interactions of atomic nuclei.

- An independent assessment will judge HENP research programs to have high scientific quality.

- HENP will begin operating the B-factory at the Stanford Linear Accelerator Center, the Main Injector for the Tevatron at Fermilab, and the Relativistic Heavy Ion Collider at Brookhaven National Laboratory, and will deliver on the 1999 U.S./DOE commitments to the international Large Hadron Collider project. These facilities will provide cutting-edge scientific capabilities to further study the fundamental constituents of matter. For example, the B-factory will illuminate the basic question of why matter exists in the universe.

Tax Incentives

Along with direct spending on R&D, the Federal Government has sought to stimulate private investment in these activities with tax preferences. The law provides a 20-percent tax credit for private research and experimentation expenditures above a certain base amount. The credit, which was extended in 1997, is due to expire on June 30, 1998. The President proposes to extend it for one year—that is, through June 1999. Under current law, the credit will cost $2.1 billion in 1998 and $860 million in 1999.

A permanent tax provision also lets companies deduct, up front, the costs of certain kinds of research and experimentation, rather than capitalize these costs; this tax expenditure will cost $580 million in 1999. Finally, equipment used for research benefits from relatively rapid cost recovery; the cost of this tax preference is calculated in the tax expenditure estimate for accelerated depreciation of machinery and equipment.

15. ENERGY

Table 15–1. FEDERAL RESOURCES IN SUPPORT OF ENERGY
(In millions of dollars)

Function 270	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	4,222	2,823	3,500	3,164	3,111	3,015	3,009
Mandatory Outlays:							
Existing law	–3,431	–2,830	–4,569	–3,280	–3,337	–3,347	–3,268
Credit Activity:							
Direct loan disbursements	1,029	1,992	1,562	1,401	1,337	1,255	1,451
Tax Expenditures:							
Existing law	1,960	1,965	1,990	2,070	2,045	2,040	1,880
Proposed legislation	....	–10	411	563	556	776	1,183

Federal energy programs contribute not just to energy security, but to economic prosperity and environmental protection. Funded mainly through the Energy Department (DOE), they range from protecting against disruptions in petroleum supplies, to conducting research on renewable energy sources, to developing advanced semiconductors. The Administration proposes to spend $3.5 billion for these programs. In addition, the Federal Government allocates about $2 billion a year in tax breaks mainly to encourage development of traditional and alternative energy sources.

The Federal Government has a longstanding and evolving role in energy. Most Federal energy programs and agencies have no State or private counterparts and clearly involve the national interest. The federally-owned Strategic Petroleum Reserve, for instance, protects against supply disruptions and the resulting consumer price shocks, while Federal regulators protect public health and safety and the environment and ensure fair, efficient energy rates. DOE's applied research and development (R&D) programs in fossil, nuclear, and solar/renewable energy and energy conservation speed the development of technologies, usually through cost-shared partnerships with industry, that provide social benefits that industry would not undertake alone. The programs not only open new opportunities for American industry, but reach beyond what the marketplace demands today, putting the Nation in a better position to meet the demands of tomorrow.

Corporate Management

Because DOE spends over 90 percent of its budget through management and operating (M&O) contracts, it is working hard to improve its management practices and achieve more for less cost. DOE is undertaking important, Department-wide management improvement initiatives in two areas—contract reform and information technology management:

- In 1999, to improve contracting practices, DOE will increase competition and convert all M&O contracts as they are extended or completed and half of its service contracts to performance-based contracts; and
- In 1999, to improve its management of information technology systems, DOE will eliminate year 2000 computer problems for all mission critical systems and integrate information technology investment and management decisions under its Chief Information Officer.

DOE corporate management also ensures that its work is done with a concern for the environment, safety, and health (ES&H) of its workers and the public. DOE is shifting from a reactive approach to ES&H matters to one that stresses prevention and integrates sound ES&H management practices into DOE's day-to-day work.

- In 1999, DOE will implement integrated safety management systems at 10 priority facilities and in all major M&O contracts.
- In 1999, DOE will conduct self-assessments at all DOE sites to identify ES&H deficiencies and vulnerabilities, and develop and pursue corrective action plans.

Energy Resources

DOE maintains the Strategic Petroleum Reserve (SPR) and operates various R&D investments to protect against petroleum supply disruptions and reduce the environmental impacts of energy production and use. Created in 1975, the SPR now has 563 million barrels of crude oil in underground salt caverns at four Gulf Coast sites. The SPR helps protect the economy and provide flexibility for the Nation's foreign policy in case of a severe energy supply disruption. As the United States entered the Persian Gulf War in 1991, for instance, President Bush announced an energy emergency, prompting a SPR draw-down that—along with the Allied nations' early, overwhelming military success—caused oil prices to drop by $10 per barrel (or, by about a third of their price).

- In 1999, DOE will maintain its capability to reach its SPR drawdown rate of about four million barrels a day within 15 days and to maintain this rate for at least 90 days.

DOE's energy R&D investments cover a broad array of resources and technologies to make the production and use of all forms of energy—including solar and renewables, fossil, and nuclear—more efficient and less environmentally damaging. As the President's Committee of Advisors on Science and Technology has noted, Federal R&D support can help develop these technologies that benefit society by cutting emission rates of greenhouse gases, acid rain precursors, and air pollutants. These investments not only lay the foundation for a more sustainable energy future but also open major international markets for manufacturers of advanced U.S. technology.

Energy conservation programs, for which the budget proposes $809 million, are designed to improve the fuel economy of various transportation modes, increase the productivity of our most energy-intensive industries, and improve the energy efficiency of buildings and appliances. They also include grants to States to fund energy-efficiency programs, low-income home weatherization, and the administration of minimum energy-efficiency standards for many major home appliances. Each of these activities benefits our economy and reduces emissions of carbon dioxide and other greenhouse gases. Many of the programs rely on partnerships with the private sector to leverage Federal spending with industry cost-sharing and to increase the likelihood that the technologies will be used commercially. Energy-efficiency technologies that have already come to market include heat-reflecting windows, high-efficiency lights, geothermal heat pumps, high-efficiency electric motors and compressors, and software for designing energy-efficient buildings. Meanwhile, five other technologies available for at least five years have generated over $11 billion in total consumer and business energy savings to date.

In 1999, DOE's Energy Conservation program will:

- Expand the Clean Cities program to create continuous corridors of alternative transportation fuel availability in and between 10 major urban centers;
- Bring together over 600 utility partners in a Climate Challenge forum in which the utilities exchange lessons-learned on voluntary efforts to reduce greenhouse gas emissions; and
- Weatherize 77,000 low-income homes.

Solar and renewable energy programs, for which the budget proposes $372 million, focus on technologies that will help the Nation use its abundant renewable resources such as wind, solar, and biomass to produce low-cost, clean energy that contributes no net carbon dioxide to the atmosphere. The United

States is the world's technology leader in wind energy, with a growing export market and production costs that have fallen below five cents per kilowatt-hour. In addition, photovoltaics are becoming more useful in remote power applications, and construction is beginning on the first large-scale facilities to produce ethanol from cellulosic agricultural waste. DOE also is coordinating the President's Million Solar Roofs initiative, and States, cities, and Federal agencies to date have pledged 470,000 solar roof installations (a mixture of solar heat/hot water and photovoltaics) over the next 10 years.

In 1999, DOE's Solar and Renewable Energy program will:

- Support the President's Million Solar Roofs initiative through partnerships and technical assistance so that at least 7,000 solar roofs will be installed in 1999;
- Complete five commercial-scale demonstrations of the use of biofuels in powerplants by co-firing coal with at least five percent biomass fuel; and
- Install 20 manufacturing prototype and four advanced prototype 25-kW dish/engine solar thermal systems at utility/field sites through the Utility-Scale Joint Venture Program.

Both the energy-efficiency and renewable energy (EERE) programs have established goals to ensure that their research programs are cost-effective and high quality.

Performance measures include:

- Continued use of cost-sharing as a major program criterion in cooperative agreements and industry partnerships. In 1999, DOE/EERE will maintain an industry cost-share level of over 40 percent, when averaged across all work with industry.
- Every EERE program will develop progress milestones and estimates of energy-related program benefits annually. At least 25 percent of the milestones and estimated benefits will undergo external peer review each year, with a goal of having all milestones and estimated benefits peer-reviewed at least once every four years.
- Cumulative consumer economic savings from past and current EERE programs will exceed $11 billion in 1999.

DOE's energy efficiency and renewable energy programs form a major part of the Administration's Climate Change Technology Initiative, which aims to find ways to reduce emissions of carbon dioxide and other greenhouse gases in ways that benefit our economy rather than constrain it. (For more details, see Chapter 6, "Promoting Research.") For most of this century, America's comparative advantage in international competition has been technology, and DOE's research and development programs are designed to maintain that advantage into the next century.

Fossil fuel energy R&D programs, for which the budget proposes $383.4 million, help industry develop advanced technologies to produce and use coal, oil, and gas resources more efficiently and cleanly. Federally-funded development of clean, highly-efficient gas-fired and coal-fired generating systems aim to reduce greenhouse gas emission rates, while reducing electricity costs compared to currently available technologies. The programs also help boost the domestic production of oil and natural gas by funding R&D projects with industry to cut exploration, development, and production costs.

In 1999, DOE will:

- Demonstrate four advanced drilling and completion technology systems that could ultimately add six trillion cubic feet (TCF) of domestic gas reserves, including one TCF through 1999;
- Demonstrate four advanced production enhancement technologies that could ultimately add 190 million barrels of domestic oil reserves, including 30 million barrels during 1999; and
- Complete full-scale component testing of two advanced, utility-scale turbines with over 60 percent efficiency when used in combined cycles and with ultra-low nitrogen oxides emissions.

Nuclear fission power is a widely used technology, with the potential for further growth, particularly in Asia. Fission technology provides over 20 percent of the electric power consumed in the United States and about 17 percent worldwide without generating greenhouse gases. If fossil plants were used to produce the amount of electricity generated by these nuclear plants, more than 300 million additional metric tons of carbon would be emitted each year. Since World War II, the United States has been the international leader in all nuclear energy matters. World leadership in nuclear technologies and the underlying science is vital to the United States from the perspectives of national security, international influence, and global stability. R&D will help determine whether nuclear fission can fulfill its potential as a contributor to the goal of reducing greenhouse gas emissions. In 1999, DOE will:

- Work with its laboratories, universities and industry to develop a competitive R&D program to address problems that may prevent continued operation of current nuclear plants and fund the initiative at $10 million a year, to be matched by industry.
- Establish a peer-reviewed Nuclear Energy Research Initiative, initially funded at $25 million a year, for investigator-initiated ideas to address the difficult issues of waste, safety, proliferation, and cost.
- Complete a demonstration of electrometallurgical methods to permanently immobilize spent nuclear fuel from the shutdown Experimental Breeder Reactor-II and evaluate whether the technology is a cost-effective means of processing DOE spent nuclear fuels.

Environmental Quality

DOE manages the Nation's most complex environmental cleanup program, the result of over four decades of research and production of nuclear energy technology and materials at both Federal and private sector locations. (For information on DOE's Defense Environmental Management program, see Chapter 12, "National Defense.") The Department must also develop a long-term solution to the problem that the Nation's commercial spent nuclear fuel poses.

In the area of Environmental Management, the budget proposes $934 million to reduce environmental risk and manage the waste at: (1) sites run by DOE's predecessor agencies that involved researching and producing uranium and thorium; (2) sites contaminated with uranium production from the 1950s to the 1970s; and (3) DOE's uranium processing plants that the United States Enrichment Corporation runs. In recent years, the cleanup and safe disposal of radioactive and hazardous wastes and materials has progressed substantially.

In 1999, DOE will:

- Have over 60 percent of the contaminated sites associated with 11 large facilities cleaned up, allowing these sites and facilities to return to productive use;
- Make ready for disposal about 70 percent of the high-level waste at its West Valley, New York site; and
- Complete surface remediation of the eight remaining Uranium Mill Tailings Remedial Action (UMTRA) sites to complete this part of the UMTRA project.

DOE's Civilian Radioactive Waste Management Program oversees the management and disposal of spent nuclear fuel from commercial nuclear reactors and high-level radioactive waste from Federal cleanup sites. With the completion of the viability assessment for Yucca Mountain in 1998, DOE expects to emphasize data syntheses and analysis and engineering and design in 1999.

In particular, in 1999, DOE will:

- Complete a draft Environmental Impact Statement for the Yucca Mountain site for public review and comment, develop a more complete design for a mined geologic disposal system at Yucca Mountain, and complete independent expert reviews of overall repository system performance models—further crucial steps in the long process that eventually will produce a DOE site recommendation to the President and a DOE license application to the Nuclear Regulatory Commission.

Energy Production and Power Marketing

The Federal Government is reshaping programs that produce, distribute, and finance oil, gas, and electric power. The Naval Petroleum Reserve, commonly known as Elk Hills, is a federally-owned oil and gas field located in California. Set aside early this century to provide an oil reserve for Navy ships, Elk Hills is no longer needed for that purpose, and Congress voted in 1996 to require its sale. In October 1997, DOE opened private-sector bids for Elk Hills and identified Occidental Petroleum's offer of $3.7 billion as the high offer. Following notification of Congress, the sale should be completed by February 1998, marking the largest privatization in U.S. history. It will allow DOE to maximize the productivity of Federal oil fields, one of its 1998 performance objectives.

The five Federal Power Marketing Administrations, or PMAs, (Alaska, Bonneville, Southeastern, Southwestern, and Western) market electricity generated at 129 multi-purpose Federal dams over 33,000 miles of federally-owned transmission lines, in 35 States. The PMAs sell about six percent of the Nation's electricity, primarily to preferred customers such as counties, cities, and publicly-owned utilities and power authorities. The PMAs face growing challenges as the electricity industry moves toward open, competitive markets. Concerns focus on fundamental changes that may be required to integrate the PMAs into a deregulated industry. As authorized by Congress, the sale of the Alaska Power Administration to current customers and the State of Alaska will be completed in 1998.

- In 1999, each PMA will operate its transmission system to ensure that service is continuous and reliable (that is, that the system achieves a "pass" rating each month under North American Reliability Council performance standards).

The Tennessee Valley Authority (TVA) is a Federal Government corporation and the Nation's single largest electric power generator. It generates four percent of the electric power in the country and transmits that power over its 15,000 mile transmission network to 159 municipal utilities and rural electric cooperatives that serve some eight million customers in seven States.

- The budget reflects specific cost-cutting measures that TVA is taking to implement its 10-Year Business Plan and improve its ability to supply power at competitive prices. For example, TVA will cut costs by reducing its outstanding debt by $2 billion by the end of 1999. It will cut its $28 billion debt in half by 2007.
- TVA is working closely with regional stakeholders to develop and recommend to DOE reform proposals to include in the Administration's legislation to restructure the Nation's electric power industry. The proposals will redefine TVA's role, while preserving the value of the Government's investment in TVA.

(For information on TVA's non-power activities, see Chapter 20, "Community and Regional Development.")

In 1999, the Agriculture Department's Rural Utilities Service (RUS) will make $1.7 billion in direct loans to nonprofit associations, rural electric cooperatives, public bodies, and other utilities in rural areas for generating, transmitting, and distributing electricity. Its main goal is to provide modern, affordable electric service to rural communities.

In 1999, the RUS will:

- Ensure that RUS borrowers continue to provide service in 523 of the 540 poorest counties in rural America and 655 of 700 counties suffering the most from population out-migration;
- Upgrade 116 rural electric systems, benefitting over 1.6 million customers and generating about 21,000 jobs; and
- Continue to cut the high cost of electric service to rural customers that results from low customer density in rural areas by charging interest at or below Treasury rates for debt of comparable maturity.

Energy Regulation

The Federal Government's regulation of energy industries is designed to protect public health and safety and promote fair and efficient interstate energy markets. For example, DOE seeks to improve the Nation's use of energy resources through its appliance energy efficiency program. Federal regulations specify minimum levels of energy efficiency for all major home appliances, such as water heaters, air conditioners, and refrigerators.

The Federal Energy Regulatory Commission (FERC), an independent agency within DOE, regulates the transmission and wholesale prices of electric power, including non-Federal hydro-electric power, and the transportation of oil and natural gas by pipeline in interstate commerce. Over the long run, FERC seeks to increase economic efficiency by promoting competition in the natural gas industry and in wholesale electric power markets. FERC's recent reforms give consumers competitive choices in services and suppliers that were not available just a few years ago. Its actions will cut consumer energy bills by $3 billion to $5 billion a year.

In 1999, to evaluate the success of its initiative to restructure interstate natural gas and electricity markets, FERC will measure:

- Increases in the number of new products and range of suppliers customers may choose from in both the natural gas and electric industries;
- The extent to which natural gas and electricity prices more clearly and quickly reflect changing supply and demand conditions;
- The extent to which natural gas prices within each trading region will tend to converge, except where there are demonstrable transportation constraints or costs; and
- The reduction in wholesale electricity price differences among regions.

The Nuclear Regulatory Commission (NRC), an independent agency, regulates the Nation's civilian nuclear reactors, the medical and industrial use of nuclear materials, and the transport and disposal of nuclear waste to ensure public health and safety and to protect the environment. Safety performance reflects the collective efforts of the NRC and the regulated nuclear community.

The NRC has the following 1999 goals for safety performance:

- No civilian nuclear reactor accidents, and no deaths due to radiation or radioactivity releases from civilian nuclear reactors;
- No radiation-related deaths due to civilian use of source, byproduct, and special nuclear materials, no increase in significant radiation exposures due to the loss of such materials, and no increase in misadministration events causing significant radiation exposure;
- No significant accidental releases of radioactive material from storage and transportation of nuclear waste, and no offsite release of radioactivity beyond regulatory limits from low-level waste disposal sites;
- The establishment of the regulatory framework for high-level waste disposal consistent with current national policy;
- No loss or theft of special nuclear materials; and
- No offsite releases from operating facilities of radioactive material that may adversely impact the environment, and no release of sites until satisfactorily remediated in accordance with NRC criteria.

Tax Incentives

Federal tax incentives are mainly designed to encourage the domestic production or use of fossil and other fuels, and to promote the vitality of our energy industries and diversification of our domestic energy supplies. The largest incentive lets certain fuel producers cut their taxable income as their fuel resources are depleted. An income tax credit helps promote the development of certain non-conventional fuels. It applies to oil produced from shale and tar sands, gas produced from a number of unconventional sources (including coal seams), some fuels processed from wood, and steam produced from solid agricultural byproducts. Another tax provision provides a credit to producers who make alcohol fuels—mainly ethanol—from biomass materials. The law also allows a partial exemption from Federal gasoline taxes for gasolines blended with ethanol. The Climate Change Technology Initiative proposes $3.6 billion in new tax incentives over five years to help reduce greenhouse gases (see Table S–6 in "Summary Tables.")

16. NATURAL RESOURCES AND ENVIRONMENT

Table 16–1. FEDERAL RESOURCES IN SUPPORT OF NATURAL RESOURCES AND ENVIRONMENT
(In millions of dollars)

Function 300	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	22,426	23,180	22,613	22,284	21,990	22,027	22,343
Mandatory Outlays:							
Existing law	51	1,059	712	846	739	544	682
Proposed legislation	....	....	203	223	304	337	327
Credit Activity:							
Direct loan disbursements	31	42	40	44	46	48	51
Tax Expenditures:							
Existing law	1,700	1,710	1,740	1,740	1,735	1,725	1,710
Proposed legislation	....	....	–86	–78	–78	–83	–91

The Federal Government spends over $20 billion a year to protect the environment, manage federal land, conserve resources, provide recreational opportunities, and construct and operate water projects.[1] The Federal Government manages about 700 million acres—a third of the U.S. continental land area.

Federal lands include the 376 units of the National Park System, with such unique resources as Grand Canyon National Park, Yellowstone National Park, and Gettysburg National Military Park; the 156 National Forests; the 510 refuges in the National Wildlife Refuge System; and land managed by the Bureau of Land Management (BLM) in 11 Western States (see Chart 16–1).

Within this function, Federal efforts focus on providing cleaner air and water, conserving natural resources, and cleaning up environmental contamination. The major goals include:

[1] The Natural Resources and Environment function does not reflect total Federal support for the environment and natural resources. It does not include, for instance, the environmental clean-up programs at the Departments of Energy and Defense.

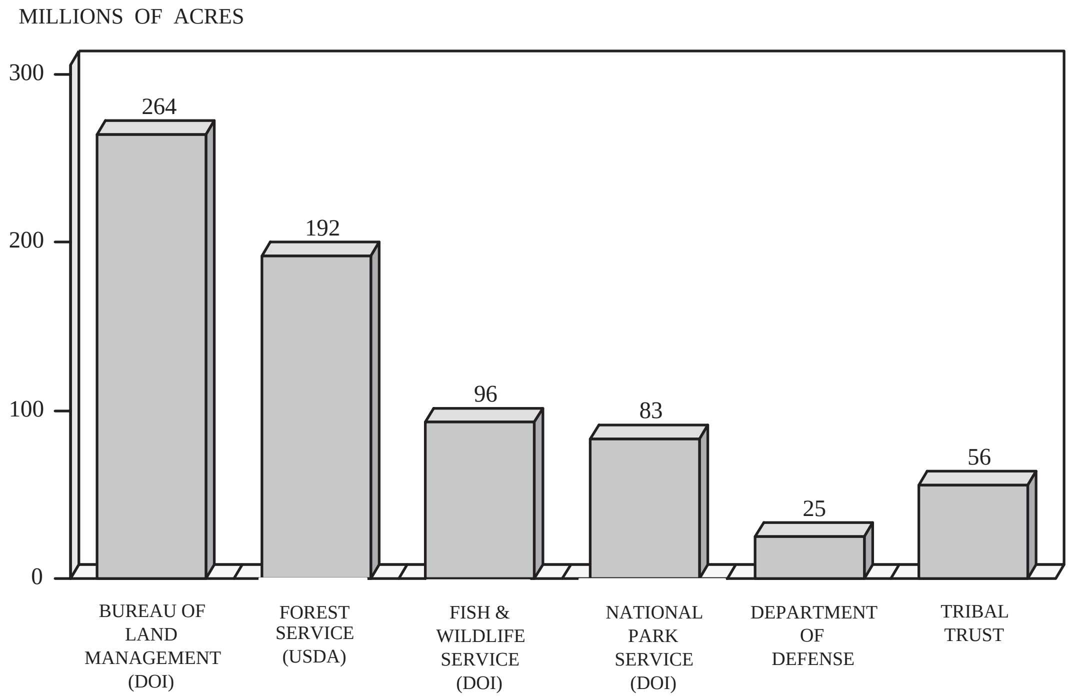
- Protecting human health and safeguarding the natural environment—air, water, and land—upon which life depends.
- Restoring and maintaining the health of federally managed lands, waters, and renewable resources.
- Providing recreational opportunities for the public to enjoy natural and cultural resources.

National Parks

The Federal Government invests over $1.6 billion a year to maintain a system of national parks that covers over 83 million acres in 49 States, the District of Columbia, and various territories. Although funding for the National Park Service (NPS) has steadily increased (almost five percent a year since 1986), the popularity of national parks has generated even faster growth in the number of visitors, new parks, and additional NPS responsibilities.

With demands growing faster than available resources, NPS is taking new, creative, and more efficient approaches to managing parks

Chart 16-1. FEDERAL LAND MANAGEMENT BY AGENCY



and has developed performance measures against which to weigh its progress.

- Using higher funding from the proposed Environmental Resources Fund for America, the NPS will begin systematically addressing the backlog of priority construction and maintenance projects at national parks and, in 1999, will develop a five-year list of the highest priorities to address and allocate funds to address about 20 percent of them.

- NPS is focusing construction and maintenance funds on the highest priorities based on objective criteria and, in 1999, will implement controls, reengineer the measurement process, and establish capital plans with approved cost, schedule, and project goals for each major construction project.

- NPS will use the receipts from recreation and user fees to finance park improvements and, in 1999, will increase the receipts by 14 percent, compared to 1997 levels.

- NPS will implement park management reforms that will increase returns to the Government from park concessions to eight percent in 1999, compared to a baseline of six percent in 1997.

- NPS is establishing broader cooperative arrangements through partnerships with public and private groups and, in 1999, will use those partnerships to protect an additional 220 miles of trails, 240 miles of rivers, and 7,000 acres of parks and open spaces.

Conservation and Land Management

The 75 percent of Federal land that comprises the National Forests, National Grasslands, National Wildlife Refuges, and the BLM-administered public lands also provides significant public recreation. BLM provides for nearly 55 million recreational visits a year, while over 30 million visitors watch wildlife each year at National Wildlife Refuges.

With its 125,000 miles of trails, the Forest Service is the largest single supplier of public outdoor recreation, providing 348 million recreational visitor days last year.

Federal lands provide other benefits. BLM and the Forest Service, with combined annual budgets of about $4.4 billion, manage for multiple purposes. Federal laws require that the Forest Service manage the National Forests for outdoor recreation, range, timber, watershed, wildlife and fish, and wilderness, and that the BLM manage the public lands that it administers for multiple uses.

The agencies concentrate on the long-term goal of providing sustainable levels of multiple uses while ensuring and enhancing ecological integrity. Their performance measures include the following:

- The Forest Service will target its higher funding to needed watershed restoration work by increasing acres of watershed restoration work by 43 percent (to 40,000 acres) over 1998 levels of 28,000 acres; increasing the acres of range restoration by 24 percent (to 42,000 acres) over 1998 levels of 34,000 acres; increasing the number of miles of road obliterated to 3,500 miles, as compared to a 1998 baseline of 1,200 miles in 1998; and increasing the number of acres treated for fire hazard reduction to 1.6 million, compared to a 1998 planned level of 1.3 million.
- For priority watersheds, BLM will enhance the ecological integrity of 25 percent more miles of riparian areas and 35 percent more acres of wetlands in 1999, compared to 1996, and increase the number of acres treated for fire hazard reduction by prescribed fire and mechanical means by 12 percent.

The Interior Department's Fish and Wildlife Service (FWS), with a budget of $1.3 billion, manages 93 million acres of refuges and, with the Commerce Department's National Marine Fisheries Service (NMFS), protects species on Federal and non-Federal lands.

- Proposed 1999 funding increases will enable the refuge system to protect, enhance, and restore 661,000 more acres, over the 1997 baseline of 96 million acres.
- FWS' 1999 funding increase will double the number of acres covered by Habitat Conservation Plans (HCPs); improve the development and implementation of HCPs through increased public participation, monitoring, and adaptive management; extend Candidate Conservation Agreement protections to another 80 species; keep 20 candidate species off the endangered species list; and help ensure that 60 percent of listed species are stabilized or improved in status.
- NMFS will implement programs in 1999 to continue fully assessing 79 percent of fish stocks, cutting commercial by-catch by 15 percent, and increasing the number of listed species that improve in status to 15, over a baseline of 12.

Half the continental United States is crop, pasture, and range land owned and managed by two percent of Americans—farmers and ranchers. The Agriculture Department's (USDA) Natural Resources Conservation Service provides technical assistance to ensure sound management of this land:

Under USDA's Wetlands Reserve Program (WRP), the Federal Government buys long-term or permanent easements from landowners for cropland, which is taken out of production and restored to wetlands. Landowners receive fair market value for the land and cost-share assistance to cover the restoration expenses. The budget proposes to enroll another 164,000 acres, bringing total cumulative enrollment to over 655,000 by the end of 1999. The Administration's goal for WRP remains one of reaching total enrollment of 975,000 acres by the end of calendar 2000.

- To enhance water quality along streams and lakes, and provide important new riparian wildlife and fish habitat, USDA will retire at least 50,000 miles of conservation buffers in 1999, the same high level as in 1998.
- In 1999, USDA will restore two million acres of native grassland vegetation (the same as the 1998 level), and complete conservation management systems for grazing lands, which help control erosion and

benefit habitat, on 6.4 million acres, compared to six million acres in 1998.

In 1999, the Environmental Quality Incentives Program, which provides funds to farmers and ranchers to adopt sound conservation practices and comply with environmental requirements, will better target areas of environmental need requiring that funding be allocated in conservation priority areas.

Federal and non-Federal agencies are carrying out long-term restoration plans for several nationally significant ecosystems, such as those in South Florida and the California Bay-Delta. The South Florida ecosystem is a national treasure that includes the Everglades and Florida Bay. Its long-term viability is critical for the tourism and fishing industries, and for the water supply, economy, and quality of life for South Florida's six million people. Low water quality in the San Francisco Bay-San Joaquin Delta ecosystem has degraded wildlife habitat, endangered several species, and reduced the estuary's reliability as a water source.

- The U.S. Army Corps of Engineers will complete its comprehensive review of the central and southern Florida project by July 1, 1999, thus providing a master plan for restoring the Everglades while accommodating other demands for water and related resources in South Florida. By September 30, 2002, 10 percent of all known federally endangered and threatened species in South Florida will be able to be "down listed."

The Bay-Delta program is undergoing National Environmental Policy Act review of three major alternatives for the Bay-Delta, and it will develop specific, measurable goals after the analysis is complete and an alternative is selected.

The Land and Water Conservation Fund (LWCF) is an important tool for species and habitat conservation. It uses the royalties of offshore oil and gas leases to help Federal, State, and local governments acquire land for conservation and outdoor recreation.

- In 1999, LWCF funds will provide for the acquisition of parcels to enhance National Parks, provide habitat for species, protect our natural and cultural resource heritage, and improve land ownership patterns for greater efficiency.

The management of lands, the availability and quality of water, and improvements in the protection of resources is based on sound natural resources science. The U.S. Geological Survey (USGS) provides research and information to land managers and the public to better understand ecosystems and species habitat, land and water resources, and natural hazards.

- In 1999, USGS, in partnership with other Federal natural hazards information providers, will develop an integrated disaster information network to improve mitigation and preparedness for natural disasters.
- In 1999, USGS will provide water quantity and quality information on 1,000 U.S. watersheds that the Clean Water Action Plan identified as impaired (half of the Nation's watersheds). These data, together with completed water quality assessments, will help develop water quality management models that resource managers need to forecast results from changing land use.

The Commerce Department's National Oceanic and Atmospheric Administration (NOAA) manages ocean and coastal resources in the 20-mile Exclusive Economic Zone. Its National Ocean Service and National Marine Fisheries Service manages 201 fish stocks and 163 marine mammal populations. NOAA's National Weather Service (NWS), using data collected by the National Environmental Satellite and Data Information Service, provides weather forecasts and flood warnings. Its Office of Oceanic and Atmospheric Research provides science for policy decisions in areas such as climate change, air quality and ozone depletion.

- In 1999, NWS' ongoing modernization will increase the lead time of flash flood warnings to 32 minutes and the accuracy of flash flood warnings to 82 percent; increase the lead time of severe thunderstorm warnings to 19 minutes and the accuracy of severe thunderstorm warnings to 84 percent, and achieve a six-month lead time for El Nino Southern Oscillation forecasts.

Pollution Control and Abatement

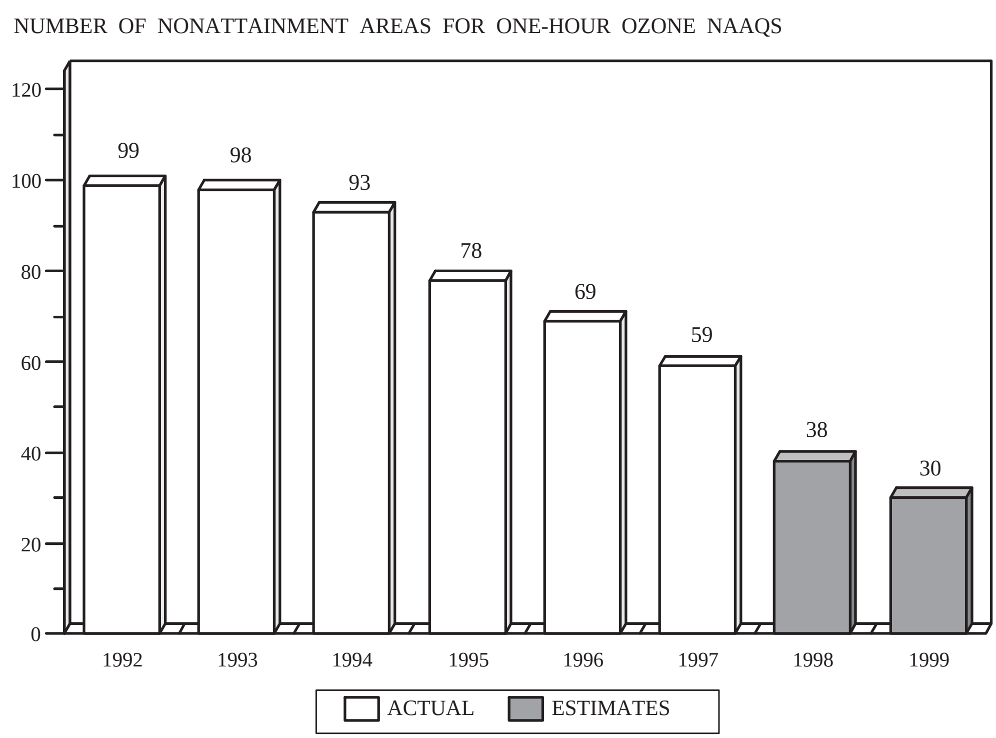
The Federal Government helps achieve the Nation's pollution control goals by: (1) taking direct action; (2) funding actions by State, local, and Tribal governments; and (3) implementing the Nation's environmental regulatory system. The Environmental Protection Agency's (EPA) $7.8 billion in discretionary funds and the Coast Guard's $100 million Oil Spill Liability Trust Fund (which funds oil spill cleanups in U.S. waters) finance these activities. EPA's discretionary funds include three major components—the operating program, Superfund, and water infrastructure financing.

EPA's $3.6 billion operating program provides the Federal funding to implement most Federal pollution control laws, including the Clean Air, Clean Water, Solid Waste Disposal, Safe Drinking Water, and the Toxic Substances Control Acts. EPA protects human health and the environment by developing national pollution control standards, largely enforced by the States under EPA-delegated authority. For example, under the Clean Air Act, EPA has developed health-based National Ambient Air Quality Standards (NAAQS) for six air pollutants: ozone, particulate matter, carbon monoxide, sulfur dioxide, lead, and nitrogen dioxide. Among these, ground-level ozone and particulate matter are the most complex, difficult to control, and pervasive. EPA recently revised the standard for ozone and promulgated a new standard for particulate matter to further protect human health.

- In 1999, EPA will certify that eight of the estimated 38 remaining nonattainment areas have achieved the current NAAQS for ozone (See Chart 16–2).
- In 1999, EPA will certify that 13 of the 58 estimated remaining nonattainment areas have achieved the NAAQS for carbon monoxide, sulfur dioxide, or lead.

Under the Resource Conservation and Recovery Act (RCRA), EPA and authorized States prevent dangerous releases to the environment

Chart 16-2. AIR QUALITY TRENDS



of hazardous, industrial nonhazardous, and municipal solid wastes by requiring proper facility management. EPA and authorized States also implement the RCRA corrective action program to clean up environmental contamination at sites where hazardous wastes are being stored, treated, or disposed.

- In 1999, 153 more hazardous waste management facilities will have approved controls in place to prevent dangerous releases to air, soil, and groundwater, for a total of 2,080 facilities (62 percent of the total outstanding).

Superfund's $2.1 billion program pays to clean up hazardous spills and abandoned hazardous waste sites, and to compel responsible parties to clean up. The Coast Guard implements a smaller but similar program to clean up oil spills. Superfund also supports the Federal "Brownfields" program, designed to assess, clean up, and re-use formerly contaminated sites.

- In 1999, EPA will complete 136 cleanups, in order to reach 900 completed cleanups (60 percent of those outstanding) by the end of 2001.
- In 1999, EPA will fund Brownfields site assessments in 100 more communities, in order to reach 300 communities by the end of 2000.
- In 1999, the Coast Guard will reduce the amount of oil that marine sources spill into the water by 20 percent below the 1993 level of 7.76 gallons per million gallons shipped.

Federal water infrastructure funds provide capitalization grants to State revolving funds, which make low-interest loans to help municipalities pay for wastewater and drinking water treatment systems required by Federal law. The Administration plans to capitalize these funds to the point where the Clean Water State Revolving Funds and the Drinking Water State Revolving Funds provide a total of $2.5 billion in average annual assistance. The more than $68 billion in Federal assistance since passage of the 1972 Clean Water Act has dramatically increased the portion of Americans enjoying better quality water.

- In 1999, another three million people will receive the benefits of secondary treatment of wastewater, for a total of 183 million.
- In 1999, 85 percent of the population served by community water systems will receive drinking water meeting all health-based standards, up from 81 percent in 1994.

USDA gives financial assistance to rural communities to provide safe drinking water and adequate wastewater treatment facilities to rural communities. The budget proposes $1.3 billion in combined grant, loan, and loan guarantees for this assistance.

- The Water 2000 initiative is bringing in-door plumbing and safe drinking water to under-served rural communities, and USDA plans to fund 250 Water 2000 facilities in 1999.

Water Resources

The Federal Government builds and manages water projects for navigation, flood control, irrigation, and hydropower generation. The Army Corps of Engineers operates Nationwide, while Interior's Bureau of Reclamation operates in the 17 Western States. The budget proposes $4.1 billion for the agencies in 1999—$3.2 billion for the Corps, $0.9 billion for the Bureau. The Administration will work with Congress to address the problem of project delays and growing future liabilities that result from Congress' addition of many new projects in 1998.

While navigation and flood damage reduction remain the Corps' major focus, its projects, programs, and regulatory responsibilities increasingly address environmental objectives, including wetlands protection.

- In 1999, the Corps expects to maintain its commercial navigation and flood damage facilities so that they will be fully operational at least 95 percent of the time.
- In 1999, the Corps' regulatory program expects to achieve "no net loss" of wetlands by creating, enhancing, and restoring wetlands functions and values that are comparable to those lost when the Corps allows wetlands to be developed.

Congress created the Bureau of Reclamation to support economic development in the West by financing and constructing reliable water supplies for irrigation and power generation. The West is now developed, and the Bureau is remaking itself into a customer-oriented "water resources management" agency by providing expertise on improved water management practices. The budget also proposes funding for several local projects that reclaim and reuse wastewater in urban areas in order to demonstrate the benefits of this alternative to constructing more dams and reservoirs.

- In 1999, the Bureau plans to complete evaluations of current practices on at least one project in each of its 26 area offices, with the goal of finding ways to more effectively manage competing demands for water.

Tax Incentives

State and local governments (and private companies) benefit from a tax break, costing about $600 million in 1999, that allows State and local governments to construct private waste disposal facilities with tax-exempt bonds. The tax code also offers incentives for natural resource industries, especially timber and mining. The timber industry can deduct certain costs for growing timber, pay lower capital gains rates on profits, take a credit for investments, and quickly write-off reforestation costs—in total, costing about $600 million in 1999. The mining industry benefits from percentage depletion provisions (which allow deductions that exceed the economic value of resource depletion) and can deduct certain exploration and development costs—together, costing about $400 million in 1999.

17. AGRICULTURE

Table 17–1. FEDERAL RESOURCES IN SUPPORT OF AGRICULTURE
(In millions of dollars)

Function 350	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	4,225	4,310	4,074	3,949	3,883	3,862	3,780
Mandatory Outlays:							
Existing law	4,960	6,391	6,973	6,765	5,440	5,425	5,649
Proposed legislation	....	....	–155	–299	–170	–161	–163
Credit Activity:							
Direct loan disbursements	6,402	7,450	8,651	8,505	7,738	7,177	6,856
Guaranteed loans	3,961	7,255	6,895	6,894	6,894	6,894	6,894
Tax Expenditures:							
Existing law	660	680	730	750	760	750	765

Since early in the Nation's history, the Federal Government has helped increase U.S. agricultural productivity. Agriculture Department (USDA) programs focus to a large extent on ensuring that markets function fairly and that farmers do not face unreasonable risk. Federal programs disseminate economic and agronomic information, ensure the integrity of crops, inspect the safety of meat and poultry, and help farmers face risks from weather and variable export conditions. The results are found in the public welfare that Americans enjoy from an abundant, safe, and inexpensive food supply, free of severe commodity market dislocations.

Conditions on the Farm

Agriculture and its related activities account for 16 percent of the Gross Domestic Product. With strong demand and record market prices for several crops in 1996, gross crop cash receipts exceeded $109 billion in 1996, a new record, and up nearly $10 billion from 1995. Net cash income also set a record in 1996 at $60 billion. Forecasts for 1997 put net cash income down $5 billion from the record level, but still within the last five year's average. Farmers will earn slightly less from 1997 crop sales due to lower feed grain prices. Livestock receipts in 1997 will increase from the $93 billion of 1996; higher beef cattle prices, the result of reductions in the beef herd, will be the most important influence. After three years of steady declines in cattle and calf receipts, this year will mark the turnaround point.

Farm assets, debt, and equity continue to rise. Farm sector business assets rose six percent in value in 1996, to $1 trillion. Farm asset values will grow another five percent in 1997, while farm real estate values will rise for the tenth straight year. Farm business debt will rise $5 billion in 1997, the highest level since 1986, but growing debt shows few signs of precipitating a repeat of the widespread financial stress in the farm sector of the 1980s.

Exports are key to future farm income. The Nation now exports 30 percent of its farm production, and agriculture produces the greatest balance of payments surplus, for its share of national income, of any economic sector. Agricultural exports reached a record $60 billion in 1996. Lower world market prices and bulk export volume will reduce exports by an estimated $3 billion in 1997 but, in 1998, exports will grow by a projected $2 billion, to $59 billion. Pacific Asia, including Japan, is the most important region for U.S. farm exports, accounting for 42 percent of total U.S. export sales in 1996. Consequently, the financial turmoil in certain Asian countries could affect U.S. exports.

The 1996 Farm Bill

Known officially as the Federal Agriculture Improvement and Reform Act (FAIR) of 1996, the Farm Bill was a milestone in U.S. agricultural policy. The bill, effective through 2002, fundamentally redesigns Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. It expands the market-oriented policies of the previous two major farm bills, which have gradually reduced the Federal influence in the agricultural sector.

Under previous laws dating to the 1930s, farmers who reduced plantings when prices were low could get income support payments, but farmers had to plant specific crops in order to receive support payments. Even when market signals might have suggested planting a different crop, farmers had limited flexibility to do so. By contrast, the 1996 Farm Bill eliminated most such restrictions and, instead, provides fixed, but declining payments to eligible farmers through 2002, regardless of market prices or production volume. Thus, the law "decouples" Federal income support from planting decisions and market prices. Not surprisingly, the law has brought significant changes in cropped acreage in response to market signals. In 1997, wheat acreage fell by seven percent, or almost five million acres, from the previous year, while soybean acreage rose by 10 percent, or almost seven million acres.

Federal Programs

USDA seeks to enhance the quality of life for the American people by supporting production agriculture; ensuring a safe, affordable, nutritious, and accessible food supply; caring for agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world. (Some of these missions fall within other budget functions and, thus, are described in other chapters.)

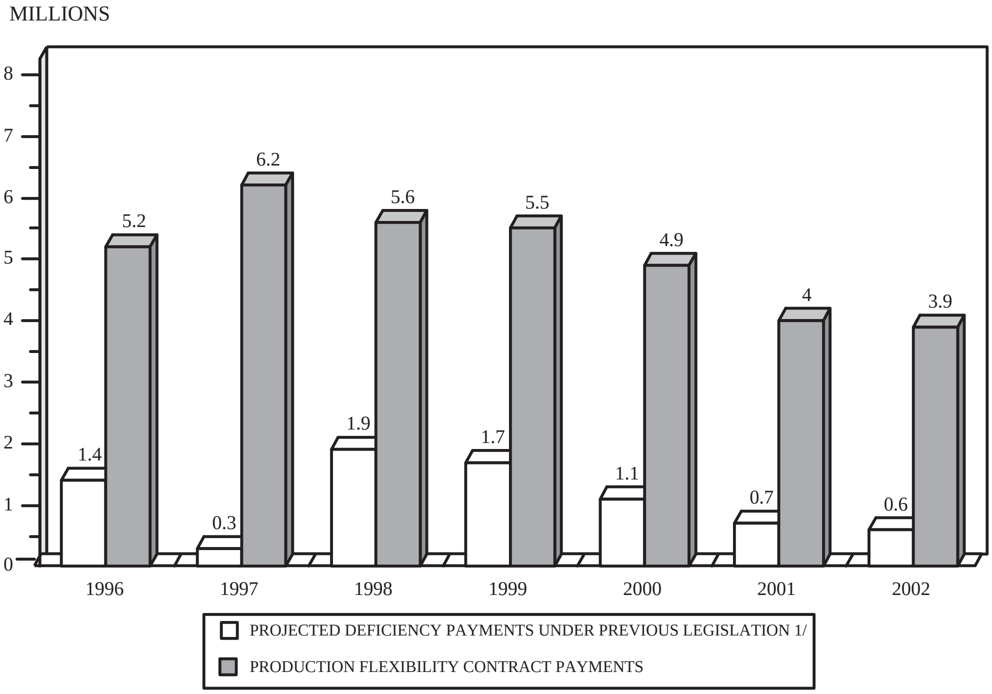
Farming is a risky business. Farmers not only face the normal vagaries of supply and demand, but also uncontrollable risk from Mother Nature. Federal programs are designed to accomplish two key economic goals: (1) enhance the economic safety net for farmers and ranchers; and (2) open, expand, and maintain global market opportunities for agricultural producers.

The Government mitigates risk through a variety of programs:

Farm Commodity Programs: Since Federal payments are now fixed, farm income could fluctuate more from year to year due to supply and demand changes. Farmers will need to rely more on marketing alternatives. To better use Federal assistance to protect against risk and stabilize farm income, producers should set aside funds from, or otherwise develop strategies to utilize, the income-support payments, allocating savings from years of high income for use when income falls. (See Chart 17–1 for the estimated increased Federal income-support payments due to the 1996 Farm Bill.) The Federal Government, however, continues to provide other safety-net protections, such as the marketing assistance loans that guarantee a minimum price for major commodities.

Insurance: USDA helps farmers manage their risks by providing subsidized crop insurance, delivered through the private sector. Farmers pay no premiums for coverage against catastrophic production losses, and the Government subsidizes their premiums for additional coverage. Over the past three years, an average 80 percent of eligible acres have been insured, with an average gain of $0.10 for every $1 in insurance premiums—down from the historical average of $0.40 loss for every $1 in premium. Crop insurance costs the Federal Government about $1.4 billion a year, including USDA payments to private companies for costs tied to administering Federal crop insurance. Since the Farm Bill ended major elements of USDA's traditional price and income support programs, producers now bear most of the price risk. In 1997, USDA expanded several insurance products that mitigate "reve-

Chart 17-1. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS EXCEED PROJECTED DEFICIENCY PAYMENTS



1/ Source: USDA, Based on supply and demand estimates as of November 10, 1997

nue risk"—price and production risk combined. These "revenue insurance pilots" showed that farmers generally want these types of products, and USDA will continue to expand their application and availability.

Trade: The trade surplus for U.S. agriculture has grown faster in recent decades than for any other civilian sector of the economy, and USDA's international programs helped to shape that growth. The Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements have played a large role in creating a strong market for exports.

In 1999, USDA will:

- take action to overcome 660, or 17 percent, more trade barriers than in 1998;
- help 5,000, or 25 percent, more U.S. companies in U.S. agricultural export sales; and
- help in 1,545, or 13 percent, more projects to build U.S. export markets in developing countries.

USDA spends about $750 million a year on export activities, including subsidies to U.S. firms facing unfairly-subsidized overseas competitors, and loan guarantees to foreign buyers of U.S. farm products. USDA also helps firms overcome technical requirements, trade laws, and customs that often discourage the smaller, less experienced ones from taking advantage of export opportunities. USDA will help less experienced firms develop their export capacity by increasing the number of outreach events.

In 1999, USDA will:

- increase the number of its trade shows by 13 percent, to 400; and
- increase the number of firms that the Market Assistance Program (MAP) supports in establishing marketing and distribution channels by eight percent, to 1,700 firms.

In addition, USDA shares some of the risk when firms or trade organizations experiment in the export market. USDA helps educate firms about the requirements and process of developing an overseas market. By participating in the MAP or USDA-organized trade shows, firms can more easily export different products to new locations on their own.

The programs have helped U.S. firms, especially smaller-sized ones, export more aggressively, and high-value products now make up a growing share of export value (see Chart 17–2). Small and medium-sized firm recipients (those with annual sales of under $1 million) now represent 84 percent of the MAP-branded promotion spending, up from 70 percent in 1996, and USDA expects to raise that figure to 100 percent by 1999.

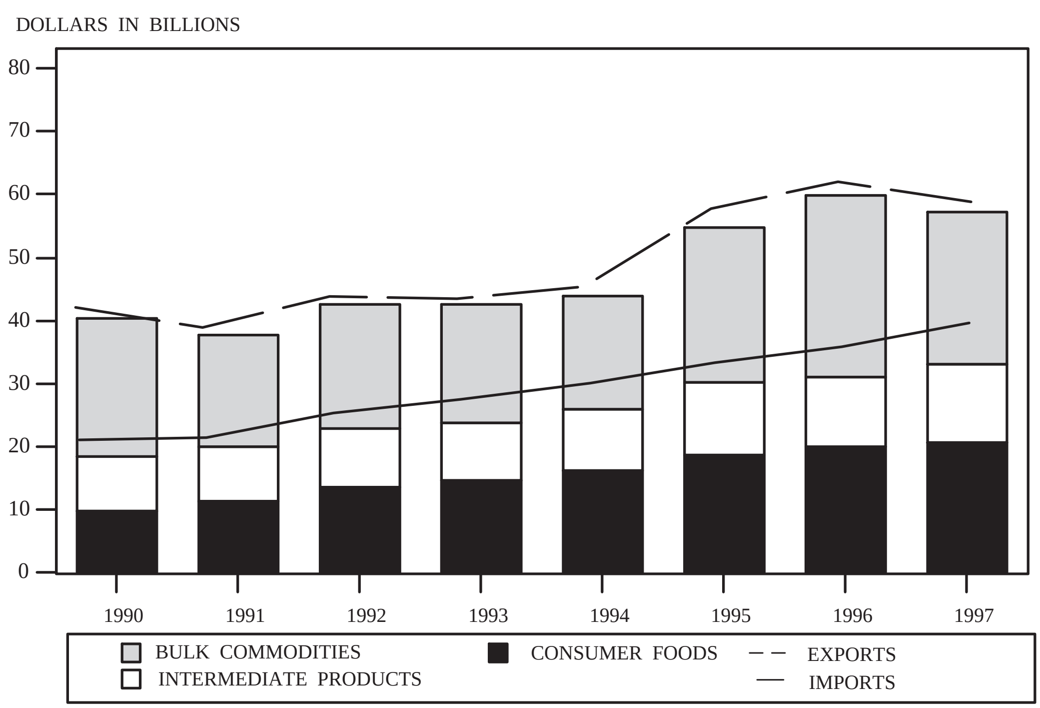
Agricultural Research: The Federal Government spends over $1.5 billion a year to support agricultural research and enhance U.S. and global agricultural productivity. The average annual return to publicly-funded agricultural research exceeds 35 percent, according to recent academic estimates.

The Agricultural Research Service (ARS) is USDA's in-house research agency, addressing a broad range of food, farm, and environmental issues. It puts a high priority on transferring its research findings to the private sector.

- In 1999, ARS expects to submit 60 new patent applications, participate in 85 new Cooperative Research and Development Agreements, license 25 new products, and develop 70 new plant varieties to release to industry for further development and marketing.

The Cooperative State Research, Education, and Extension Service provides grants for agricultural, food, and environmental research; higher education; and extension activities. The National Research Initiative competitive research grant program, launched in 1990 on the recommendation of the National Research Council, works to improve the quality and increase the quantity of USDA's and the private sector's farm, food, and environmental research.

Chart 17-2. U.S. AGRICULTURAL EXPORT PROFILE AND TRADE SURPLUS



Notes: High-value products now make up over 50 percent of total exports.
Trade surplus was at $21.5 billion in 1997.

Economic Research and Statistics: The Federal Government spends about $160 million to improve U.S. agricultural competitiveness by reporting and analyzing economic information. The Economic Research Service provides economic and other social science information and analysis for decision-making on agriculture, food, natural resources, and rural America. The National Agricultural Statistics Service (NASS) develops estimates of production, supply, price, and other aspects of the farm economy.

- In 1999, NASS will include over 95 percent of national agricultural production in its annual commodities program, up from 92 percent in 1997.

Inspection and Market Regulation: The Government spends a half-billion dollars a year to secure U.S. cropland from pests and diseases and make U.S. crops more marketable. In addition, USDA's Food Safety and Inspection Service ensures that U.S. meat and poultry do not threaten consumers' health. The Animal and Plant Health Inspection Service (APHIS) inspects agricultural products that enter the country; controls and eradicates diseases and infestations; helps control damage to livestock and crops from animals; and monitors plant and animal health and welfare. The Agricultural Marketing Service (AMS) and the Grain Inspection, Packers, and Stockyards Administration help market U.S. farm products in domestic and global markets, ensure fair trading practices, and promote a competitive, efficient marketplace.

In 1999, APHIS will:

- make about 48 million inspections of airline passengers, aircraft, commercial vessels, trucks, and rail cars to prevent the entry of illegal plants and animals that could endanger U.S. agriculture, a slight increase over estimated 1998 levels.
- clear most international air passengers through its inspection process in 30 minutes or less, an estimated 20-percent improvement over 1997 rates.
- clear most passengers crossing U.S. land borders in non-peak traffic periods in 20 minutes or less on the northern border, and 30 minutes or less on the southern border.

In 1999, the AMS Pesticide Data Program will:

- initiate a microbiological surveillance program on domestic and imported fruits and vegetables as part of the President's Food Safety Initiative.
- perform about 55,000 analyses on 14 different commodities, collecting 9,200 samples to measure pesticide residues, an increase from the estimated 1998 activities of 51,000 analyses, 13 commodities, and 8,900 samples.

Conservation: The 1996 Farm Bill is the most conservation-oriented farm bill in history, enabling USDA to provide incentives to farmers to protect the natural resource base of U.S. agriculture. Farmers can now use crop rotations, which earlier price support programs had severely limited. Also, the bill created several new programs. The Environmental Quality Incentives Program (EQIP), with $200 million in annual spending (and another $100 million proposed for 1999) provides cost-share and incentive payments to encourage farmers to adopt new and improved farming practices or technology, and it reduces the environmental impact of livestock operations. Farmers may use different nutrient management or pest protection approaches, with USDA offering financial assistance to offset some of the risk. The Conservation Farm Option program helps landowners adopt innovative approaches to improving environmental quality; groups of farmers may submit proposals to create comprehensive conservation farm plans, with a host of different land use and funding alternatives.

USDA's conservation programs give technical and financial help to farmers and communities. They include the Conservation and Wetlands Reserve Programs, which remove land from farm uses; and the Conservation Operations program, which provides technical assistance.

In 1999, USDA will:

- increase the number of acres enrolled each year for riparian buffers and filter strips to 3.76 million, from an estimated 3.36 million acres in 1998; and

- increase the acreage of restored wetlands to 1.34 million acres, from an estimated 1.2 million acres in 1998.

For more information on conservation, and USDA's investments in public land management, see Chapter 16, "Natural Resources and Environment." USDA programs also help to maintain vital rural communities, as described in Chapter 20, "Community and Regional Development."

Agricultural Credit: USDA provides about $600 million a year in direct loans and over $2.5 billion in guaranteed loans for farm operating and ownership. Direct loans, which carry interest rates at or below those on Treasury securities, generally go to beginning or socially disadvantaged farmers who cannot secure private credit.

In 1999, USDA will:

- increase the proportion of loans made to beginning and socially-disadvantaged farmers to 14.4 percent, from an estimated 12.6 percent in 1998 and nine percent in 1996; and
- reduce the delinquency rate on farm loans to 17 percent, from an estimated 18 percent in 1998 and 20 percent in 1996.

The Farm Credit System and "Farmer Mac"—both Government-Sponsored Enterprises—enhance the supply of farm credit through ties to national and global credit markets. The Farm Credit System (which lends directly to farmers) has recovered strongly from its financial problems of the 1980s, in part through Federal help. Farmer Mac increases the liquidity of commercial banks and the Farm Credit System by purchasing agricultural loans. In 1996, Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which it has largely achieved already.

Personnel, Infrastructure, and the Regulatory Burden: USDA administers its many farm programs through 2,500 county offices with over 17,000 staff. The Farm Bill significantly cut USDA's workload, prompting the department to re-examine its staff-intensive field office-based infrastructure. In 1998, USDA will: (1) conduct a study to find ways to operate more efficiently; (2) continue an Administration initiative to scrap duplicative and unnecessary regulations and paperwork; and (3) review and upgrade its computer systems to streamline its collection of information from farmers and better disseminate information across USDA agencies.

In 1999, USDA will:

- merge the headquarters and State office administrative support staffs for its field office agencies (Farm Services Agency, Natural Resources Conservation Service, Rural Development) to provide more efficient and coordinated support services.

18. COMMERCE AND HOUSING CREDIT

Table 18–1. FEDERAL RESOURCES IN SUPPORT OF COMMERCE AND HOUSING CREDIT
(In millions of dollars)

Function 370	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	2,787	3,204	3,336	5,100	2,923	2,858	2,859
Mandatory Outlays:							
Existing law	–17,624	201	689	7,074	8,167	8,372	7,734
Proposed legislation	....	–6	–336	–357	–363	–371	–388
Credit Activity:							
Direct loan disbursements	8,666	2,662	1,500	1,381	1,341	1,322	1,314
Guaranteed loans	180,090	190,463	200,662	203,825	205,906	206,412	210,442
Tax Expenditures:							
Existing law	186,870	183,555	182,730	188,705	196,095	203,500	210,320
Proposed legislation	....	–260	–403	–358	–340	–348	–386

The Federal Government provides financing and encourages private support for commerce and housing in many ways. It provides direct loans and loan guarantees to ease access to mortgage and commercial credit; sponsors private enterprises that support the secondary market for home mortgages; regulates private credit intermediaries, especially depository institutions; and offers tax incentives. In total, the Government provides about $750 million a year in support for housing credit that, in turn, supports over $100 billion in housing loans and loan guarantees. (Another $20 billion in subsidies for low-income housing programs is classified in the Income Security function.)

The Federal Government also dedicates over $2 billion a year to promote business and maintain the safety and soundness of our financial markets and institutions. The Commerce Department helps expand U.S. sales and create jobs by promoting technological development and policies that enhance U.S. industrial competitiveness and expand exports. Government regulators protect depositors against losses when insured commercial banks, thrifts, and credit unions fail.

As general goals:

- Federal housing credit programs will continue their efforts to expand homeownership Nation-wide and will continue to provide homeownership opportunities to underserved people in low-homeownership areas.
- Financial regulators will work to promote the fairness and integrity of U.S. financial markets and ensure the safety and soundness of federally-insured deposits.

Mortgage Credit

The Government provides loans and loan guarantees to expand access to homeownership, and helps low-income families afford suitable apartments. It helps meet the needs of would-be homeowners who lack the savings, income, or credit history to qualify for a conventional mortgage. It also helps provide credit to finance the purchase, construction, and rehabilitation of rental housing for low-income persons. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported over $100 billion in loan and loan guarantee commitments in 1997, helping over 1.3 million households (see Table 18–2). All of these programs have contributed to the success of the President's National Homeownership Initiative which, along with a strong economy, has helped boost the national homeownership rate to 66 percent—its highest ever.

- In 1999, through its Mortgage Credit programs, the Federal Government will approach the goal set by the President's National Homeownership Initiative, which is a 67.5 percent homeownership rate in the year 2000.

HUD's Mutual Mortgage Insurance (MMI) Fund, run by the Federal Housing Administration (FHA), helps increase access to single-family mortgage credit in both urban and rural areas. In 1997, the MMI Fund guaranteed over $61 billion in mortgages for over 740,000 households. Over three-fourths of such mortgages went to first-time homebuyers. Fees and premiums paid to the MMI Fund fully offset program costs.

- The FHA/MMI fund will continue to remain solvent and self-sustaining.
- FHA will work with the Government National Mortgage Association (Ginnie Mae) to increase the share of first-time homebuyers in each HUD Field Office by one percent a year over 1995 levels, and increase lending in distressed communities by 10 percent.

USDA's Rural Housing Service (RHS) offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. One RHS goal is to reduce the number of rural residents living in substandard housing. The number of substandard housing units in rural areas has fallen from just over three million units in 1970 to just over one million in 1990, paralleling the increase in Federal housing assistance over the same period.

RHS' direct loan program provides subsidized loans to very-low and low-income rural residents. Its single family guaranteed loan program guarantees up to 90 percent of a private loan for buying new or existing housing. Together, the two programs provided $2.7 billion in loans and loan guarantees

Table 18–2. SELECTED FEDERAL COMMERCE AND HOUSING CREDIT PROGRAMS: CREDIT PROGRAMS PORTFOLIO CHARACTERISTICS

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 1997	Numbers of housing units/small business financed by loans/ guarantees written in 1997	Dollar volume of total outstanding loans/guarantees as of the end of 1997
Mortgage Credit:			
HUD/FHA Mutual Mortgage Insurance Fund	61,175	740,320	306,530
HUD/FHA General Insurance and Special Risk Insurance Fund	13,318	271,655	87,079
USDA/RHS Sec. 502 single-family loans	2,706	55,500	22,526
USDA/RHS multifamily loans	165	2,083	11,901
VA guaranteed loans	24,287	238,833	146,576
Subtotal, Mortgage Credit	101,651	1,308,391	574,612
SBA Guaranteed Loans	10,782	47,146	31,181
Total Assistance	**112,433**	**1,355,537**	**605,793**

in 1997, providing 55,500 decent, safe affordable homes for rural Americans.

In 1999, RHS will continue to reduce the number of rural residents living in substandard housing by:

- providing $4 billion in loan and loan guarantees for 65,000 new or improved homes, a 9,500, or 14.6 percent, increase over 1997.

VA recognizes the service that veterans and active duty personnel provide to the Nation by helping them buy and retain homes. The Government partially guarantees the loans from private lenders, providing $26 billion in loan guarantees in 1997.

- To meet the goal of ensuring that the program meets veterans' needs, VA will improve credit and program management. In 1999, VA will begin implementing electronic data interchange in loan origination and servicing.
- To meet the goal of improving opportunities for veterans to achieve homeownership, VA will collaborate with interested agencies to provide more and better opportunities to finance veteran home purchases. In 1999, VA will collaborate with the Departments of Housing and Urban Development and of Defense.

Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and USDA mortgages. Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of mortgages issued by private institutions. The program raises liquidity in the secondary market and attracts new sources of capital for loans. To date, Ginnie Mae has originated over $1.3 trillion in securities, of which over $530 billion remain outstanding. It has helped over 20 million low- and moderate-income families buy homes.

- In 1999, Ginnie Mae will continue to pool 95 percent of FHA and VA loans for sale to investors, increasing the efficiency of the mortgage markets and lowering financing costs for home buyers.

The Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System (FHLBS) are congressionally chartered, shareholder-owned corporations known as Government Sponsored Enterprises (GSEs). GSEs were chartered to provide stability in the secondary market for residential mortgages, and promote access to mortgage credit throughout the Nation, including under-served areas. Fannie Mae and Freddie Mac issue and guarantee mortgage-backed securities (MBS), and they hold debt-financed portfolios of mortgages, MBS, and other mortgage-related securities. The FHLBS provides liquidity to mortgage lenders by making collateralized loans, called advances, which totaled $182 billion at the end of 1997. Because they are classified as private, the Federal Government does not include GSEs in the budget totals.

Each year, HUD sets housing goals for Fannie Mae and Freddie Mac with regard to lower-income families and under-served communities. For a discussion of these goals, see Chapter 8, "Underwriting Federal Credit and Insurance," in *Analytical Perspectives.*

Rental Housing and Homeless Assistance

The Federal Government provides housing assistance through a number of HUD programs in the Income Security function. HUD's rental programs provided subsidies for over 4.8 million low-income households in 1997—1.4 million for units in conventional public housing projects; 1.8 million in rental subsidies attached to privately-owned multifamily housing projects; and 1.6 million in rental vouchers not tied to specific projects. In addition, USDA's RHS rental assistance grants to low-income rural households provided $524 million to support 39,860 new and existing rental units in 1997.

For 1999, agencies will meet the following performance goals:

- Continue RHS' commitment of 40,000 new and existing units in 1999.
- Increase the percentage of families with children in public housing deriving most of their income from work from 37 percent in 1997 to 43 percent by 2000.
- Reduce the isolation of low-income groups within a community or geographic area by increasing the percentage of Section 8

families with children living in low-poverty Census tracts from 60 percent in 1997 to 65 percent in 2000.

The Federal Government also makes grants to help the homeless, supporting emergency shelters and transitional and permanent housing. Four agencies—HUD, VA, the Department of Health and Human Services (HHS), and the Federal Emergency Management Agency—provide 98 percent of the Federal help targeted to the homeless. For 1997, HUD provided $823 million in homeless assistance grants, representing 58 percent of the $1.42 billion targeted Government-wide funding total.

- In 1999, HHS will expand its outreach of services from 80,000 persons contacted in 1997 to 92,000 in 1999.

Housing Tax Incentives

The Government provides significant support for housing through tax preferences. The two largest tax benefits are the mortgage interest deduction for owner-occupied homes (which will cost the Government $299 billion from 1999 to 2003) and the deductibility of State and local property tax on owner-occupied homes (costing $100 billion over the same five years).

Other tax provisions also encourage investment in housing: (1) capital gains of up to $500,000 on home sales are exempt from taxes (costing $51 billion from 1999 to 2003); (2) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers; and (3) installment sales provisions let some real estate sellers defer taxes. Finally, the low-income housing tax credit provides incentives for constructing or renovating rental housing that helps low-income tenants for at least 15 years. This tax expenditure costs about $2.4 billion a year. The President proposes to raise the volume cap on the low-income housing tax credit, thus providing more credits and more housing for low-income families.

Commerce, Technology, and International Trade

The Commerce Department promotes the development of technology and advocates sound technology policies. Commerce's Patent and Trademark Office (PTO) protects U.S. intellectual property rights around the world through bilateral and multilateral negotiation, and through its domestic patent and trademark system.

- In 1999, PTO will issue over 120,000 patents, and reduce the average pendency time for each invention from 22.7 months to an average of 20.9 months.

- In 1999, PTO will reduce the average pendency for each trademark from the current 16.5 months to an average of 15.5 months.

- To promote intellectual property protection overseas, PTO will provide technical assistance to 52 developing countries.

Commerce's National Institute of Standards and Technology (NIST) works with industry to develop and apply technology, measurements, and standards. NIST administers the Manufacturing Extension Partnership (MEP), which provides technological information and expertise to its clients among the Nation's 382,000 smaller manufacturers.

- In 1999, NIST will increase sales of its collected standard reference materials to 38,142, and its labs will perform 8,900 calibrations and tests, yielding $7 million in revenue.

- In 1999, MEP will improve its coverage of small business by supporting 33,473 completed provider activities, and increase client sales by $389 million.

The International Trade Administration (ITA) strives to promote an improved trade posture for U.S. industry and develop the export potential of U.S. firms in a manner consistent with U.S. foreign and economic policy.

- In 1999, ITA estimates that it will review 15 more applications for free trade zones than in 1998, supporting a gross increase of 25,000 jobs.

- ITA's U.S. Foreign Commercial Service will increase the number of companies that receive export assistance from 11,500 in 1997 to about 14,000 by the end of 1999.

Commerce's Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the constitutionally-mandated decennial census. In 2000, the Census Bureau will conduct a decennial census that will reduce the net undercount by almost 1.6 percent, compared to the 1990 Census. In addition, Commerce's Bureau of Economic Analysis (BEA) prepares and interprets U.S. economic accounts, including the Gross Domestic Product (GDP), wealth accounts, and the U.S. balance of payments.

- In preparation for the 2000 Census, the Census Bureau will canvass 94 million city-style addresses in 1999.
- In 1999, BEA will ensure the timely dissemination of economic data by publishing 12 monthly Surveys of Current Business and 32 national GDP and personal income news releases.

Small Business Administration (SBA)

SBA, which Congress created in 1953 to aid, counsel, assist, and promote small business, expands access to capital by guaranteeing private loans. The loans carry longer terms and lower interest rates than small businesses would otherwise receive. SBA guaranteed over $10.8 billion in small business loans in 1997.

- In 1999, SBA will work to increase the number of small businesses receiving counseling and training to 1.2 million, a 10-percent increase over the estimated 1998 level.
- SBA will guarantee 56,400 new Sec. 7(a) and Sec. 504 business loans in 1999, a seven-percent increase over the expected 1998 volume of 52,500.

Financial Regulation

The Government protects depositors against losses when insured commercial banks, thrifts, and credit unions fail. Deposit insurance also wards off widespread disruption in financial markets by making it less likely that one institution's failure will cause a financial panic and a cascade of other failures. From 1985 to 1995, Federal deposit insurance protected depositors in over 1,400 failed banks and 1,100 savings associations, with total deposits of over $700 billion.

The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and savings associations (thrifts) through two separate insurance funds, the Bank Insurance Fund and the Savings Association Insurance Fund. The National Credit Union Administration (NCUA) insures deposits at credit unions. These varied kinds of deposits are insured for up to $100,000 per account. The FDIC insures deposits at over 9,200 commercial banks and over 1,800 savings institutions, with a total value of $2.7 trillion. The NCUA insures deposits in 11,300 credit unions with a total value of $290 billion.

Because the Government bears the risk of losses, it regulates banks, thrifts, and credit unions to ensure that they operate in a safe and sound manner. Five agencies regulate federally-insured depository institutions: The Office of the Comptroller of the Currency regulates national banks; the Office of Thrift Supervision regulates thrifts; the Federal Reserve regulates State-chartered banks that are Federal Reserve members; the FDIC regulates other State-chartered banks; and the NCUA regulates credit unions.

- In calendar 1998, the FDIC will perform 3,081 safety and soundness inspections.

Other financial regulatory institutions include the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). The SEC oversees U.S. capital markets and regulates the securities industry, protecting investors and maintaining the fairness and integrity of domestic securities markets by preventing fraud and abuse and ensuring the adequate disclosure of information. The CFTC regulates U.S. futures and options markets, protecting market users and the public from fraud and abuse and fostering open, competitive, and financially sound commodity futures and options markets.

- The SEC will work to examine every investment company complex and every investment advisor at least once every five years.
- The CFTC will work to ensure 100-percent compliance from market professionals, financial intermediaries, and Self-Regu-

latory Organizations with CFTC standards for registration, sound financial practices, and effective enforcement programs.

- The CFTC will review every designation application and rule change request, with the exception of stock index futures (which require SEC approval) within 10 to 45 days and respond to trading exchanges (e.g., Chicago Board of Trade) with an approval or deficiency letter.

Federal Trade Commission (FTC)

The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anticompetitive mergers, and other unfair and anticompetitive business practices in the marketplace.

- In 1999, the FTC will save consumers $200 million by stopping fraud and other unfair practices, and another $200 million by stopping anticompetitive behavior.

Federal Communications Commission (FCC)

The FCC works to encourage competition in communications and to promote and support every American's access to telecommunications services. The FCC executes its mission through four main activities: Authorization of Service, Policy and Rulemaking, Enforcement, and Public Information Services.

- In 1999, the FCC will work to achieve 90 percent of customer speed of disposal processing goals to improve its authorization of services activities. The Commission will re-engineer and integrate licensing databases and implement electronic filing to further increase efficiency in the licensing process.

- In 1999, the FCC will improve the connection of classrooms and libraries and rural healthcare facilities to the Internet while maintaining affordable service to rural Americans. The FCC will also strive to make telecommunications services more accessible to persons with disabilities.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment. It taxes capital gains at a lower rate than other income, which will cost the Government $139 billion from 1999 to 2003. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner, which will cost $51 billion from 1999 to 2003. The law also provides more generous depreciation allowances for machinery, equipment, and buildings. Other tax provisions benefit small firms generally, including the graduated corporate income tax rates, preferential capital gains treatment for small corporation stock, and write-offs of certain investments. Credit unions, small insurance companies, and insurance companies owned by certain tax-exempt organizations also enjoy tax preferences. Tax benefits for other kinds of businesses are described in other chapters in Section VI.

19. TRANSPORTATION*

Table 19–1. FEDERAL RESOURCES IN SUPPORT OF TRANSPORTATION
(In millions of dollars)

Function 400	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	38,674	41,423	41,849	42,255	42,606	43,143	43,722
Mandatory Outlays:							
Existing law	2,342	2,438	2,236	2,248	1,901	1,244	1,771
Proposed legislation	....	25	90	91	59	16	–14
Credit Activity:							
Direct loan disbursements	164	181	167	47	30	27	27
Guaranteed loans	319	477	477	477	477	477	477
Tax Expenditures:							
Existing law	1,360	1,405	1,440	1,485	1,535	1,585	1,640
Proposed legislation	....	....	4	11	16	23	30

America's transportation network consists of public and private systems financed by Federal, State, and local governments, and the private sector. The Federal Government, which spends about $40 billion a year on transportation, has five major goals in shaping this system, the foremost of which is transportation safety. Federal programs also advance mobility, economic growth and trade, the human and natural environment, and our national defense. Today, our greatest challenge is to advance these five goals as we build the transportation system for the 21st Century.

Safe Operations

The Federal Government works both directly and with State and local governments and private groups to minimize the safety risks inherent in transportation. The Federal Government regulates motor vehicle design and operation, inspects commercial vehicles, educates the public, monitors railroad safety, directs air and waterway traffic, conducts safety-related research, and rescues mariners in danger.

A range of Federal activities work to reduce highway deaths and injuries, which number about 42,000 and over three million a year, respectively. Federal programs reach out to State and local partners to identify the causes of crashes and develop new strategies to reduce deaths, injuries, and the resulting medical costs. Such partnerships yield results; through Federal, State, local, and private efforts, safety belt use reached an all-time high of 68 percent in 1996. In addition to coordinating national traffic safety efforts, the National Highway Traffic Safety Administration (NHTSA) regulates the design of motor vehicles, investigates reported safety defects, and distributes traffic safety grants to States. The budget proposes $406 million for NHTSA, a 22-percent increase over 1998, and fully funds the Presidential Initiative for Increasing Seat Belt Use Nation-wide from 68 percent to 85 percent in 2000 and 90 percent in 2005.

Perhaps the Federal Government's most visible safety function is operating the air traffic control and air navigational systems. The Federal Aviation Administration (FAA) handles about 173,000 flights a day, moving 1.5 million passengers each day. Through

*Revised February 27, 1998.

its regulatory and certification authorities, the FAA also promotes aviation safety. In 1999, the FAA will perform over 340,000 safety-related inspections. To meet safety needs in 1999, the Administration plans to spend $7.8 billion on FAA operations and capital, eight percent more than in 1998.

The National Motor Carriers Program, for which the budget proposes $100 million in 1999, provides grants to States to enforce Federal and compatible State standards for commercial motor vehicle safety inspections, traffic enforcement, and compliance reviews. Uniform standards help coordinate law enforcement activities, and simplify the safety requirements of interstate trucking.

The Federal Government also plays a key safety role on our waterways. The Coast Guard is recognized as the world leader in maritime search and rescue, saving over 5,000 lives in 1997 alone. It operates radio distress systems, guides vessels through busy ports, regulates vessel design and operation, provides boating safety grants to States, and supports a 35,000-member voluntary auxiliary that educates boaters. The budget proposes $3.2 billion for Coast Guard operations and capital.

The Federal railroad safety program, for which the budget proposes $62 million in 1999, works in partnership with the rail industry. The Safety Assurance and Compliance Program brings together rail labor, management, and the Federal Government to determine root causes of problems. From 1993 to 1996, railroad-related fatalities, on-the-job casualties, and the train incident rate fell by 19, 42, and 17 percent, respectively.

Similarly, in 1999, the Federal pipeline safety program will have in progress several risk management projects, whose goal is to provide safety and environmental protection better than under existing Federal regulations.

For each of these areas, the Federal Government seeks to promote public health and safety by working to eliminate transportation-related deaths and injuries. To measure progress towards these goals, the Department of Transportation (DOT) will seek to:

- reduce the total number of transportation-related fatalities in calendar 1999 to below 44,407, the 1995 level, despite increased passenger miles traveled; and
- reduce the total number of transportation-related injuries in calendar 1999 to below 3,494,965, the 1995 level, despite increased passenger miles traveled.

Infrastructure and Efficiency

America has about four million miles of roads, 580,000 bridges, 180,000 miles of railroad track, 5,500 public-use airports, over 6,000 transit systems, 350 commercial ports, and 25,000 miles of commercially-navigable waterways. This extensive, intermodal network is essential to the Nation's commerce, and enhancing its efficiency advances economic growth and international competitiveness.

The Federal Government has helped develop large parts of the system, with funding mainly through user fees and transportation taxes. The total Federal investment represents about half of all public investment in transportation—that is, $27 billion of the $54 billion of total Federal, State, and local spending on transportation infrastructure in 1994. In 1999, infrastructure investment would rise to a level 42 percent higher than the annual average of $21.1 billion from 1990 to 1993, with the rising investment of recent years targeted to advance the safety, quality, efficiency, and intermodal character of transportation infrastructure.

Highways and Bridges: About 955,550 miles of roads and all bridges are eligible for Federal support, including the National Highway System (NHS) and Federal lands roads. In 1999, the Federal Government plans to spend over $23 billion to maintain and expand these roads, with funding from motor fuels taxes, mainly the gasoline tax. The Federal gas tax is 18.4 cents a gallon, of which 15.45 cents goes to the Highway Trust Fund's highway account to finance formula grants to States for highway-related repair and improvement.

State and local governments provide 58 percent of total highway and bridge infrastructure spending, most of which they generate through their own fuel and vehicle taxes.

The average State gasoline tax was 19.6 cents per gallon in 1996. State and local governments accelerate their infrastructure projects through debt financing, such as bonds and revolving loan funds. Under the State Infrastructure Banks program, the Federal Government provides funds to help States underwrite debt issuance for highway and transit projects. Under the new Transportation Infrastructure Credit Enhancement Program, the Federal Government would provide grants, which could be supplemented by non-Federal contributions, to create Revenue Stabilization Funds to help secure private debt financing for nationally significant projects.

In 1999, the Federal Government will work with State and local governments to:

- increase the percentage of NHS miles that meet pavement performance standards for acceptable ride quality (based on the International Roughness Index) to 91.5 percent, from the 1996 baseline of 91.1 percent, to reach the overall goal of ensuring that 93 percent of NHS pavement has acceptable ride quality by 2008; and
- reduce the percentage of NHS bridges that are classified as deficient to 24.3 percent, from the 1996 base level of 25.8 percent, to reach the overall goal of ensuring that less than 20 percent of NHS bridges are deficient by 2008.

Transit: As with highways, the Federal Government works with State and local governments to improve mass transit. Of the Federal motor fuels tax, 2.85 cents a gallon goes to the Highway Trust Fund's Mass Transit Account, which funds transit grants to States and urban and rural areas. Federal capital grants comprise about half of total spending each year to maintain and expand the Nation's 6,000 bus, rail, trolley, van, and ferry systems. Together, States and localities invest over $3 billion a year on transit infrastructure and equipment.

In 1999, the Federal Government plans to spend $4.6 billion on transit capital. In particular, the Federal Government finances capital-intensive urban bus and rail transit systems and rural bus and van networks. About 80 million Americans depend on public transportation due to age, disability, or income. Furthermore, transit use by commuters eases roadway congestion and reduces polluting emissions. Capital investment cuts maintenance and operating costs and gives more mobility to Americans.

In 1999, to improve the quality and availability of transit services, DOT will seek to:

- reduce the average age of the motor bus fleet from a calendar 1995 base level of 8.1 years to 7.6 years by calendar year 2002 while increasing bus service, and
- maintain the average age of the rapid rail fleet at 19.3 years through calendar year 2002.

Passenger Rail: The Federal Government will invest $621 million in 1999 to support the Nation's passenger rail system (in addition to the $2.2 billion that the 1997 Taxpayer Relief Act provides for capital improvements and equipment maintenance). The extension of the Northeast Corridor high-speed rail service from New York to Boston highlights the Federal-private partnership to improve passenger rail service. The Federal Government funds the electrification of the rail line, while the private sector helps to finance the high-speed trainsets that will begin operating in late 1999.

To improve Amtrak's Northeast Corridor, in 1999 the Federal Government will strive to complete electrification of the New York-Boston segment and introduce new high-speed trainsets, reducing travel time between New York and Boston from the four-hours-and-45-minutes of today to three hours in the year 2000.

Aviation and Airports: The Federal Government seeks to ensure that the aviation system is accessible, integrated, efficient, and flexible. To reach those goals, and to begin to address a White House Commission on Aviation Safety and Security recommendation to modernize the air traffic control system by 2005, the budget proposes to increase investments in aviation facilities and equipment by about 10 percent a year for five years. In addition, about 3,300 airports throughout the country are eligible for the Airport Improvement Program (AIP), which funds projects that enhance capacity, safety, security, and noise mitigation. These funds augment other airport funding sources, such as bond proceeds, State and local grants, and passenger facility charges. With 98 percent of the population living within 20 miles of one of these airports, most citizens have excellent access to air transportation.

- In 1999, DOT will seek to reduce the number of volume- and equipment-related delays to 30.7 per 100,000 flight operations, from a 1994 base level of 36.9 delays per 100,000 flight operations.

Other Transportation: For the Nation's commercial shipping infrastructure, Federal loan guarantees make it easier to build and renovate vessels. Port development is left largely to State and local authorities, which have invested over $14 billion in infrastructure improvements over the past 50 years.

- To help make the shipyard industry more competitive, the Federal Government will strive to attain two percent growth in U.S. commercial shipbuilding (measured by tonnage) in 1999, compared to 1998.

Research and Technology

The Federal Government helps advance transportation technology. Federal research focuses on building stronger roads and bridges, designing safer cars, reducing human error in operations, and improving the efficiency of the existing infrastructure. In 1999, the Federal Government will spend over $1 billion on transportation research and technology.

DOT's Intelligent Transportation Systems (ITS) program is developing and deploying technologies to help States and localities improve safety, increase capacity, and enhance traffic flow on their streets and highways. In an era of constrained Federal resources, ITS provides a cost-effective way to improve the management of our infrastructure, boosting efficiency and capacity. The private sector, which works closely with the ITS program, will initially deploy many of the technologies that it develops jointly with Federal funding.

FAA's research, engineering, and development programs help improve safety, security, capacity, and efficiency in the National Airspace System. For example, the development of an advanced traffic management system and the demonstration of revolutionary routing and navigation procedures will enhance not only safety, but air system capacity and efficiency. In 1999, the budget proposes the Flight 2000 free-flight demonstration program, which promises operational improvements to deliver passengers and cargo more quickly and safely. Free-flight improves aviation system efficiency by giving pilots the tools to plot their own flight paths. Other FAA research will focus on the causes of human error, aircraft safety, fire protection, aviation weather, engine noise, aircraft emissions, and security and explosives detection systems.

The National Aeronautics and Space Administration's (NASA) Aeronautical Research and Technology Program funds partnerships with industry that may revolutionize the next generation of planes, making them safer, faster, more efficient, and more compatible with the environment.

The Federal Government seeks to balance new physical capacity with the efficiency and safety of the existing infrastructure. With this goal in mind:

- DOT will seek to expand the integration of ITS technology in six metropolitan areas by 20 percent in 1999, compared to a 1997 survey baseline, and
- DOT, NASA, the Defense Department, and private industry will work together on research to reduce the fatal aviation accident rate by a factor of five in 10 years; the 1995 baseline is 0.35 per 100,000 departures. Research will focus on preventing equipment malfunctions, reducing human error, and ensuring the separation between aircraft and potential hazards.

Transportation Regulation

Federal rules greatly influence transportation. In the past two decades, deregulation of the domestic railroad, airline, and interstate and intrastate trucking industries has boosted economic growth.

The Federal Government also issues regulations to spur safer and cleaner transportation. The safety regulations—of cars, trucks, ships, trains, and airplanes—have substantially cut the number of transportation-related deaths and injuries—for example, saving over 100,000 lives since 1966.

The Federal Government has taken regulatory steps to meet transportation-related environmental and safety goals in a cost-effective manner. For example, during the transition to double hulled tank vessels between now and 2015, the costs of meeting oil pollution requirements will decline due to "lightering zone" regulations that temporarily permit older, single-hull vessels to offload oil under stringent, environmentally safe conditions within certain areas in the Gulf of Mexico.

Tax Expenditures

For the most part, employees do not pay income taxes on what their employers pay for parking and transit passes. These tax expenditures will cost the Government an estimated $7.1 billion from 1999 to 2003. To finance infrastructure, State and local governments issue tax-exempt bonds; the Federal costs in lost revenues are included in the calculations for Function 450, "Community and Regional Development," and Function 800, "General Government."

20. COMMUNITY AND REGIONAL DEVELOPMENT

Table 20–1. FEDERAL RESOURCES IN SUPPORT OF COMMUNITY AND REGIONAL DEVELOPMENT

(In millions of dollars)

Function 450	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	13,034	8,660	9,204	8,011	7,805	7,675	7,816
Mandatory Outlays:							
Existing law	312	–119	–418	–411	–52	–222	–455
Proposed legislation	....	....	3	61	139	162	168
Credit Activity:							
Direct loan disbursements	2,192	2,153	1,984	2,278	2,392	2,273	2,299
Guaranteed loans	896	1,828	1,976	2,005	2,229	2,322	2,320
Tax Expenditures:							
Existing law	1,365	1,715	1,870	2,030	1,990	1,885	1,730
Proposed legislation	....	....	44	19	133	205	196

Federal support for community and regional development helps build the Nation's economy, and helps economically distressed urban and rural communities earn a larger share of America's prosperity. The Federal Government spends over $10 billion a year, and offers about $1.7 billion in tax incentives, to help States and localities create jobs and economic opportunity, and build infrastructure to support commercial and industrial development.

The needs of States and localities are varied and hard to measure. Still, Federal programs have helped create stable, healthy communities that offer greater economic opportunity. Communities hard hit by natural disasters receive Federal assistance to rebuild infrastructure, businesses, and homes. States and localities also use these Federal funds to leverage private resources for their community revitalization strategies.

As general goals:

- the Government will help create viable communities and economic empowerment through job creation, provide affordable housing, and promote economic opportunity; and
- the Government will help protect lives and prevent the loss of property from disaster hazards; and minimize suffering and hasten recovery when disasters occur.

Department of Housing and Urban Development (HUD)

HUD provides communities with flexible funds to promote commercial and industrial development; enhance infrastructure; clean up abandoned industrial sites, or Brownfields; and develop strategies for providing affordable housing close to jobs.

Community Development Block Grant (CDBG): CDBG, for which the budget proposes $4.7 billion, provides flexible funds for activities that meet one of three national objectives: (1) benefit low- and moderate-income persons, (2) help prevent or eliminate slums or blight, or (3) meet other urgent community needs that pose immediate threats to public health. CDBG funds go to improving housing, public works and services, economic development, and acquiring or clearing land. Seventy percent of CDBG funds go to over 950 central cities and urban counties, the remaining 30 percent to States to award to smaller localities. CDBG's Section 108 Loan Guarantee Program, along with Economic Development Initiative Grants, gives Federal guarantees to private investors who buy debt obligations issued by local governments, thus giving communities efficient financing for housing rehabilitation, economic development, and large-scale physical development projects. The Indian CDBG program focuses mainly on public infrastructure, community facilities, and economic development. In 1997, 131 Tribes received a total of $67 million in CDBG grants through competition.

HOME: The budget proposes $1.5 billion in flexible grants to States and communities to address their most severe housing needs. Eligible activities of this program (which is classified in the Income Security function) include new construction, rehabilitation, acquisition of standard housing, assistance to home buyers, and tenant-based rental assistance. From its inception in 1992 through June 1997, the program's recipients have committed or used HOME funds to build or rehabilitate 262,000 housing units and to help 37,000 families pay their rent.

The 1999 goals for the CDBG and HOME programs include:

- Increasing the number of CDBG grantees who incorporate milestones with timetables in Consolidated Plans that can help demonstrate progress in improving locally defined conditions in their neighborhoods and communities.
- Developing a standardized HUD assessment of Consolidated Plans.
- Ensuring that communities keep HOME rental housing affordable to low-income families during the affordability period that the program requires.

Also by the end of 1999, HUD will establish baseline measures against which to judge the contributions these programs make to community development and affordable housing.

Empowerment Zones (EZs) and Empowerment Communities (ECs): The EZ program provides tax incentives and grants to carry out 10-year, community-wide strategic plans to revitalize designated areas. In December 1994, six urban areas and three rural areas were designated as EZs. Two supplemental urban Zones were designated to receive a combination of Economic Development Initiative grants, grants, and new tax-exempt bond financing. In addition, 65 urban and 30 rural communities were designated as ECs. These EZs and ECs have begun to leverage resources to attract private investment, generate job growth, stimulate business openings and expansions, construct new housing, expand homeownership opportunities, and stabilize neighborhoods.

- In 1999, practically all EZs and ECs will show satisfactory progress toward locally defined benchmarks consistent with national policy goals (e.g., increasing employment, improving safety, improving education levels).

Department of Agriculture

The Agriculture Department (USDA) gives financial assistance to rural communities and businesses to boost employment and further diversify the rural economy, and the budget proposes $1.5 billion in such assistance. The Rural Community Advancement Program's grants, loans, and loan guarantees help build rural community facilities, such as health clinics and day care centers, and create or expand rural businesses. USDA also provides loans through the Intermediary Relending Program (IRP), which provides funds to an intermediary such as a State or local government that, in turn, provides funds for economic and community development projects in rural areas.

- In 1999, USDA will provide 49,000 new jobs, compared to 37,000 in 1997, through the IRP and community facilities programs.

Department of the Interior

The Interior Department's Bureau of Indian Affairs (BIA) helps Tribes manage and generate significant revenues from mineral, agricultural and forestry resources; a recent independent study estimates that timber harvests, reforestation, pest management, and fire control activities provided 49,000 jobs on or near reservations. BIA also promotes Tribal and individual self-sufficiency by developing Tribal resources and obtaining capital investments. Finally, BIA maintains housing for needy Tribal members; over 7,000 other buildings, including 185 schools and 3,000 housing units for BIA and Tribal staff; over 100 high-hazard dams, and (with the Transportation Department and State and local governments) about 50,000 miles of roads and 745 bridges.

- BIA will measure the success of its economic development program by guaranteeing about $35 million in loans to establish, expand, and refinance businesses and boosting their success rate to 91 percent.
- BIA will measure the success of its facilities programs by providing a 60-percent increase in high-priority school repairs and new school construction; its roads program by implementing a maintenance management system and inspections of at least half of all bridges and 80 percent of roads; and its dam safety program by repairing or planning repairs on seven dams and inspecting at least 25 dams.
- BIA will measure the success of its trust programs by implementing or maintaining about 150 Tribal resource management plans, projects, co-management programs, and fishing access sites; supporting 15 irrigation projects; developing 46 million acres for farming and grazing; completing the first phase of a comprehensive environmental audit; funding 20 water rights negotiation teams; and reducing probate and land title backlogs by at least 20 percent.

Tennessee Valley Authority (TVA)

TVA operates an important set of integrated navigation, flood control, water supply, and recreation programs that, with TVA's electric power program, contributes to the prosperity of the seven-State region it serves. The budget provides $77 million for the agency's non-power programs, ensuring that they retain funding as the Administration and Congress consider alternatives for the agency in both the power and non-power areas.

- TVA will maximize the number of days the Tennessee River is open to commercial navigation from Knoxville, Tennessee to Paducah, Kentucky, with a 1999 performance target of full availability 93 percent of the time.
- TVA will minimize flood damage by operating the river system with flood control as a priority, maintaining a 1999 target of 79 percent of flood storage availability.

Commerce Department's Economic Development Administration (EDA)

EDA creates jobs and stimulates commercial and industrial growth in economically distressed areas—rural and urban areas with high unemployment, high poverty rates, or sudden and severe distress. EDA's public works grants help build or expand public facilities to stimulate and foster industrial and commercial growth, such as industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. EDA, working with State and local governments and the private sector, has completed over 40,000 projects, creating or retaining over three million private sector jobs. EDA has invested over $16 billion in grants and generated over $36 billion in private investment. From 1992 to 1997, EDA awarded 1,006 public works grants, totaling $975 million, to economically distressed communities to build these types of infrastructure projects.

EDA works with State and local governments, businesses, economic development districts, and non-profit organizations to identify and fund high-priority projects in the neediest communities. The grants also provide technical assistance to communities and firms on problems that stifle economic growth. In addition, EDA's economic adjustment assistance grants help communities solve severe adjustment problems, such as those resulting from natural disasters and industry relocations or major downsizings. To date, EDA has provided almost $500 million in disaster recovery grants to help speed the recovery of disaster-impacted communities Nation-wide.

- In 1999, EDA projects that it will create or retain 22,500 jobs directly and 7,500 jobs indirectly, for a total of 30,000 jobs.

Disaster Relief and Insurance

The Federal Government provides financial help to cover a large share of the Nation's losses from natural hazards. In recent years, spending from the two major Federal disaster assistance programs—the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund and the Small Business Administration's (SBA) Disaster Loan program—has risen significantly, largely because demographic and economic growth has been great in hurricane- and earthquake-prone areas. The Federal Government shares the costs with States for infrastructure rebuilding; makes disaster loans to individuals and businesses; and provides grants for emergency needs and housing assistance, unemployment assistance, and crisis counseling. In addition, the National Flood Insurance Program enables property owners to purchase flood insurance that the commercial market does not offer. To mitigate future losses, and in exchange for flood insurance, communities must adopt and enforce floodplain management measures that protect lives and new construction from flooding.

In 1997, FEMA began Project Impact, a national effort to shift the focus of emergency management from post-disaster response to pre-disaster activities that reduce potential future damage. FEMA is expanding the program in 1998, and will strive for at least one "disaster resistant community" in each State by the end of 1999. In 1999, SBA proposes to support FEMA's mitigation project by making available disaster loans for small businesses in the targeted communities to finance mitigation improvements for permanent or fixed business properties.

FEMA's 1999 goals include:

- Decreasing, by 10 percent, the average time from disaster declaration to Hazard Mitigation Grant Program grant obligation, using the average grant delivery time through 1997 as a baseline;
- Completing 12 hurricane evacuation studies and achieving 60 percent of the mandated review of community flood map needs; and
- Answering 95 percent of claimant questions on the first call and cutting, in half, disaster claimant transcription time and costs billable to the disaster relief fund.

SBA's 1999 goals include:

- Increasing the number of disaster loans processed within 21 days from 85 percent to 90 percent of applications.
- Increasing the percentage of disasters in which effective field presence is established within three days of a declaration from 85 percent to 90 percent.

Appalachian Regional Commission (ARC)

Established in 1965, ARC targets its resources to highly distressed areas, focusing on critical development issues on a regional scale, and making strategic investments that encourage other Federal, State, local and private participation and dollars. When compared with "twin counties" outside the 13-State region, ARC counties have grown 17 times faster in private sector employment, seven times faster in population, and 34 times faster in per capita income. From 1950 to 1960, before the ARC was in place, employment fell 1.5 percent in Appalachia but grew 15 percent Nation-wide. During the most recent reporting period, 1988 to 1996, Appalachian employment grew at the national rate of 10.6 percent.

In 1999:

- As a result of ARC training, 7,500 people will retain or get jobs; and
- ARC will place 100 physicians in the region's health professional shortage areas, to serve another 50,000 patients a year.

The Administration proposes to apply the proven ARC model to the Mississippi Delta Region, an adjoining section with tremendous and wide-ranging needs, in order to: (1) target the Nation's truly poor; (2) provide economic development opportunities in a regional, multi-State context; (3) provide flexible assistance to address local economic development decision-making; (4) create a partnership that links communities, States, and the Federal Government in a coordinated response to economic distress; and (5) leverage other resources to foster self-sustaining economies. The budget proposes a Delta Region Development Program, under the auspices of the

ARC that would establish the Delta Regional Commission to assist in the Region's economic development.

Tax Expenditures

The Federal Government provides several tax incentives to encourage community and regional development activities: (1) tax-exempt bonds for airports, docks, high-speed rail facilities, and sports and convention facilities (costing $5.6 billion from 1999 to 2003); (2) tax incentives for qualifying businesses in economically distressed areas that qualify as Empowerment Zones—including an employer wage credit, higher up-front deductions for investments in equipment, tax-exempt financing, and accelerated depreciation—as well as capital gains preferences for certain investments in the District of Columbia and incentives for first-time buyers of a principal residence in D.C. (costing $3 billion over the five years); (3) a 10-percent investment tax credit for rehabilitating buildings that were built before 1936 for non-residential purposes (costing $335 million over the five years); (4) tax exemptions for qualifying mutual and cooperative telephone and electric companies (costing $335 million over the five years); and (5) up-front deductions of environmental remediation costs at qualified sites (costing $305 million over the five years).

21. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES*

Table 21–1. FEDERAL RESOURCES IN SUPPORT OF EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(In millions of dollars)

Function 500	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	42,488	46,365	48,608	49,139	49,420	49,297	48,883
Mandatory Outlays:							
Existing law	13,690	13,126	12,090	11,157	10,867	10,067	12,085
Proposed legislation	....	–158	1,789	2,877	3,490	3,968	4,442
Credit Activity:							
Direct loan disbursements	10,286	13,338	13,671	14,483	15,280	16,093	16,951
Guaranteed loans	19,542	25,052	25,690	27,301	28,841	30,402	32,035
Tax Expenditures:							
Existing law	27,430	33,755	57,295	59,510	61,140	62,905	64,625
Proposed legislation	....	15	1,010	2,859	3,205	2,839	2,738

The Federal Government helps States and localities educate young people, helps the low-skilled and jobless train for and find jobs, helps youth and adults of all ages overcome financial barriers to postsecondary education and training, helps employers and employees maintain safe and stable workplaces, and helps provide social services for the needy.

The Government spends over $62 billion a year on grants to States and localities; on grants, loans, and scholarships to individuals; on direct Federal program administration; and on subsidies leveraging nearly $40 billion in loans to individuals. It also allocates about $58 billion a year in tax incentives for individuals.

Education

Education is the principal means of upward mobility for Americans who want better lives for themselves and their families. While education is mainly the province of State and local governments, and of families and individuals, the Federal government plays an essential role.

The Federal role is focused in the following areas.

Pre-School: Head Start gives low-income children a comprehensive approach to child development, stressing language and cognitive development, health, nutrition, and social competency.

- In 1999, Head Start will serve an additional 30,000 to 36,000 children, for a total of 860,000 to 866,000 children, continuing progress toward the Administration's goal of one million children served in 2002.
- Within the overall total of children served, in 1999 an additional 10,000 children under age three will participate in the Early Head Start component, for a total of nearly 50,000—the first step toward the Administration's goal of doubling Early Head Start participation from its 1998 level of nearly 40,000 to 80,000 by 2002.

National evaluation studies of both the regular Head Start program and the Early

*Revised February 27, 1998.

Head Start component are under way, for which preliminary results are expected in the spring and summer of 1998.

Elementary and Secondary Education: Federal spending for elementary and secondary education targets important national needs, such as equal opportunity and higher academic standards to improve student achievement. For example, most low-performing children in low-income schools get extra educational assistance through the Title I-Education for the Disadvantaged program. Other programs provide related support for children with disabilities and limited English proficient children; support teacher and administrator training; help finance and encourage State, school, and system reforms; and support research and technical assistance.

The Administration's long-term goal is to help all children, and especially low-income and minority children, make steady gains over time. Federal programs make a significant contribution to improved learning results.

- Citing Title I, as well as Head Start and child nutrition programs, a 1994 RAND study found that "the most plausible" way to explain big education gains of low-income and minority children in the past 30 years is "some combination of increased public investment in education and social programs and changed social policies aimed at equalizing educational opportunities."
- Minority students have made substantial gains in science, math, and reading since the 1970s, narrowing the gap between minority and Caucasian student achievement by about a third.

The Federal focus began to change in 1994 from supporting individual programs to emphasizing school-wide and school system reforms, through the President's Goals 2000 Educate America Act and his Improving America's Schools Act. These laws support State and local standards-based reform efforts and speed the use of technology in education to help raise learning gains. Overall, these new approaches freed States and schools from Federal restrictions, providing greater flexibility while requiring more accountability for results. Early results show that the new approaches are having a significant impact:

- A 1997 review of State plans showed that 44 had content standards in at least reading and math, and 26 States had performance standards.
- All States have established school support teams that provide high-quality guidance to Title I schools.
- All States now have plans to ensure that (1) classrooms are equipped with modern computers and connected to the Internet, (2) software is an integral part of the curriculum, and (3) teachers are ready to use and teach with technology.
- Business-school partnerships are developing new software and new ways to use technology to raise student achievement.
- By the end of the 1998–1999 school year, nearly all States will have challenging content and performance standards in place for two or more core subjects, and by 2001 nearly all States will have assessments aligned to the standards. Before Goals 2000, almost no States had challenging academic standards in place.
- In 1999, Title I grants to school districts will provide educational services to over 10 million students in high poverty communities, over half a million more children than in 1998.
- Each year, the National Assessment of Education Progress (NAEP) will help measure progress toward achieving the goal that rising percentages of all students will meet or exceed basic, proficient, and advanced performance levels in national and State assessments of reading, math, and other core subjects, and the goal that students in high-poverty schools will show improvement gains comparable to those for all students.

Title VI Education Block Grant: This program provides general resources for education. It does not have clear, measurable goals and is not designed in law to produce specific results in terms of student achievement gains. Evaluations of the program show that school districts generally use the funds for routine activities that do not improve teaching and learning. As a result, the budget eliminates funding for this program in order to support other programs, such as Title I, for which there are strong indicators of results in terms of student achievement gains.

Class Size Initiative: The Administration proposes to help States and school districts reduce class sizes in grades 1-3 to a national average of 18 students by providing financial assistance to help recruit, hire, and train 100,000 new teachers by 2005.

Additional performance measures will be based upon enacted legislation.

- In 1999, all States will receive a share of $1.1 billion in funding to begin this effort and approximately 35,000 new teachers will be hired.

Education Opportunity Zones: The Administration proposes to assist about 50 urban and rural local education agencies with high concentrations of low-income children that have a track record in achieving high educational outcomes or have implemented standards-based systemic reform strategies to: (1) prepare all students to achieve high standards; (2) hold schools, teachers, and principals accountable for student achievement; (3) require students to meet academic standards at key transition points; and (4) provide students and parents with expanded public school choice.

Additional performance measures will be based upon enacted legislation.

- In 1999, the first 10-15 urban and 15-20 rural school districts with high concentrations of low-income children will receive grants to help continue and expand reform efforts.

School Construction: The Administration proposes to provide tax credits representing the full interest cost on bonds issued by States and localities for school construction, renovation, and modernization under the existing Qualified Zone Academy Bond (QZAB) and proposed School Modernization Bond (SMB) programs. Over five years, Treasury will allocate nearly $22 billion in new bonding authority tied to the tax credits among States and localities.

Additional performance measures will be based upon enacted legislation.

- In 1999, all States and 100 of the poorest school districts will receive a share of $9.7 billion in SMB bonding authority. In addition, all States will receive a share of the existing QZAB bonding authority, $400 million, with an additional $1 billion for the program under the budget proposal.

Individuals with Disabilities: Under the Individuals with Disabilities Education Act, the Education Department works with States to ensure that children with disabilities benefit from the Act's requirement for a "free appropriate public education" and are part of all accountability systems. The Education Department and the States actively work to monitor and improve the performance of those students. In 1998, all States will have performance goals and strategies in place for children with disabilities aged three to 21, and will begin to report their progress toward meeting those goals.

- In 1999, all States will participate in regular assessments of children with disabilities and in reporting the results.

Limited English-Proficient Children: With regard to the growing population of children with limited English proficiency, the Administration proposes that rising percentages of teachers and other staff have the skills needed to enable these students to meet challenging standards.

- In 1999, the Administration will help States hire and train 4,000 new teachers for children with limited English proficiency.

Reading: A student's most basic skill to master is reading. Although reading problems are particularly severe for disadvantaged students, students with reading difficulties represent a cross-section of American children. In 1994, only 30 percent of 4th graders scored at the proficient level in reading on NAEP, while 40 percent scored below the basic level. In 1998, the President launched the America Reads Challenge to provide extra help to meet the goal that every child will read well and independently by the end of the third grade.

- In 1999, America Reads will continue to help increase the percentages of fourth-graders that meet basic, proficient, and advanced levels in reading on the 4th grade NAEP (administered in 1998 and every two years thereafter).

Public School Choice: Charter schools introduce innovation and choice into public schools. In 1997, about 700 charter schools were operating around the Nation, of which about 420 received Federal funding. In 1999, at least 1,500 charter schools will be operating, continuing progress toward the President's goal of 3,000 charter schools by 2001.

Voluntary National Tests: The Administration's proposed voluntary national 4th grade reading and 8th grade mathematics tests for students will help students and their parents and teachers know, for the first time, how well students perform compared to other students nationally and internationally. They will also provide important information about how well education reform efforts are working.

Postsecondary Education: The economic returns to a college education are dramatic. Full-time male workers over 25 years old with at least a bachelor's degree earned 89 percent more in 1993 than comparable workers with just a high school degree. Moreover, the benefits of college extend beyond the college graduates themselves. The resulting higher socioeconomic status of parents with college degrees leads to greater educational achievement by their children.

Since the 1960s, the Federal Government has played a growing role in helping Americans go to college. Federal programs finance two-thirds of all direct student aid (i.e., excluding general State and local support for public higher education). From 1964 to 1993, these programs have helped nearly triple college enrollment, increasing by a third the share of high school graduates who attended college, and raise college enrollment rates for minority high school graduates by nearly two-thirds.

- In 1999, the Education Department will help an estimated 8.8 million students under its student aid programs.
- In 1999, an estimated 12.6 million students will receive college tax credits.

Scholarships for Low-Income Students: Research shows that, at the levels of median income and below, Pell Grant recipients are twice as likely to earn a bachelor's degree as are non-recipients. The President has proposed, and Congress has enacted, increases in the maximum Pell Grant award from $2,300 in 1993 to $3,000 in 1998. In 1998, an estimated 3.9 million needy students will receive Pell Grants to finance their college educations.

- In 1999, the Pell Grant maximum award will total $3,100 and 3.9 million students will receive Pell grants.

Easing Loan Repayment: The President proposed, and Congress enacted, the 1993 Student Loan Reform Amendments that created the Income Contingent Repayment (ICR) option for loans. With ICR, students who have significant debt burdens and who want to take lower-paying community service jobs can make their payments affordable through ICR. In addition, students who have trouble repaying loans under other schedules can switch to ICR. By the end of calendar 1997, the third year ICR was available, 65,000 borrowers had already signed up for this repayment option.

- In 1999, ICR will continue to be available to as many students who want it.

Modernization of the Student Aid Delivery System: The Education Department manages the delivery of student aid benefits to over seven million students in nearly 7,000 postsecondary schools, and oversees the direct and guaranteed loan systems affecting 37 million individuals, 4,800 lenders, and 36 guarantee agencies. The Department has made modernization of student financial aid management one of its highest priorities. Major parts of the effort include improving customer service at lower cost through better contracting practices and using new information technology. For example, students can now apply for student financial aid electronically and access their direct student loan information over the Internet.

In 1999, the Department expects to continue to make progress toward the goals it has set for 2000, including to:

- increase, to three million, the annual number of students applying for Federal aid electronically;
- enable students and families applying for Federal aid electronically to have their eli-

gibility determined in four days, cutting in half the current processing time;

- make the Department's website the most comprehensive and efficient source of information on Federal student aid and program requirements, reducing hard copies of materials that now must be printed and mailed by at least a third;
- test a multi-year promissory note for student loans to streamline application procedures, minimize delays in receiving funds, and provide better consumer information for borrowers; and
- establish, with its partners in the financial aid community, mutually agreed upon industry-wide standards for data exchanges needed in administering student aid.

Student Loan Defaults: In recent years, the Education Department has made great progress in reducing defaults and increasing collections from defaulters. The national student loan cohort default rate used for institutional eligibility dropped for the fifth straight year to 10.4 percent for 1995, down from 10.7 percent for 1994. The 1995 rate represents the group of borrowers whose first loan repayments came due in 1995 and who defaulted before October 1, 1996.

Over the most recent five-year period, the default rate has fallen by over half, from 22.4 percent in 1990. This dramatic reduction is due, in large part, to the Education Department's improved institutional oversight that has, in turn, led to the removal of 875 schools, including 672 schools from all student aid programs and 203 schools from the Federal loan programs. In addition, the department has implemented rigorous recertification standards for institutions to participate in the student aid programs. As a result, it has rejected about a third of initial applications to participate in the student aid programs over the last three years—twice the rate in 1990.

- In 1999, the default rate will continue to decline toward the goal of 10 percent or less by 2002.

Direct Loan Consolidations: By relying more on performance-based contracting, the Education Department is ensuring the smooth running of the loan consolidation contract. The Department is also improving the loan consolidation process by improving the accuracy of its data, strengthening managerial controls through better tracking and reporting, increasing the number and expertise of consolidation contractor staff, and speeding up the loan certification process. As a result of new procedures in 1998, the department will average no more than 60 to 90 days to complete a loan consolidation application.

- In 1999, average time to complete a loan consolidation application will continue to decline.
- In 1999, surveys of borrowers will show that applicants for loan consolidation are highly satisfied with the timeliness and accuracy of the loan consolidation process.

Education Department Year 2000 Compliance: The Department has launched a major effort to ensure that its systems are not adversely affected by the year 2000 date change.

- In March 1999, all of the Education Department's mission-critical and mission-important systems will be verified as year 2000 compliant.

Labor

Elementary, secondary, and postsecondary investments enable Americans to acquire the skills to get good jobs in an increasingly competitive global economy. In addition, most workers acquire more skills on the job or through billions of dollars that employers spend to enhance worker skills and productivity.

Some workers however, also benefit from special, targeted assistance. In addition to Pell Grants, student loans, and tax credits, the Federal Government spends nearly $7 billion a year through Department of Labor (DOL) programs that finance job training. In addition, workers who want to learn about job openings can tap into the State Employment Service and One-Stop Career Center System, a labor exchange that's universally available through DOL's popular America's Job Bank (AJB) website, which lists over 750,000 job vacancies every day and receives 40 to 45 million "hits" a month.

DOL has launched several longitudinal evaluations of its job training programs over the past two decades, including major impact evaluations of the Job Corps and Dislocated Worker Assistance programs. Past studies have found mixed, but generally positive, results for the DOL job training programs.

While impact evaluations are the best measure of program effectiveness, DOL also sets annual performance goals for its major job training programs. Performance goals for 1999 will continue to emphasize job placement, employment retention, and earnings levels.

The Job Training Partnership Act's (JTPA) Dislocated Worker Assistance: This program provides training and employment services to about 685,000 displaced workers a year.

- In 1999, about 76 percent of those who receive services will be working three months after leaving the program, earning an average hourly wage that represents 97 percent of the wage in their previous job.

JTPA's Adult Training Grants: This program helps over 400,000 low-income individuals get training, support services, and job placement assistance.

- In 1999, about 60 percent of those who receive services will be working three months after leaving the program, with weekly earnings averaging $270.

Job Corps: The Corps provides skill training, academic and social education, and support services in a structured, residential setting to nearly 70,000 very disadvantaged youth a year at 118 centers.

- In 1999, about 75 percent of those who leave the program will get jobs or pursue further education, while those beginning work will start at an average hourly wage of $6.25.

Employment Service/One-Stop Career Centers: The Employment Service provides a free labor exchange for all workers and job seekers, and is growing more and more effective by expanding its implementation of One-Stop Career Centers.

- In 1999, DOL will continue to expand the One-Stop Career Center System to include 40 percent of all local employment service and JTPA offices, compared to 16 percent in 1997, and increase the number of employers listing jobs with the AJB website by 20 percent over the 1997 level.

School-to-Work: All States are implementing school-to-work systems, using the five-year Federal "venture capital" grants to devise new collaborations between schools and the private sector. In 1996, the program, which began in 1994, was serving one million youth and 23 percent of schools.

- In 1999, 1.5 million youth will be actively engaged in school-to-work activities, and 25 percent of high schools will offer key school-to-work components.

Workplace Protections

DOL regulates compliance with various laws that give workers certain workplace protections—a minimum wage for virtually all workers, prevailing wages and equal employment opportunity for workers on government contracts, overtime pay, restrictions on child labor, and time off for family illness or childbirth. In these areas, the Federal Government is working to increase industry's compliance with labor protections through voluntary compliance initiatives (coupled with continued strong enforcement), outreach to new and small business, and targeted enforcement in specific industries, with specific measurable goals.

- In 1999, compared to 1997, labor law compliance will increase by five percentage points in such industries as domestic garments in certain targeted cities, and in poultry processing.

National Service

The Corporation for National and Community Service supports programs providing service opportunities Nation-wide for Americans of all ages and backgrounds. Through Corporation-supported projects, over 1.5 million participants work to address the Nation's unmet, critical needs. The Corporation organizes its programs into three streams of service, with various annual performance goals.

AmeriCorps: AmeriCorps will engage 56,000 Americans of all ages and backgrounds in community service, and provide education awards in return for such service.

- In 1999, AmeriCorps VISTA members will generate cash and in-kind resources for their sponsoring organizations at a rate of $2.50 for every $1 of Federal funds.

Learn and Serve America: This program provides opportunities for one million students to improve their academic learning while participating in service-learning projects in schools, universities, and communities.

- In 1999, 200,000 high school and college students in Learn and Serve projects will provide literacy tutoring to children in grades K–3.

National Senior Service Corps: The Corps, comprising over 500,000 people age 55 and older, encourages seniors to use their experience, skills and talents while serving as Foster Grandparents, Senior Companions, and the Retired and Senior Volunteers.

- In 1999, the program will serve 150,000 special needs youth and frail elderly.

Social Services

Vocational Rehabilitation Services: The Vocational Rehabilitation program provides funds to States to help about 750,000 individuals with disabilities prepare for independent living or gainful employment each year. In 1997, the program helped to rehabilitate 217,500 individuals with disabilities. The program has not had consistent performance goals and measures of progress.

- In 1999, under proposed legislation, all States will develop challenging State-specific goals based on a comprehensive assessment of the vocational rehabilitation needs of individuals with disabilities in the State, describe the strategies it will use to address those needs, and report on progress made towards those goals.

Social Services Block Grant: The budget targets funding to programs that can better demonstrate positive performance. The Social Services Block Grant supports a broad range of social service programs, but without statutory performance goals or measures of progress. As a result, the budget reduces funding for this program in order to help provide funding for other higher priority programs with greater demonstrated outcomes, such as Head Start and child care.

Tax Incentives

The Federal Government helps individuals, families, and employers (on behalf of their employees) plan for and buy education and training through numerous tax benefits, which will cost an estimated $57.3 billion in 1999. Along with the new Hope and Lifetime Learning tax credits for college costs, the tax code provides other ways to pay for education and training. State and local governments, for instance, can issue tax-exempt debt to finance student loans or to build the facilities of non-profit educational institutions. Interest from certain U.S. Savings Bonds is tax-free if the bonds go solely to pay for education. Many employers provide employee benefits that do not count as income. Starting in 1998, many taxpayers can deduct the interest on student loans. Finally, the tax code gives employers a Work Opportunity Tax Credit and a Welfare-to-Work Tax Credit, letting them claim a tax credit for part of the wages they pay to certain hard-to-employ people who work for them for a minimum period.

22. HEALTH*

Table 22–1. FEDERAL RESOURCES IN SUPPORT OF HEALTH
(In millions of dollars)

Function 550	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	25,086	26,355	27,515	28,276	29,221	30,479	32,957
Mandatory Outlays:							
Existing law	100,882	106,339	115,050	122,450	131,564	141,347	152,447
Proposed legislation	....	....	44	124	224	–110	–120
Credit Activity:							
Direct loan disbursements	21	....	....	....	....	....	....
Guaranteed loans	140	152	74	13	6	....	....
Tax Expenditures:							
Existing law	75,506	80,580	85,925	91,480	97,585	104,356	112,109

Federal health programs work to improve America's health. In 1999, the Federal Government will spend about $141 billion and allocate about $86 billion in tax incentives to provide direct health care services, promote disease prevention, further consumer and occupational safety, conduct and support research, and help train the Nation's health care work force. Together, these Federal activities have generated considerable progress in extending life expectancy, cutting the infant mortality rate to historic lows, preventing and eliminating infectious diseases, leveling fatality among those with HIV/AIDS, and maintaining the quality of life of individuals suffering from chronic diseases and disabilities.

In 1995, estimated life expectancy matched the record high, 75.8 years, of 1992. The steady rise since the early 1900s is partly attributable to advances in medical science, health technologies, and public health administration. Furthermore, infant mortality has reached a record low of 7.5 infant deaths per 1,000 live births, a six-percent reduction from the previous year. For the first time, HIV/AIDS death rates did not increase from the previous year. The age-adjusted death rate from HIV infection was 15.4 deaths per 100,000 population in 1995.

President Johnson and Congress created Medicaid in 1965 as a Federal-State partnership to provide health insurance for the low-income elderly and the poor. Since then, the Nation's leaders have expanded the program from time to time to meet emerging needs. In 1986, for instance, they answered public concerns about high infant mortality rates and the decline in private insurance coverage by expanding Medicaid coverage for prenatal and child health services. In 1997, the President and Congress created a new children's health program that builds on the success of previous Medicaid expansions for children.

The Federal Government also helps expand health care coverage to those with which it has a special obligation (including veterans, uniformed military personnel, and American Indians and Alaska Natives). To foster significant advances in treatments and cures, Federal health grants help sponsor biomedical research that would not otherwise take place. Together, Federal assistance in health improves the public welfare and health status.

* Revised February 27, 1998.

The Department of Health and Human Services (HHS) is the Federal Government's lead agency for health programs. HHS' Strategic Plan states the agency mission as: "to enhance the health and well-being of Americans by providing for effective health and human services and by fostering strong, sustained advances in the sciences underlying medicine, public health, and social services."

HHS' Strategic Plan includes six goals:

(1) Reduce the major threats to health and productivity of all Americans;

(2) Improve the economic and social well-being of individuals, families, and communities in the United States;

(3) Improve access to health services and ensure the integrity of the Nation's health entitlement and safety net programs;

(4) Improve the quality of health care and human services;

(5) Improve public health systems; and

(6) Strengthen the Nation's health sciences research enterprise and enhance its productivity.

Health Care Services and Financing

Of the estimated $141 billion in Federal health care outlays in 1999,[1] 88 percent finances or supports direct health care services to individuals.

Medicaid: This Federal-State health care program served about 33 million low-income Americans in 1997, with the Federal Government spending $95.6 billion (57 percent of the total) while States spent $72 billion (43 percent). States that participate in Medicaid must cover several categories of eligible people, including certain low-income elderly, people with disabilities, low-income women and children, and several mandated services, including hospital care, nursing home care, and physician services. States also may cover optional populations and services. Under current law, Federal experts expect total Medicaid spending to grow an average of 7.2 percent a year from 1998 to 2003.

[1] Excluding Medicare and the military and veterans medical programs.

Medicaid covers a fourth of the Nation's children and is the largest single purchaser of maternity care as well as of nursing home services and other long-term care services; the program covers almost two-thirds of nursing home residents. The elderly and disabled made up less than a third of Medicaid beneficiaries in 1996, but accounted for almost two-thirds of spending on benefits. Other adults and children made up over two-thirds of recipients, but accounted for less than a third of spending on benefits. Medicaid serves at least half of all adults living with AIDS (and up to 90 percent of children with AIDS), and is the largest single payer of direct medical services to adults living with AIDS.

States increasingly rely on managed care arrangements to provide health care through Medicaid, with enrollment in such arrangements rising from 7.8 million in 1994 to 13 million in 1996.

The 1997 Balanced Budget Act (BBA) made important changes to Medicaid in order to reduce spending, mainly by reducing the Disproportionate Share Hospital program, and giving States more flexibility. Specifically, the Act gave States the option of requiring most beneficiaries to enroll in managed care plans without seeking a Federal waiver. It repealed the Boren Amendment, giving States more flexibility to set hospital and nursing home reimbursement rates. It added a State option of guaranteeing Medicaid eligibility to children for 12 months, regardless of changes in the child's family income, and restored Medicaid benefits for certain groups of immigrants who would otherwise lose them under the 1996 welfare law.

The Health Care Financing Administration (HCFA), which administers Medicaid, will work with the States to develop and test Medicaid performance goals in accordance with the 1993 Government Performance and Results Act. Because Medicaid's success is integrally related to States' decisions on eligibility, reimbursement rates, delivery systems, and services, HCFA must select performance goals in consultation with States to ensure that they are compatible with State goals and objectives.

In 1998, HCFA and the National Association of State Medicaid Directors will conduct three formal consultation meetings to:

- identify areas of performance measurement;
- identify potential performance measures; and
- reach consensus on performance measures for HCFA's 2000 Annual Performance Plan.

In 1999, HCFA will work with the States to establish performance measurement baselines and performance targets.

Medicaid supports HHS' first three strategic goals.

Children's Health Insurance Program: Ten million American children lack health insurance. To increase the number of children with insurance, the BBA established the State Children's Health Insurance Program (CHIP), which provides $24 billion over the next five years for States to expand health insurance coverage to low-income, uninsured children. The new program strikes a balance between providing States with broad flexibility in program design and protecting beneficiaries through basic Federal standards. States have great flexibility to choose to expand Medicaid, create a separate State program, or use a combination of the two. At the same time, the new law ensures that States provide a meaningful benefit package, limit cost sharing, maintain their current Medicaid programs, and provide accountability.

Each State may receive CHIP funding after HCFA approves its child health plan. State child health plans must describe the strategic objectives, performance goals, and performance measures used to assess the effectiveness of the plan. In preparation for its 2000 Annual Performance Plan, HCFA will work with the States to develop a consensus for a performance measure related to cutting the number of uninsured children and increasing the enrollment of eligible children in CHIP and Medicaid.

In developing such a measure, HCFA and the States likely will consider such factors as:

- How much CHIP has increased the number of children with creditable health coverage;
- The characteristics of the children and families who were helped;
- The quality of coverage and types of benefits provided;
- The level of State contributions; and
- Recommendations to improve the program.

HCFA will work with the States to identify possible sources of data for performance measurement. In 2002, the Secretary of Health and Human Services will issue a report, based on State evaluations, with conclusions and recommendations.

HHS also is working to develop performance measures for CHIP. As does Medicaid, CHIP supports HHS' first three strategic goals.

Youth Tobacco Use: Reducing tobacco use among young people is a top Administration priority. Several HHS agencies, including the Food and Drug Administration (FDA), the Centers for Disease Control and Prevention (CDC), and the Substance Abuse and Mental Health Services Administration (SAMHSA), are working to prevent young people from starting lifelong addictions to tobacco.

To support the Administration's goal of reducing youth smoking by 50 percent over seven years, the FDA has set the following 1999 performance goals:

- Conduct an average of 42,000 unannounced compliance checks each month of retail establishments that sell tobacco products.
- Educate retailers and other stakeholders about the FDA tobacco rules through a multimedia campaign including point-of-purchase, radio, outdoor advertising, and newspapers.
- Design and implement a regulatory program for cigarettes and smokeless tobacco products.

SAMHSA is working to ensure that the percentage of minors that are "successful" in purchasing cigarettes is under 20 percent in all States by the year 2003, consistent with the Synar Amendment (Sec. 1926 of the Public Health Service Act). For 1999, SAMHSA has set the following goals:

- All States will develop an annual measure of the violation rate using probability samples of outlets.
- All States will receive periodic technical assistance in implementation of guidelines to meet the Synar Amendment goals.
- More States will reduce their violation rates of sales of tobacco to minors to 20 percent or less.

CDC has set the following performance goal for 1999:

- Increase the number of States with five of the following seven core tobacco prevention capacities to 30 in 1999:
  - (1) Develop/improve a State tobacco control plan addressing HHS Healthy People 2000 tobacco objectives;
  - (2) Establish a State tobacco control coalition;
  - (3) Conduct media/educational activities and cooperate with, and maximize the use of, Nation-wide media/education campaigns;
  - (4) Develop a State-based resource center and provide training on effective public health approaches to tobacco use prevention and reduction;
  - (5) Engage in community outreach and mobilization at the local level;
  - (6) Use surveillance data for planning, reporting and educational activities; and
  - (7) Evaluate program performance and participate in Nation-wide evaluation efforts.

The Indian Health Service's (IHS) 1999 performance plan includes a goal of developing a baseline database for assessing substance abuse, including tobacco use, in American Indian and Alaska Native youth.

Other Health Care Services: HHS supplements Medicare and Medicaid with a number of "gap-filling" grant activities to support health services for low-income or specific populations, including Consolidated Health Center grants, Ryan White AIDS treatment grants, the Maternal and Child Health block grant, Family Planning grants, and the Substance Abuse block grant. In addition, IHS delivers direct care to about 1.3 million American Indians and Alaska Natives as a part of the Federal Government's trust obligations. The IHS system, located primarily on or near reservations, includes 49 hospitals, 195 health centers, and almost 300 other clinics.

HHS agencies have sought to ensure that specific populations have access to high-quality Federal health services. Similar to health insurance programs, these supplemental health service programs support HHS' first three strategic goals. HHS agencies have developed performance measures to help plan, track, and evaluate program effectiveness.

In 1999, HHS agencies will work to meet the following goals:

- *IHS:* Cut the incidence of amputation and blindness linked to diabetic neuropathy and retinopathy by five percent in the Native American and Alaska Native diabetic populations, compared to the 1996 rate, which varies from 45 percent among the Sioux to 18 percent among the Pima Indians.
- *SAMHSA:* Reverse the upward trend and cut monthly marijuana use among 12 to 17-year-olds by 25 percent, from the 1995 baseline of 8.2 percent to 6.2 percent, by the end of 2002.
- *Health Resources and Services Administration (HRSA):* Increase the percent of infants born to pregnant women receiving prenatal care, beginning in the first trimester, from the 1995 rate of 81.3 percent.
- *HRSA Ryan White AIDS Treatment Grants:* Cut, by eight percent, the number of AIDS cases in children as a result of perinatal transmission, compared to the 1996 baseline of 678 cases.
- *HRSA Ryan White AIDS Treatment Grants:* Increase, by five percent, the number of persons receiving primary care services under HRSA HIV/AIDS (Ryan White CARE Act—Title III) Early Intervention Services programs who are also receiving combination antiretroviral therapy.

- *Agency for Health Care Policy and Research:* Release and disseminate Medical Expenditure Panel Survey data and associated products to the public within nine to 12 months of data collection.
- *Office for Civil Rights:* Increase the number of managed care plans in compliance with Title VI, Section 504 and the Americans with Disabilities Act.

Also in 1999, the Consumer Product Safety Commission will reduce product-related head injuries to children by 10 percent.

Prevention Services: Prevention can go far to improve Americans' health. Measures to protect public health can be as basic as providing good sanitation and as sophisticated as preventing bacteria from developing resistance to antibiotics. State and local health departments traditionally lead such efforts, but the Federal Government—through CDC—also provides financial and technical support. For a half-century, CDC has worked with State and local governments to prevent syphilis and eliminate smallpox and other communicable diseases.

More recently, CDC has focused on preventing a host of diseases, including breast cancer, prostate cancer, lead poisoning among children, and HIV/AIDS. Furthermore, CDC is working to reduce the prevalence of chlamydia among high-risk women under age 25 in federally-funded family planning and Sexually Transmitted Disease (STD) clinics from nine percent in 1996 to below six percent. HHS' prevention programs support its first, fourth, and fifth strategic goals.

- Working with HCFA, CDC will continue to help States ensure that, by age two, at least 90 percent of all U.S. children receive each recommended basic childhood vaccine.

Biomedical Research: The National Institutes of Health (NIH) is among the world's foremost biomedical research centers and the Federal focal point for the Nation's biomedical research. NIH research is designed to gain knowledge to help prevent, detect, diagnose, and treat disease and disability. NIH conducts research in its own laboratories and clinical facilities; supports research by non-Federal scientists in universities, medical schools, hospitals, and research institutions across the Nation and around the world; helps train research investigators; and fosters communication of biomedical information.

NIH supports over 50,000 grants to universities, medical schools, and other research and research training institutions while conducting over 1,200 projects in its own laboratories and clinical facilities. NIH-supported research has helped to achieve many of the Nation's most important public health advances. Examples of recent research advances include the identification of a gene that predisposes men to prostate cancer; the development of potentially life-saving new therapies for HIV-infected individuals; the identification of certain risk factors for breast cancer which result from mutated genes; and the development of new technology for detecting defects in human chromosomes.

In continuing to make new discoveries in these and other research areas, NIH has set forth its vision of biomedical and behavioral research in the HHS strategic plan. Also, as a steward of public funding for research, NIH helps grantee institutions improve their internal business systems so they can more easily comply with Federal grant requirements. NIH programs support HHS' first, fourth, and sixth strategic goals.

NIH has set bold performance goals for the next century of research, such as:

- completing the sequencing of the human genome project by 2005 by initially reaching a production rate of 100 million base pairs in 1999, growing to a production rate of over 300 base pairs a year by 2003; and
- leading the national effort to meet the President's goal of developing an AIDS vaccine by 2007.

Public Health Regulation and Safety Inspection: FDA spends $1 billion a year to promote public health by helping to ensure through pre-market review and post-market surveillance that foods are safe, wholesome, and sanitary; human and veterinary drugs, biological products, and medical devices are safe and effective; and cosmetics and electronic products that emit radiation are safe. FDA also helps the public gain access to important new life-saving drugs, biological products, and medical devices. It leads Federal efforts to ensure the timely review of products and ensure that regulations enhance public health, not serve as an unnecessary regulatory burden. In addition, the FDA supports research, consumer education, and the development of both voluntary and regulatory measures to ensure the safety and efficacy of drugs, medical devices, and foods. With the 1997 reauthorization of the Prescription Drug User Fee Act, FDA will continue to collect pharmaceutical industry fees to accelerate the review of drug applications.

FDA programs support HHS' first and fifth strategic goals.

To speed the review process, FDA has set the following performance goals for 1999:

- review and process 90 percent of complete new drug applications within a year of submission;
- review and process 90 percent of complete new drug applications for priority drugs within six months of submission; and
- review and process 50 percent of new medical device applications (know as pre-market applications) within 180 days.

To give the public useful health information, FDA has set the following performance goal:

- Ensure that, by the year 2000, 75 percent of consumers receiving drug prescriptions will get more useful and readable information about their product.

FDA will define the term "usefulness" in terms of: scientific accuracy, unbiased content and tone, specificity and comprehensiveness, and timeliness. Based on the FDA's own national surveys, only 32 percent of consumers received useful information on new drug prescriptions in 1992.

Although the U.S. food supply is one of the safest in the world, the increasing number of reported foodborne illnesses pose a growing public health challenge. A major objective of the FDA and the Administration's Food Safety Initiative, of which FDA is a major part, is to reduce illness associated with microbial contamination of food.

To that end, FDA has set as one of its performance goals to:

- Assure, by December 30, 1999, that 50 percent of the seafood industry is operating under appropriate hazard assessment and control systems, also know as Hazard Analysis Critical Control Point systems.

The Food Safety and Inspection Service (FSIS) inspects the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. With $600 million in annual funding, agency staff inspect all domestic livestock and poultry in slaughter plants; conduct at least daily inspections of meat, poultry, and egg product processing plants; and inspect imported meat, poultry, and egg products. In 1996, FSIS issued a major regulation that will begin shifting responsibility for ensuring meat and poultry safety from FSIS to the industry. The regulation should allow FSIS to better target its inspection resources to the higher-risk elements of the meat and poultry production, slaughter, and marketing processes.

- By 1999, 92 percent of all federally-inspected meat and poultry products will be under a Hazard Analysis Critical Control Point (HACCP) system and, by 2000, all plants will produce products under HACCP.

Workplace Safety and Health

The Federal Government spends $550 million a year to promote safe and healthy workplaces for over 100 million workers in six million workplaces, mainly through the Labor Department's Occupational Safety and Health Administration (OSHA) and Mine Safety and Health Administration (MSHA). Regulations that help businesses create and maintain safe and healthy workplaces have significantly cut illness, injury, and death from exposure to hazardous substances and dangerous employment. In 1996 (the most recent year for which data are available), workplace injuries and illnesses fell to the lowest rate on record. OSHA and MSHA will work to continue this trend by enforcing their regulations and helping employers and workers.

- By focusing on the most hazardous industries and workplaces and the most prevalent workplace injuries and illnesses, OSHA over the next two years will reduce workplace injuries and illnesses by 20 percent in 50,000 workplaces.

- MSHA will, in 1999, reduce fatalities and lost workdays in all mines to below the average number recorded for the previous five years.

Tax Expenditures

Federal tax laws help finance health insurance and care. Most notably, employer contributions for health insurance premiums are excluded from employees' taxable income. In addition, self-employed people may deduct a part (45 percent in 1998, rising to 100 percent in 2007 and beyond) of what they pay for health insurance for themselves and their families. Individuals who itemize also may deduct certain health-related expenses—such as insurance premiums that employers do not pay; expenses to diagnose, treat, or prevent disease; and expenses for certain long-term care services and insurance policies—to the extent that they exceed 7.5 percent of the individuals' adjusted gross income. Total health-related tax expenditures, including other provisions, will reach an estimated $86 billion in 1999, and $491 billion from 1999 to 2003; the exclusion for employer-provided insurance and related benefits (including deductions by the self employed) accounts for most of these costs ($76 billion in 1999 and $438 billion from 1999 to 2003).

23. MEDICARE

Table 23–1. FEDERAL RESOURCES IN SUPPORT OF MEDICARE
(In millions of dollars)

Function 570	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	2,623	2,724	2,648	2,640	2,627	2,609	2,652
Mandatory Outlays:							
Existing law	187,441	195,383	204,691	214,249	230,075	232,504	253,450
Proposed legislation	....	....	–79	–33	–152	–257	–326

Created by the Social Security Amendments of 1965 (and expanded in 1972), Medicare is a Nation-wide health insurance program for the elderly and certain people with disabilities. The program, which will spend an estimated $207 billion in 1999 on benefits and administrative costs, consists of two complementary but distinct parts, each tied to a trust fund: (1) Hospital Insurance (Part A) and (2) Supplementary Medical Insurance (Part B).

Over 30 years ago, Medicare was designed to address a serious, national problem in health care—the elderly often could not afford to buy health insurance, which was more expensive for them than for other Americans because they had higher health care costs. Medicare was expanded in 1972 to address a similar problem of access to insurance for people with disabilities. Through Medicare, the Federal Government created one insurance pool for all of the elderly and eligibile disabled individuals while subsidizing some of the costs, thus making insurance much more affordable for almost all elderly Americans and for certain people with disabilities.

Medicare has very successfully expanded access to quality care for the elderly and people with disabilities. Still, even though the Balanced Budget Act (BAA) of 1997 improved Medicare's financial outlook for the near future, its trust funds face financing challenges as the Nation moves into the 21st Century. Along with legislative proposals discussed elsewhere in the budget, the Health Care Financing Administration (HCFA), which runs Medicare, is working to improve Medicare through its regulatory authority and demonstration programs.

The Department of Health and Human Services (HHS), which houses HCFA, is the Federal Government's lead agency for health programs. HHS' Strategic Plan states the agency mission as: "to enhance the health and well-being of Americans by providing for effective health and human services and by fostering strong, sustained advances in the sciences underlying medicine, public health, and social services."

Medicare supports HHS' first, second, third, and fourth strategic goals, as described in Chapter 22, "Health."

Part A

Part A covers almost all Americans age 65 or older, and most persons who are disabled for 24 months or more and who are entitled to Social Security or Railroad Retirement benefits. People with end-stage renal disease (ESRD) also are eligible for Part A coverage. About 99 percent of Americans aged 65 or older are enrolled in Part A, along with an estimated 93 percent of ESRD patients. Part A reimburses providers for the inpatient hospital, skilled nursing facility, home health care related to a hospital stay, and hospice services provided to beneficiaries. Part A's Hospital Insurance (HI) Trust Fund receives most of its income from the HI payroll tax—2.9 percent of payroll, split evenly between employers and employees.

Part B

Part B coverage is optional, and it is available to almost all resident citizens age 65 or older and to people with disabilities who are entitled to Part A. About 96 percent of those enrolled in Part A have chosen to enroll in Part B. Enrollees pay monthly premiums that cover about 25 percent of Part B costs, while general taxpayer dollars subsidize the remaining costs. For most beneficiaries, the Government simply deducts the Part B premium from their monthly Social Security checks.

Part B pays for medically necessary physician services; outpatient hospital services; diagnostic clinical laboratory tests; certain durable medical equipment (e.g., wheelchairs) and medical supplies (e.g., oxygen); home health care; physical and occupational therapy; speech pathology services; and outpatient mental health services. Part B also covers kidney dialysis and other services for ESRD patients.

Fee-for-Service vs. Managed Care

Beneficiaries can choose the coverage they prefer. Under the "traditional," fee-for-service option, beneficiaries can go to virtually any provider in the country. Medicare pays providers primarily based on prospective payment, an established fee schedule, or reasonable costs. About 87 percent of Medicare beneficiaries now opt for fee-for-service coverage.

Alternatively, beneficiaries can enroll in a Medicare managed care plan, and the 13 percent who do are concentrated in several geographic areas. Generally, enrollees receive care from a network of providers, although Medicare managed care plans may offer a point-of-service benefit, allowing beneficiaries to receive certain services from non-network providers. Most managed care plans receive a monthly, per-enrollee "capitated" payment that covers the cost of Part A and B services. As of June 1997, 67 percent of all Medicare beneficiaries lived in a county served by at least one Medicare managed care plan.

Due to the BBA, Medicare managed care (renamed "Medicare+Choice" or Part C) will provide new health plan options for Medicare beneficiaries, including provider-sponsored organizations (PSOs) and preferred provider organizations (PPOs). Part C also will feature improved beneficiary information and will be fully operational by January 1, 1999.

Successes

Medicare has dramatically increased access to health care for the elderly—from slightly over 50 percent of the elderly in 1966 to almost 100 percent today.

According to the Physician Payment Review Commission's latest report, 96 percent of Medicare beneficiaries reported no trouble obtaining care. Further, less than 1 percent of beneficiaries reported trouble getting care because a physician would not accept Medicare patients. Medicare beneficiaries have access to the most up-to-date medical technology and procedures.

Medicare also gives beneficiaries an attractive choice of managed care plans. Today, managed care is a major, and growing, part of Medicare. As of December 1, 1997, over 5.2 million beneficiaries have enrolled in 307 Medicare managed care plans. During the 12-month period ending December 1, 1997, enrollment in the capitated managed care plans called "risk contracts" grew by 27 percent. Managed care plans can provide coordinated care that is focused on prevention and wellness.

In addition, Medicare is working to protect the integrity of its payment systems. Building on the success of Operation Restore Trust, a five-State demonstration aimed at cutting fraud and abuse in home health agencies, nursing homes, and durable medical equipment suppliers, Medicare is increasing its efforts to root out fraud and abuse. Recent legislation provides mandatory Federal funds and greater authority to prevent inappropriate payments to fraudulent providers, and to seek out and prosecute providers who continue to defraud Medicare and other health care programs.

Spending and Enrollment

Net Medicare outlays will rise by an estimated 30 percent from 1998 to 2003—from $194.2 billion to $252 billion.[1] Part A outlays will grow by an estimated 23 percent over the period—from $130.3 billion to $160 billion—or an average of 4.2 percent a year. Part B outlays will grow by an estimated 44 percent—from $63.8 billion to $92 billion—or an average of 7.6 percent a year.

Medicare is consuming a growing share of the budget. In 1980, Federal spending on Medicare benefits was $31 billion, comprising 5.2 percent of all Federal outlays. In 1995, Federal spending on Medicare benefits was $156.6 billion, or just over 10 percent of all Federal outlays. By 2003, assuming no changes in current law, Federal spending on Medicare benefits will total an estimated $252 billion, or almost 13 percent of all Federal outlays.

Medicare enrollment will grow slowly until 2010, then explode as the baby boom generation begins to reach age 65. From 1995 to 2010, enrollment will grow at an estimated average annual rate of 1.5 percent, from 37.6 million enrollees in 1995 to 46.9 million in 2010. But after 2010, average annual growth will almost double, with enrollment reaching an estimated 61.3 million in 2020.

The Two Trust Funds

HI Trust Fund: As noted earlier in this chapter, the HI Trust Fund is financed by a 2.9 percent payroll tax, split evenly between employers and employees. In 1995, HI expenditures began to exceed the annual income to the Trust Fund and, as a result, Medicare began drawing down the Trust Fund's accounts to help finance Part A spending. Prior to the BBA, the Government's actuaries predicted that the HI Trust Fund would become insolvent in 2001. The BBA, however, ensured the solvency of the Trust Fund for another nine years—until 2010.

Medicare Part A still faces a longer-term financing challenge. Since current benefits are paid by current workers, Medicare costs associated with the retirement of the baby boomers, starting in 2010, will be borne by the relatively small number of people born after the baby boom. As a result, only 2.2 workers will be available to support each beneficiary in 2030—compared to today's four workers per beneficiary. The President plans to work with Congress and the Medicare Commission to develop a long-term solution to this financing challenge.

SMI Trust Fund: The SMI Trust Fund receives about 75 percent of its income from general Federal revenues and about 25 percent from beneficiary premiums. Unlike HI, the SMI Trust Fund is really a trust fund in name only; the law lets the SMI Trust Fund tap directly into general revenues to ensure its annual solvency.

Demonstrations and Regulations

HCFA also conducts demonstration programs to determine the efficacy of new service delivery or payment approaches. For example, Phase II of the Social Health Maintenance Organization demonstration project is testing alternative mechanisms for adjusting the managed care capitated payment, including the beneficiary's functional status. In another demonstration project, Centers of Excellence, HCFA has experimented with bundled payments for hospital and physician costs for selected procedures performed at certain high-quality facilities.

Through its regulatory authority, HCFA continually improves Medicare. For example, HCFA has finalized regulations specifying additional standards that home health agencies must meet to participate in Medicare, including securing surety bonds, and it expects to issue similar regulations for durable medical equipment suppliers this year. By reducing the amount of fraud and abuse in the program, the Administration is making important changes to strengthen Medicare.

Performance Plan

HCFA has developed a comprehensive set of performance goals to measure its progress in ensuring that Medicare beneficiaries receive the highest quality health care. HCFA's 22 performance goals relate to quality assurance, access to care for the elderly and disabled,

[1] These figures cover Federal spending on Medicare benefits, but do not include spending financed by beneficiaries' premium payments or administrative costs.

administrative efficiency, and a reduction in fraud and abuse—four areas critical to the administration of Medicare.

For example, HCFA's 1999 goals include:

- Increasing the percentage of Medicare beneficiaries who receive a mammogram once every two years from 49 percent in 1994 to 59 percent in 1999 and 60 percent in 2000;
- Increasing the number of Medicare beneficiaries receiving vaccinations for influenza from 41 percent in 1995 to 59 percent;
- Reducing the payment error rate under Medicare's fee-for-service program from 14 percent in 1996 to 13 percent, with a five-year goal of 10 percent;
- Continuing to shift Medicare contractors' nine different claims processing systems to one Part A and one Part B standard system (by the end of 1999, HCFA will have one Part A system and two Part B systems, with the final Part B transition coming later); and
- Ensuring that no significant interruptions to Medicare claims payments occur because information systems under HCFA's control were not year 2000 compliant. For systems not under HCFA's direct control, HCFA will continue to work with its Medicare contractor community and perform oversight activities directing them to achieve and verify compliance. HCFA will again seek legislative changes to increase its control over contractor systems.

24. INCOME SECURITY*

Table 24–1. FEDERAL RESOURCES IN SUPPORT OF INCOME SECURITY

(In millions of dollars)

Function 600	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	22,687	31,933	32,984	36,721	37,750	39,012	40,318
Mandatory Outlays:							
Existing law	191,445	198,446	210,002	219,733	227,561	233,748	243,064
Proposed legislation	....	100	1,516	1,843	2,269	2,554	2,706
Credit Activity:							
Direct loan disbursements	71	62	33	11	....	....	....
Guaranteed loans	11	31	72	144	145	71	40
Tax Expenditures:							
Existing law	101,350	103,950	103,690	105,570	106,475	107,645	109,095
Proposed legislation	....	42	130	250	267	256	273

The Federal Government provides about $245 billion a year in cash or in-kind benefits to individuals through income security programs, including about $130 billion for programs of the "social safety net." Since the 1930s, these safety net programs, plus Social Security, Medicare, and Medicaid, have grown enough in size and coverage so that even in the worst economic times, most Americans can count on some form of minimum support to prevent complete destitution. The combined effects of these programs represent one of the most significant changes in national social policy in this century, improving the lives of millions of lower-income families.

The remaining $115 billion for income security programs include general retirement and disability insurance (excluding Social Security, which is described in Chapter 25), Federal employee retirement and disability programs, and housing assistance.

Major Programs

The largest means-tested income security programs discussed in this chapter are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and the Earned Income Tax Credit (EITC). The various kinds of low-income housing assistance are discussed in Chapter 18, "Commerce and Housing Credit." These programs, along with unemployment compensation (which is not means-tested), form the backbone of cash and in-kind "safety net" assistance in the Income Security function.

Food Stamps: Food Stamps help most low-income people get a more nutritious diet. The program reaches more people than any other means-tested income security program; in an average month in 1997, 22.9 million people, or 9.5 million households, received benefits and that year, the program provided total benefits of $20 billion. Food Stamps is the only Nation-wide, low-income assistance program available to essentially all financially-needy households that does not impose non-financial criteria, such as whether households include children or elderly persons. (The new welfare law limits the number of months that childless, able-bodied individuals can receive benefits while unemployed.) The average monthly, per-person Food Stamp benefit was about $71 in 1997.

*Revised February 27, 1998.

- In 1999, the program will provide an average projected benefit of $76 to 21.6 million persons a month.

Child Nutrition Programs: The National School Lunch and Breakfast Programs provide free or low-cost nutritious meals to children in participating schools.

- In 1999, the programs will serve an estimated 27 million lunches daily.

Supplemental Security Income: SSI provides benefits to the needy aged, blind, and disabled adults and children. In 1997, 6.3 million individuals received $26.2 billion in benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $234 for aged adults to $450 for blind and disabled children. Most States supplement the SSI benefit.

- In 1999, SSI will serve an estimated 6.3 million respondents, costing $28 billion in benefits.

Temporary Assistance for Needy Families: In the 1996 welfare reform law, the President and Congress enacted TANF as the successor to the 60-year-old Aid to Families with Dependent Children (AFDC) program. TANF, on which the Federal Government will spend about $16.5 billion in 1999, is designed to meet the President's goal of dramatically changing the focus of welfare—from a system focused on determining eligibility to one that helps recipients move from welfare to work. TANF grants give States broad flexibility to determine eligibility for assistance and the kind of cash, in-kind, and work-related assistance they provide.

- States cannot yet project the number of persons who will receive TANF assistance in 1999.

Child Care: The Administration proposes a comprehensive Child Care Initiative. The largest components include an expansion of the Child and Dependent Care Tax Credit and an increase to the Child Care and Development Block Grant. The fund expansion would add $7.5 billion in new authority from 1999 to 2003. A total of $4.3 billion (current funding plus new funding) would be available in 1999.

Additional performance measures will be based upon enacted legislation.

- In 1999, the Child Care and Development Block Grant, including new funds, will increase the opportunities for children receiving subsidized child care by 300,000 to 500,000 over 1998.
- In 1999, the proposed Child and Dependent Care Tax Credit expansion will benefit three million families with incomes below $59,000, providing an average tax cut of $330.

Earned Income Tax Credit: The EITC, a refundable tax credit for low-income working families, has two broad goals: (1) to encourage families to move from welfare to work by making work pay; and (2) to reward work so parents who work full-time do not have to raise their children in poverty. In 1997, the EITC provided $27.9 billion of credits, including spending on tax refunds and lower tax receipts for non-refunded portions of the credit. For every dollar that low-income workers earn—up to certain limits—they receive between seven and 40 cents as a tax credit. In 1997, the EITC provided an average credit of nearly $1,470 to nearly 19 million workers and their families.

- In 1999, an estimated 19 million households will receive an average credit of $1,500.

Unemployment Compensation: Unemployment compensation provides benefits, which are taxable, to individuals who are temporarily out of work and whose employer has previously paid payroll taxes to the program. The State payroll taxes finance the basic benefits out of a dedicated trust fund. States set benefit levels and eligibility criteria, which are not means-tested. Regular benefits are typically available for up to 26 weeks of unemployment. In 1997, about 7.6 million persons claimed unemployment benefits that averaged $185 weekly.

- In 1999, an estimated 8.3 million persons will receive an average benefit of $199 a week.

By design, benefits are available to experienced workers who lose their jobs through no fault of their own. Thus, unemployment compensation does not cover all of the unemployed in any given month. In 1997, on average, the "insured unemployed" represented about 35 percent of the estimated total number of unemployed. Those who are not covered include new labor force entrants, re-entrants with no recent job experience, and those who quit their jobs voluntarily without good cause and, thus, are not eligible for benefits.

Other important income security programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (known as WIC); child care assistance; refugee assistance; and low-income home energy assistance.

Recent Changes in Income Security Caseloads

Due largely to a strong economy and significant changes to Federal welfare and Food Stamp programs, the caseload in each has continued to fall in the past year. Most detailed analyses have attributed these caseload reductions to the strong economy and new efforts to move people from welfare to work. Indeed, welfare caseloads, which fell by a record 1.9 million in the President's first three-and-a-half years in office, dropped by more than two million in the year after he signed the new welfare reform law. The law created TANF, repealed AFDC, increased child care payments, and created a new time-limited work-oriented public assistance program. States must now require and reward work, impose time limits, and demand personal responsibility.

In addition, the welfare reform law also limited Food Stamp benefits for able-bodied childless adults to three months of assistance in a 36-month period. The 1997 Balanced Budget Agreement provided funds to provide qualifying work slots to individuals facing the time limits, but only enough to serve a portion of affected individuals. The welfare reform law banned most legal immigrants from receiving Food Stamps. The budget would restore these benefits for families with children, and for disabled and elderly legal immigrants who entered the country before the law was signed.

Like TANF, Food Stamp caseloads have continued to fall. In September 1997, the Food Stamp program recorded its 41st straight month of declining enrollment, reflecting a longstanding trend: Food Stamp enrollments rise and fall with the poverty rate. At its peak in March 1993, Food Stamps served 27.4 million participants a month, or one in every 10 Americans. By September 1997, participation had fallen to 20.9 million, or one in every 13 Americans.

Due also to the economy and low unemployment, the unemployment insurance (UI) caseload has fallen significantly. Between 1993 and 1997, the average weekly number of individuals claiming UI benefits declined from 4.4 million to 2.4 million.

While caseloads have fallen in various safety net programs, the Administration has continued to target resources at infants and children. WIC, for example, reaches nearly 7.5 million persons a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. WIC funding increases since 1993 have enabled participation to grow by nearly 30 percent. The budget proposes $4.1 billion to serve 7.5 million through 1999, fulfilling the President's goal of full participation in WIC.

Effects of Income Security Programs

What effect do safety net programs have on poverty, and to what extent do they target assistance to the poor? Chapter 25, "Social Security," explores the impact of Social Security alone on the income and poverty of the elderly. This chapter looks at the cumulative impact across the major programs.

For purposes of this discussion, "means-tested benefits" include AFDC, SSI, certain veterans pensions, Food Stamps, child nutrition meals subsidies, rental assistance, and State-funded general assistance. Medicare and Medicaid greatly help eligible families who need medical services during the year, but experts do not agree about how much additional income Medicare or Medicaid coverage represents to the covered. Consequently, these benefits are not included in the analysis that follows. "Social insurance programs" include Social Security, railroad retirement, veterans compensation, unemployment compensation, Pell Grants, and workers' compensation. The definition of income for this discussion (cash and in-kind benefits), and the notion of pre- and post-Government transfers, do not match the Census Bureau's definitions for developing official poverty statistics. Census counts income from cash alone, including Government transfers.

Effectiveness in Reducing Poverty: Based on special tabulations from the March 1997 Current Population Survey (CPS), 57.5 million people were poor in 1996 before accounting for the effect of Government programs. After accounting for Government transfer programs, the number of poor fell to 30.3 million, a drop of 47 percent.

After large declines in poverty in 1994 and 1995, 1997 CPS data suggests that the poverty rate did not fall significantly in 1996. Some experts were surprised, given large declines in the unemployment rate, increases in real weekly wages of production and nonsupervisory employees, and a higher minimum wage that took effect in October. But, while the overall poverty rate did not fall, the strong economy lowered the pre-transfer poverty rate and has enabled more people to leave welfare for work. Thus, fewer individuals have had to rely on safety net programs to pull themselves out of poverty.

Efficiency in Reducing Poverty: The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. "Efficiency" in reducing poverty is defined as the percentage of Government benefits of a particular type (e.g., social insurance programs) that help cut the poverty gap. For example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A is 50 percent.

Before counting Government benefits, the poverty gap was $194.5 billion in 1995. Benefits from Government programs cut it by $135 billion, or 69 percent. Of the $135 billion cut, social insurance programs accounted for $90 billion, means-tested benefits for $43 billion, and Federal tax provisions for $2 billion.

All told, according to Census Bureau data, social insurance benefits totaled $338 billion in 1995. Thus, 26 percent of their funding (the $90 billion, above) helped cut the poverty gap. Means-tested benefits totaled $78 billion, according to Census data. Thus, 56 percent of the funding (the $43 billion, above) helped cut the poverty gap.

The evidence is clear: whether measured by their impact on poverty gaps, or on moving families out of poverty, income security programs largely succeed. Social insurance programs play the largest role in cutting poverty, but means-tested programs—targeted more narrowly on the poor—are more efficient.

Employee Retirement Benefits

Federal Employee Retirement Benefits: The Civil Service Retirement and Disability Program provides a defined benefit pension for 1.8 million Federal civilian employees and 800,000 U.S. Postal Service employees. In 1997, the program paid $42 billion in benefits to 1.7 million retirees and 600,000 survivors. Along with the defined benefit, employees can participate in a defined contribution plan—the Thrift Savings Plan (TSP). Employees hired since 1983 are also covered by Social Security. (For a discussion of military retirement programs, see Chapter 26, "Veterans Benefits and Services.")

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3.5 trillion in pension assets. The Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of nearly 42 million workers and retirees who earn traditional (i.e., "defined benefit") pensions. Through its early warning program, PBGC also works with solvent companies to more fully fund their pension promises, protecting the benefits of 1.2 million people in 1996 alone. To encourage retirement savings, the President signed legislation in 1996 that establishes a new, simplified pension plan for small businesses.

In 1999, the PWBA will:

- reduce, to 12 percent, the percentage of employee benefit plan audits that do not comply with professional accounting and auditing standards, compared to 1996; and
- increase, by 2.5 percent, the number of fiduciary investigations closed in which plan assets are restored, compared to 1996.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits. Generally, earnings devoted to workplace pension plans and to many individual retirement accounts (IRAs) are exempt from taxes when earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and other gains that add value of these retirement accounts, including all forms of IRAs. These tax incentives amount to $84 billion a year—one of the three largest sets of preferences in the income-tax system.

Child Support Enforcement Financing: The Federal Government has a strong interest in ensuring that the national child support system is effective. Funding of the Child Support Enforcement (CSE) program, however, remains complicated. States get Federal payments to cover administrative costs at several different matching rates. States also get Federal incentive payments, levy user fees, keep a portion of TANF-related collections, and return a portion to the Federal Government.

Federal retention of TANF-related payments is a legacy of the old AFDC program in which States and the Federal Government shared in funding AFDC and, thus, in collecting child support for AFDC recipients. With welfare reform, States have great freedom to design assistance for families with dependent children. States, however, must continue to share a portion of child support collections with the Federal Government. The need to share collections may serve as a disincentive for States to pass through the full amount of child support to families, and it creates an unintended incentive for States to serve needy families through programs funded only with State dollars. Spending on these "State-only" programs continues to count under the TANF maintenance-of-effort requirement, but child support collections on behalf of these families do not need to be shared with the Federal Government.

The Administration will hold a dialogue with the stakeholders of the child support program to look at ways to address these problems and, working with Congress, will prepare legislation. The budget takes a first step towards simplifying the child support funding structure by 1) conforming the match rate for paternity testing with the basic administrative match rate; and 2) repealing the hold harmless provision established under the welfare reform law.

Under current law, States have resources equal to about 110 percent of the amount that they spend on their State Child Support programs. The proposed changes would reduce the State windfall by less than two percent of program costs and save the Federal Government about $300 million over five years.

Finally, the Administration supports cost-neutral changes to the pending Child Support Incentives legislation, as the Department of Health and Human Services proposed in its 1997 report to Congress, mandated by the welfare reform law.

Allocation of Administrative Costs Among Welfare Programs: The budget proposes to address projected Federal cost increases in Food Stamps and Medicaid that arise from changes in the way States charge costs to the Federal Government to administer these programs as well as TANF.

Before welfare reform, States charged most common costs of the three programs to AFDC. With TANF—which consolidated cash welfare assistance and related programs and limited the amount of funds that could go for administrative purposes—many States have sought to charge fewer of their expenses to TANF and more to Food Stamps and Medicaid, which still provide open-ended matching funds for State administrative costs.

To date, HHS has not approved State requests to change their cost allocation plans in order to increase administrative reimbursements under Food Stamp and Medicaid. Neither the Administration nor Congress envisioned such cost increases—which would exceed a projected $500 million a year—in crafting welfare reform.

In 1999, the Administration plans to let States change their cost allocation plans to charge more of their common administrative costs to Food Stamps and Medicaid. But to prevent Federal costs from rising, the budget proposes Food Stamp and Medicaid changes that would cover the costs. Specifically, it would cut the matching rates for administrative costs in Food Stamps and Medicaid from 50 percent to 47 percent.

25. SOCIAL SECURITY

Table 25–1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY

(In millions of dollars)

Function 650	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	3,457	3,205	3,163	3,211	3,201	3,192	3,194
Mandatory Outlays:							
Existing law	362,296	378,099	392,848	409,235	427,005	446,860	467,351
Proposed legislation	....	....	20	102	137	151	151
Tax Expenditures:							
Existing law	23,565	24,825	25,960	27,210	28,400	29,795	31,315

The Old-Age, Survivors, and Disability Insurance (OASI) program, popularly known as Social Security, will spend about $392 billion in 1999 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

OASDI provides monthly benefits to retired and disabled workers who gain insured status and to their eligible spouses, children, and survivors (see Table 25–2). The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance Program (OASI). Congress provided disability benefits by enacting the Disability Insurance (DI) program in 1956 and benefits for the dependents of disabled workers by enacting the 1958 amendments.

Social Security was founded on two important principles: social adequacy and individual equity. Social adequacy means that benefits will provide a certain standard of living for all contributors. Individual equity means that contributors receive benefits directly related to the amount of their contributions. These principles still guide Social Security today.

What Social Security Does

Social Security helps alleviate poverty, provide income security, and maintain the lifestyles of beneficiaries.

Alleviating Poverty: Social Security is largely responsible for reducing poverty among the elderly. In 1996, 16 percent of elderly, unmarried beneficiaries had family incomes below the poverty line. Without Social Security retirement benefits, 61 percent of them would have fallen into poverty. For elderly couples, Social Security has had a similar effect. In 1996, three percent of the elderly who were married had incomes below the poverty line. Without Social Security retirement benefits, 41 percent of them would have had such incomes (see Table 25–3).

Income Security: Social Security was originally designed to provide a continuing income base to help eligible workers maintain a household when they retired. In 1935, personal savings, family support, and Federal welfare programs were the main sources of income for those 65 and older who did not work. Social Security supplemented private savings and employer-provided pensions to ensure an adequate level of retirement income. While these other vehicles are still important today, two-thirds of those over 65 now get the major portion of their income from Social Security. The

Table 25–2. MILLIONS BENEFIT FROM SOCIAL SECURITY

(Number of OASDI beneficiaries)

	Thousands of beneficiaries	
	1997 Actual	1999 Estimate
Retired workers and families:		
Retired workers	26,927	27,583
Wives and husbands	2,953	2,911
Children	444	451
Survivors of deceased workers:		
Children	1,907	1,948
Widowed mothers and fathers with child beneficiaries in their care	233	235
Aged widows and widowers, and dependent parents	5,004	5,040
Disabled widows and widowers	183	193
Disabled workers and families:		
Disabled workers	4,397	4,776
Wives and husbands	218	201
Children	1,451	1,448
Total OASDI recipients	**43,717**	**44,786**

Table 25–3. SOCIAL SECURITY PROTECTS OLDER AMERICANS FROM POVERTY

(Percentage of older Americans in poverty with Social Security and the percent that would be in poverty in the absence of the program)

	Without Social Security	With Social Security
Aged Individuals	61%	16%
Aged Couples	41%	3%

average retiree receives a Social Security benefit equal to 43.6 percent of pre-retirement income. In 1997, Social Security paid about $257 billion in benefits to over 30 million retired workers and their families. Along with retirement benefits, Social Security also provides income security for survivors of deceased workers. In 1997, Social Security paid about $56 billion in benefits to over seven million survivors.

DI also provides income security for workers and their families who lose earned income when the family provider becomes disabled. Before DI, workers often had no such protection. To be sure, employees disabled on the job may have benefits from State workmen's compensation laws. Congress enacted DI to protect the resources, self-reliance, dignity, and self-respect of those suffering from non-work-related disabilities. DI protection can be extremely valuable, especially for young families that could not sufficiently protect themselves against the risk of the worker's disability. In 1997, Social Security paid about $45 billion in benefits to over six million disabled workers and their families.

Maintaining Lifestyles: Before Social Security, about half of those over 65 depended on others, primarily relatives and friends, for all of their income. The same was often true for people with disabilities. Now, with Social Security, the vast majority of those over age 65 and those with disabilities can live relatively independent lives. Moreover, their families no longer carry the sole responsibility of providing their financial support.

Growth in Retirement Benefits

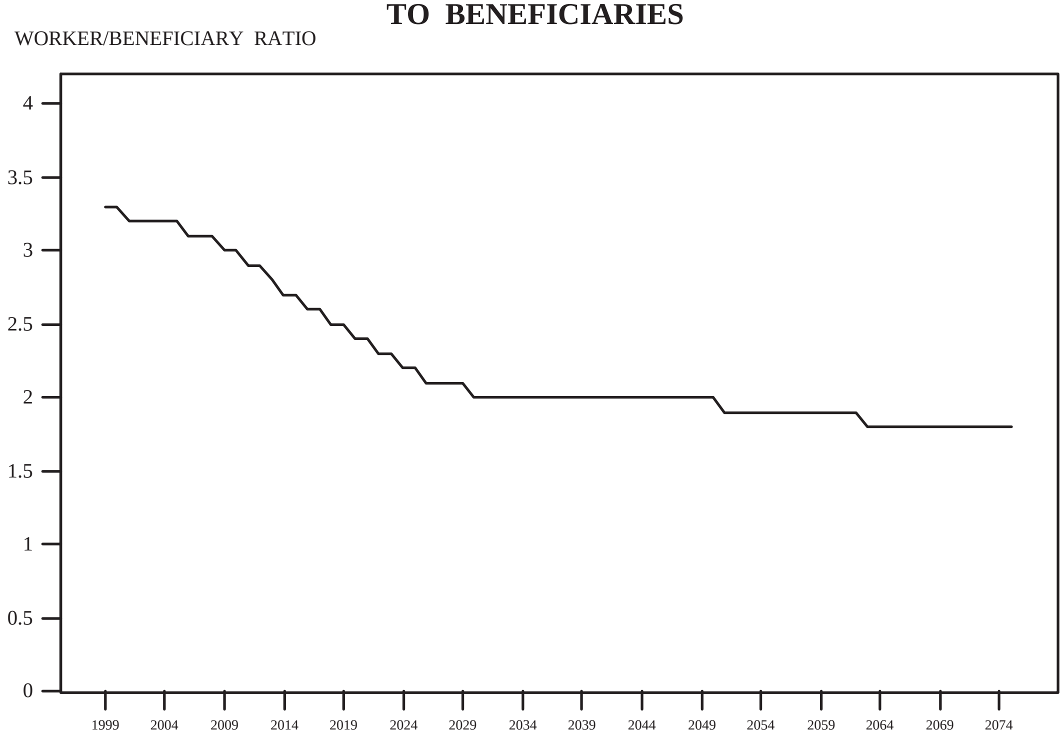
Social Security's retirement component is facing financial stress due to changing demographics and its own financing. The retirement program is largely "pay as you go"—current retirement benefits are financed by current payroll contributions. Such financing worked well in the past, when five workers paid for every retiree. But, when the baby boom generation retires, eventually only two workers will pay for every retiree (see Chart 25–1). Furthermore, while the system's financial burden will increase greatly with the baby boomers' retirement, the Social Security Trustees do not expect demographic trends to improve markedly in later periods.

Adding to the financial stress, baby boomers are having fewer babies and living longer. In 1957, women had an average of 3.7 babies, compared to 1.99 today. In 1935, life expectancy was 63 years for females, 60 for males. By contrast, baby boomers have a much longer life expectancy—73 years for females and 67 for males. The longer people live, the longer they will collect Social Security. The more time that people spend retired, the more people there are to support at any one time, and the fewer there are working and contributing to provide that support.

Growth in Disability Benefits

Social Security's disability component has grown rapidly since its inception. The program provided about $45 billion to about six million disabled beneficiaries and their families in 1997, compared to $57 million for 150,000 disabled workers in 1957. Growth has been especially rapid in the last 10 years, with the number of beneficiaries rising by 75 percent and benefits rising by 125 percent.

Chart 25-1. OASDI: COVERED WORKERS TO BENEFICIARIES



What has caused the growth? More and more baby boomers are reaching the age at which they are increasingly prone to disabilities; the number of women insured has risen; and laws, regulations, and court decisions have expanded eligibility for benefits. In addition, the annual share of beneficiaries leaving the rolls has fallen steadily, making it more important to ensure that those remaining on the rolls are all, in fact, eligible for benefits. To maintain DI's integrity, the Administration proposes to maintain support for continuing disability reviews (CDRs)—a periodic review of individual cases that ensures that only those eligible continue to receive benefits.

The budget proposes a Ticket to Independence pilot program to encourage DI beneficiaries and Supplemental Security Income (SSI) disabled recipients to re-enter the workforce. Currently, the Social Security Administration (SSA) refers these beneficiaries to State and, in limited cases, private Vocational Rehabilitation agencies. Under this proposal, beneficiaries could choose their own public or private vocational rehabilitation provider—and the provider could keep a share of the DI and SSI benefits that the Federal Government no longer pays to these individuals after they leave the rolls.

A Long-range Problem, but No Crisis

The OASDI trust funds are not in balance over the next 75 years—the period over which the Social Security Trustees have traditionally measured Social Security's well-being. In their 1997 report, the Trustees estimated that the combined OASDI trust funds would have a cash imbalance in 2012 and be insolvent in 2029. Much of the deterioration arises from changes described above in demographics over the measurement period. The President wants to work with Congress on a bipartisan basis to develop a long-term solution to the financing challenge. Acting sooner rather than later to address the long-term inadequacies of OASDI financing will reduce the magnitude of changes needed.

Social Security Administration (SSA)

SSA administers OASI and DI as well as SSI, which is part of the Income Security function. SSA also provides services to Medicare on behalf of the Health Care Financing Administration, which is part of the Medicare function.

SSA's Performance Plan for 1999 generally reflects its commitment to maintain the quality of its program administration, reflected in terms of customer service delivery, operational efficiency, and program integrity. SSA's key performance measures and commitments for 1999 include the following.

For customer service delivery:

- SSA will maintain its current performance level of ensuring that 95 percent of callers access the 800-number within five minutes of their first call.
- The average processing time for completing hearings on appeals of disability claims decisions will be 284 days by year-end, compared to 398 days at the end of 1997.

For operational efficiency:

- SSA will process 3,143,000 claims for Social Security retirement and survivors benefits, compared to 3,129,000 in 1997.

For program integrity:

- SSA will process 1,637,000 reviews of the eligibility of recipients of DI and SSI disability benefits, compared to 690,000 disability reviews in 1997.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. These thresholds reduce total Social Security beneficiary taxes by $26 billion in 1999 and $143 billion from 1999 to 2003.

26. VETERANS BENEFITS AND SERVICES*

Table 26–1. FEDERAL RESOURCES IN SUPPORT OF VETERANS BENEFITS AND SERVICES
(In millions of dollars)

Function 700	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	18,908	18,973	18,941	18,939	18,925	18,927	19,584
Mandatory Outlays:							
Existing law	20,705	24,010	24,409	25,391	26,742	30,820	31,904
Proposed legislation	....	....	–188	–356	–915	–4,311	–3,903
Credit Activity:							
Direct loan disbursements	1,341	1,950	174	220	198	154	112
Guaranteed loans	24,287	24,844	23,440	22,895	23,399	22,786	23,287
Tax Expenditures:							
Existing law	2,966	3,136	3,310	3,505	3,710	3,930	4,160

The Federal Government provides benefits and services to veterans (and their survivors) of conflicts as long ago as the Spanish-American War and as recent as the Gulf War, recognizing the sacrifices of wartime and peacetime veterans during their military service. The Federal Government spends over $40 billion a year on veterans benefits and services, and provides over $3 billion in tax benefits, to compensate veterans and their survivors for service-related disabilities, provide medical care to low-income and disabled veterans, and help returning veterans prepare for reentry into civilian life through education and training. In addition, veterans benefits provide financial assistance to needy veterans of wartime service and their survivors.

About six percent of veterans are military retirees, who can receive both military retirement from the Department of Defense (DOD) and veterans benefits from the Department of Veterans Affairs (VA). Active duty military personnel are eligible for veterans housing benefits, and they can contribute to the Montgomery GI Bill (MGIB) program for education benefits that are paid later. VA employs about 20 percent of the non-Defense workforce of the Federal Government—almost 250,000 people, about 217,000 of whom deliver or support medical services to veterans.

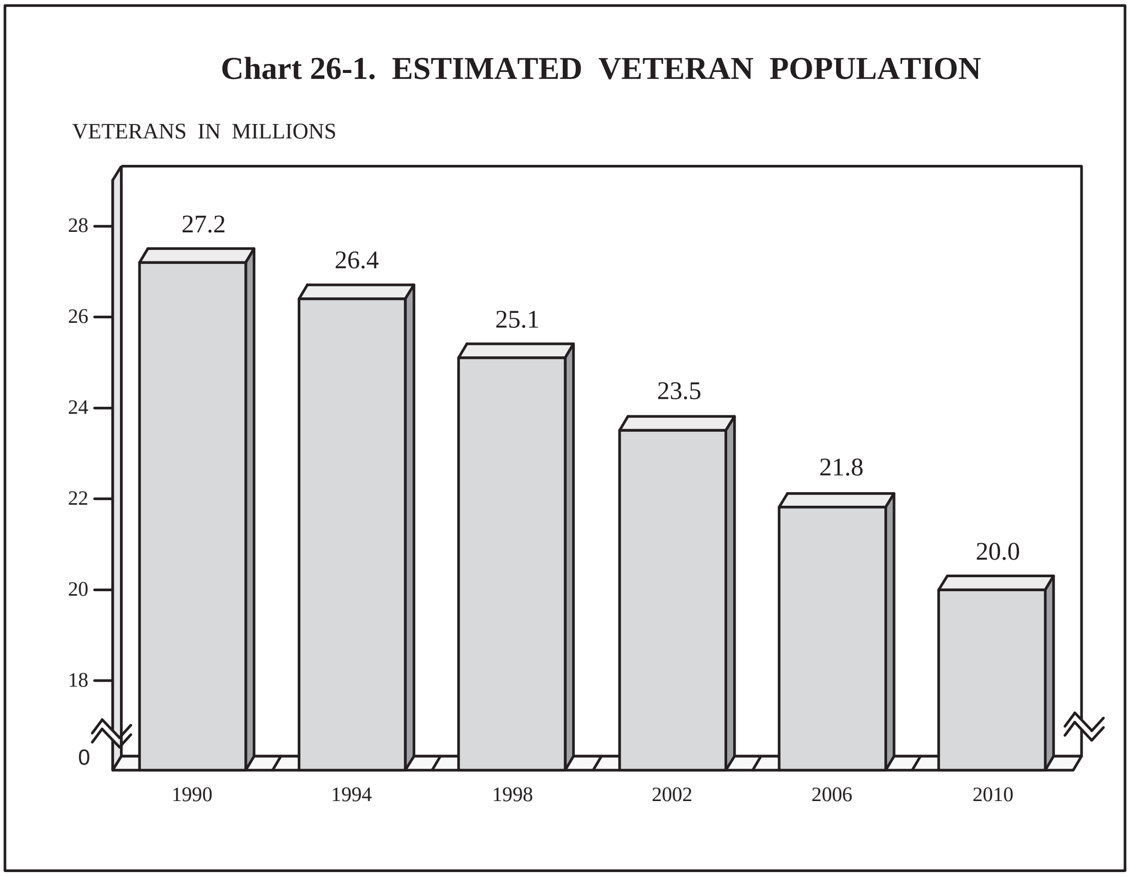
VA's mission is "to administer the laws providing benefits and other services to veterans and their dependents and the beneficiaries of veterans. To serve America's veterans and their families with dignity and compassion and be their principal advocate in ensuring that they receive medical care, benefits, social support, and lasting memorials promoting the health, welfare and dignity of all veterans in recognition of their service to this Nation."

The veteran population is declining, with most of the decline among draft-era veterans, meaning that a rising share of veterans comes from the All-Volunteer Force (see Chart 26–1). Thus, the types of needed benefits and services will likely change. Further, as the veteran population shrinks and technology improves, access to, and the quality of, service should continue to improve.

Medical Care

VA provides health care services to 3.1 million veterans through its national system of 22 integrated health networks, consisting

*Revised February 27, 1998.



of 172 hospitals, 439 ambulatory clinics, 131 nursing homes, 40 domiciliaries[1], and 206 readjustment counseling centers. VA is an important part of the Nation's social safety net because over half of its patients are low-income veterans who might not otherwise receive care. It also is a leading health care provider for veterans with substance abuse problems, mental illness, HIV/AIDS, and spinal cord injuries because private insurance usually does not fully cover these conditions.

VA's core mission is to meet the health care needs of veterans who have compensable service-connected injuries or very low incomes. The law makes these "core" veterans the highest priority for available Federal dollars for health care. However, VA may provide care to lower-priority veterans if resources allow and if the needs of higher-priority veterans have been met.

[1] Domiciliaries serve homeless veterans and veterans who require short-term rehabilitation.

In recent years, VA has reorganized its field facilities from 172 largely independent medical centers into 22 Veterans Integrated Service Networks, charged with giving veterans the full continuum of care. Recent legislation eased restrictions on VA's ability to contract for care and share resources with Defense Department hospitals, State facilities, and local health care providers.

To move further toward improving the health care of our Nation's veterans, VA will continue to enhance the efficiency, access, and quality of care. Through 2002, VA will pursue its "30/20/10" goal:

- reduce the cost per patient by 30 percent (and by 11 percent in 1999);
- increase the number of patients treated by 20 percent (and by nine percent in 1999); and
- increase resources from outside sources to 10 percent (and by five percent in 1999).

In addition, VA has formed a national partnership with the American Hospital Association, the American Medical Association, the American Nurses Association, and other national associations to ensure patient quality of care.

By 2003, VA plans to:

- increase the number of patients with high volume common disease entities who are treated using clinical guidelines to 90 percent (and to 60 percent in 1999);
- increase the scores on the Chronic Disease Index to 95 percent (and to 91 percent in 1999); and
- increase the scores on the Prevention Index to 95 percent (and to 87 percent in 1999).

Smoking Cessation: The budget proposes a new smoking-cessation program for any veteran who began smoking in the military. The program will be delivered by private providers on a per capita basis.

- In 1999, VA will establish at least one contract in each State to implement smoking cessation programs in order to reduce the number of veterans that smoke by 10 percent over five years.

Medical Research: VA's research program provides about $300 million to conduct basic, clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines, seeking to improve veterans medical care and health and enhancing our knowledge of disease and disability. VA is reorganizing its research to ensure that all projects clearly relate to the health care of veterans. In 1999, VA will focus its research efforts on aging, chronic diseases, mental illness, substance abuse, sensory loss, trauma related impairment, health systems research, special populations (including Persian Gulf veterans), and military occupational and environmental exposures.

- At least 99 percent of funded projects will be relevant to VA's mission in 1999, achieving the VA's goal.

Health Care Education and Training: The Veterans Health Administration is the Nation's largest trainer of health care professionals, with about 107,000 students a year who get some or all of their training in VA facilities through affiliations with over 1,000 educational institutions. The program trains medical, dental, nursing, and associated health professions students to ensure an adequate supply of clinical care providers for veterans and the Nation as a whole. The program will continue to realign its academic training and update its curriculum, focusing more on primary care to better meet the needs of the Veterans Health Administration and its patients, students, and academic partners.

- In 1999, VA will train 44 percent of its residents in primary care and, in 2003, increase that figure to 48 percent.

Veterans Benefits Administration (VBA)

VBA processes veterans claims for benefits in 58 regional offices across the country. Its workload peaked in 1993 and 1994, when it needed 214 days to process a claim. As the veteran population declines, the number of new claims and appeals will also likely decline. In 1997, the number of days to process a new claim averaged 133. VBA is developing a comprehensive strategic plan to further improve processing performance. Its current strategic goals include:

- improving responsiveness to customer needs and expectations;
- improving service delivery and benefit claims processing;
- ensuring best value for the available taxpayers' dollar; and
- ensuring a satisfying and rewarding work environment.

Income Security

Several VA programs help veterans and their survivors maintain their income when the veteran is disabled or deceased. The Federal Government will spend over $21 billion for these programs in 1999, including the funds Congress approves each year to subsidize life insurance for veterans who are too disabled to get affordable coverage from private insurance. Veterans can receive these benefits along with the income security that goes to all Americans, such as Social Security and unemployment insurance.

Compensation: Veterans with disabilities resulting from, or coincident with, military service receive monthly compensation payments, based on the degree of disability. The payment does not depend on the veteran's income or age, or on whether the disability is the result of combat or a natural-life affliction. It does, however, depend on the average fall in earnings capacity that the Government presumes for veterans with the same degree of disability. Survivors of veterans who die from service-connected injuries receive payments in the form of dependency and indemnity compensation. Benefits are indexed annually by the same cost-of-living adjustment (COLA) as Social Security, which is an estimated 2.2 percent for 1999.

The number of veterans and survivors of deceased veterans receiving compensation benefits will total an estimated 2.7 million in 1999. While the veteran population will decline, the compensation caseload will remain relatively constant due to changes in eligibility and better outreach efforts. COLAs and increased payments to aging veterans will increase compensation spending by about $3 billion from 1999 to 2003.

- In 1999, VA will process original compensation claims in 106 days, dropping to 53 days in 2002.

Pensions: The Government provides pensions to lower-income, wartime-service veterans, or veterans who became permanently and totally disabled after their military service. Survivors of wartime-service veterans may qualify for pension benefits based on financial need. Veterans pensions, which also increase annually with COLAs, will cost over $3 billion in 1999. The number of pension recipients will continue to fall from an estimated 673,000 in 1999 to less than 600,000 in 2003, as the number of veterans drops.

- In 1999, VA will process original pension claims in 80 days, dropping to 29 days in 2002.

Insurance: VA has provided life insurance coverage to service members and veterans since 1917 and now directly administers or supervises eight distinct programs. Six of the programs are self-supporting, with the costs covered by premium payments from the policyholders and earnings from investments in Treasury securities. The other two programs, designed for service-disabled veterans, require annual congressional appropriations to meet the costs of claims. Together, these eight programs will provide $488 billion in insurance coverage to over 4.7 million veterans and service members in 1999. The program is designed to provide insurance protection and best-in-class service to veterans who can't purchase commercial policies at standard rates because of their service-connected disabilities. To reach this goal, the program is designed to provide disbursements (death claims, policy loans, cash surrenders) quickly and accurately, meeting or exceeding customer expectations.

- In 1999, VA will pay insurance claims in three and a half days, dropping to 2.8 days in 2002.

Veterans Education, Training, and Rehabilitation

Several Federal programs support job training and finance education for veterans and others. The Labor Department runs several programs just for veterans. In addition, several VA programs provide education, training, and rehabilitation benefits to veterans and military personnel who meet specific criteria, including the Montgomery GI bill (the largest of these programs), the post-Vietnam-era education program, the Vocational Rehabilitation program, and the Work-Study program. Spending for all VA programs in this area will total an estimated $1.5 billion in 1999.

The Montgomery GI Bill: The Government originally created MGIB as a test program, with more generous benefits than the post-Vietnam-era education program, to help veterans move to civilian life as well as to help the armed forces with recruitment. Service members who choose to enter the program have their pay reduced by $100 a month in their first year of military service. The VA administers the program, paying basic benefits once the service member leaves the military. Basic benefits now total over $16,000 (about 13 times the original reduction in the service member's pay).

MGIB beneficiaries receive a monthly check based on whether they are enrolled in school on a full- or part-time basis. They can get 36 months worth of payments, but they must certify monthly that they are in school. DOD may provide additional benefits to help recruit certain specialties and critical skills. Nearly 310,000 veterans and service members will use these benefits in 1999. The MGIB also provides education benefits to reservists while they are in service. DOD pays these benefits, and the VA administers the program. In 1999, over 76,000 reservists will use the program. Over 90 percent of MGIB beneficiaries use their benefits to attend a college or university. The Administration will propose legislation to enact a one-time, 20-percent rate increase for all MGIB beneficiaries, dependents, and survivors.

- In 1999, VA will increase the participation rate of eligible veterans in the MGIB from its current 37 percent to 45 percent, and increase the figure to 69 percent in 2003.

Veterans Housing

Along with the mortgage assistance that veterans can get through the Federal Housing Administration insurance program, the VA-guaranteed loan program in 1999 will help an estimated 222,000 veterans get mortgages, totaling almost $24 billion. The Federal Government will spend an estimated $264 million on this program in 1999, reflecting the Federal subsidies implicit in loans issued during the year. Slightly over 40 percent of veterans who have owned homes have used the VA loan guaranty program. To increase veteran home ownership and the program's efficiency, VA will cut its administrative costs.

- In 1999, VA will reduce the servicing cost of each loan to $193, from its 1997 level of $334.

National Cemetery System

The VA provides burial in its National Cemetery System for eligible veterans, active duty military personnel, and their dependents—with the VA managing 115 national cemeteries across the country. VA will spend over $90 million in 1999 for VA cemetery operations, excluding reimbursements from other accounts. Over 73,000 veterans and their family members were buried in National Cemeteries in 1997. The system is working to ensure that all eligible veterans have reasonable access to a burial option. The program will complete construction of four new national cemeteries, expand existing cemeteries, develop more effective use of available burial space, and encourage States' participation in the State Cemetery Grants Program.

- In 1999, VA will increase the percentage of veterans served by a burial option within a reasonable distance to 75 percent.

Related Programs

Many veterans get help from other Federal income security, health, housing credit, education, training, employment, and social service programs that are available to the general population. In addition, a number of these programs have components specifically designed for veterans. Some veterans also receive preference for Federal jobs. Starting in 1999, the children of Vietnam veterans will receive compensation if they are afflicted with spina bifida, which the Government will presume was caused by a veteran parent's exposure to herbicides.

Tax Incentives

Along with direct Federal funding, certain tax benefits help veterans. The law keeps all cash benefits that the VA administers (disability compensation, pension, and GI bill benefits) free from tax. Together, these three exclusions will cost about $3 billion in 1999. The Federal Government also helps veterans obtain housing through veterans bonds that State and local governments issue, the interest on which is not subject to Federal tax. In 1999, this provision will cost the Government an estimated $75 million.

27. ADMINISTRATION OF JUSTICE

Table 27–1. FEDERAL RESOURCES IN SUPPORT OF ADMINISTRATION OF JUSTICE
(In millions of dollars)

Function 750	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	22,942	24,229	25,728	24,554	24,381	24,551	25,075
Mandatory Outlays:							
Existing law	78	1,359	640	287	149	174	160
Proposed legislation	....	10	51	55	49	42	35

While States and localities bear most of the responsibility for fighting crime, the Federal Government also plays a critical role. Along with supporting State and local activities, the Federal Government investigates and prosecutes criminal acts that require a national response. In 1998, anti-crime expenditures will consume 4.6 percent of all Federal discretionary spending, compared with about two percent in 1988.

Total Federal, State, and local resources devoted to the administration of justice—including law enforcement, litigation, judicial, and correctional activities—grew from $71.8 billion in 1989 to an estimated $141.7 billion in 1998—by 97 percent or, as Chart 27–1 shows, by 46 percent in constant 1992 dollars. During this period, the Federal law enforcement component, including transfer payments to State and local law enforcement activities, more than doubled, from $10.1 billion in 1989 to $25.3 billion in 1998. Nevertheless, Federal resources account for only 18 percent of total governmental spending for administration of justice.

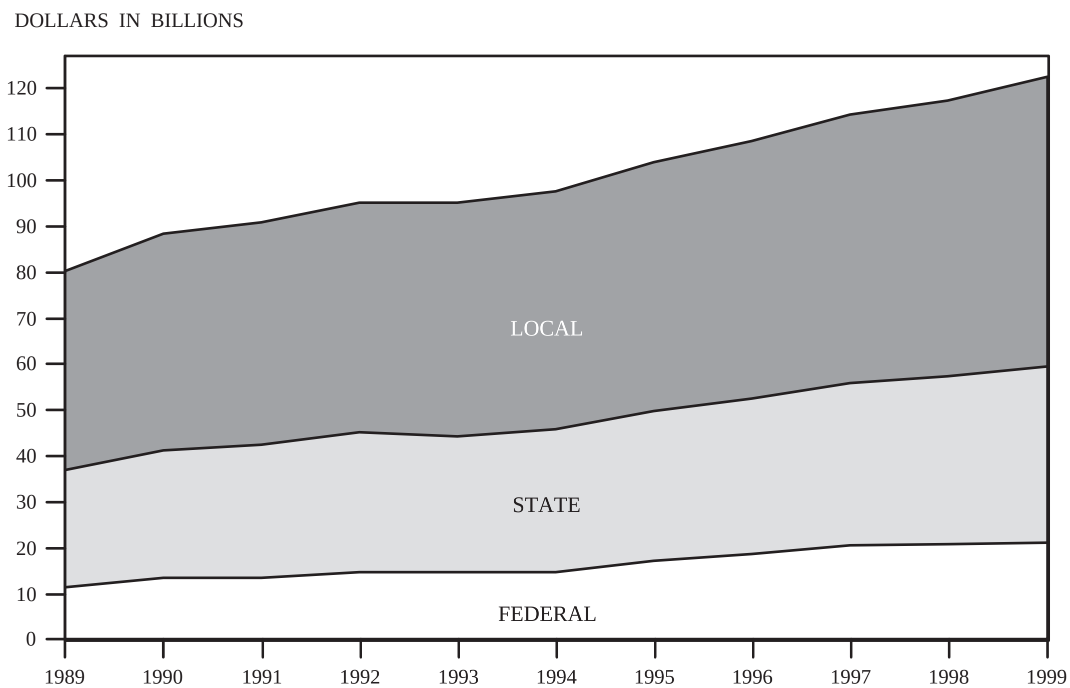
The number of criminal offenses that law enforcement agencies reported fell by three percent from 1995 to 1996—marking the fifth straight year that the crime rate has fallen. The number reported in the first six months of 1997, the most recent period for which figures are available, was four percent lower than in the same period in 1996. The drop in crime, when compared with increases in anti-crime spending during the same period, appears to suggest a general relationship, although crime is affected by varying factors. The budget builds upon this record of success by continuing to provide substantial funding for proven anti-crime programs.

Federal Activities

Federal funding for the Administration of Justice function includes: (1) Federal law enforcement activities; (2) litigative and judicial activities; (3) correctional activities; and (4) financial assistance to State and local entities (see Chart 27–2). In 1998, 70 percent of these funds went to the Justice Department (DOJ), while most of the rest went to the Treasury Department and the Judicial Branch.

Law Enforcement: The budget proposes in 1999 to enforce a wide range of laws, reflecting the unique Federal role in law enforcement. Some responsibilities—such as customs enforcement—date from the beginning of the country. DOJ's FBI and Drug Enforcement Administration (DEA) enforce diverse Federal laws dealing with violent crime, terrorism, white collar crime, drug smuggling, and many other criminal acts. The Immigration and Naturalization Service (INS) protects the U.S. border from illegal migration while providing

Chart 27-1. ADMINISTRATION OF JUSTICE EXPENDITURES
(In constant 1992 dollars)



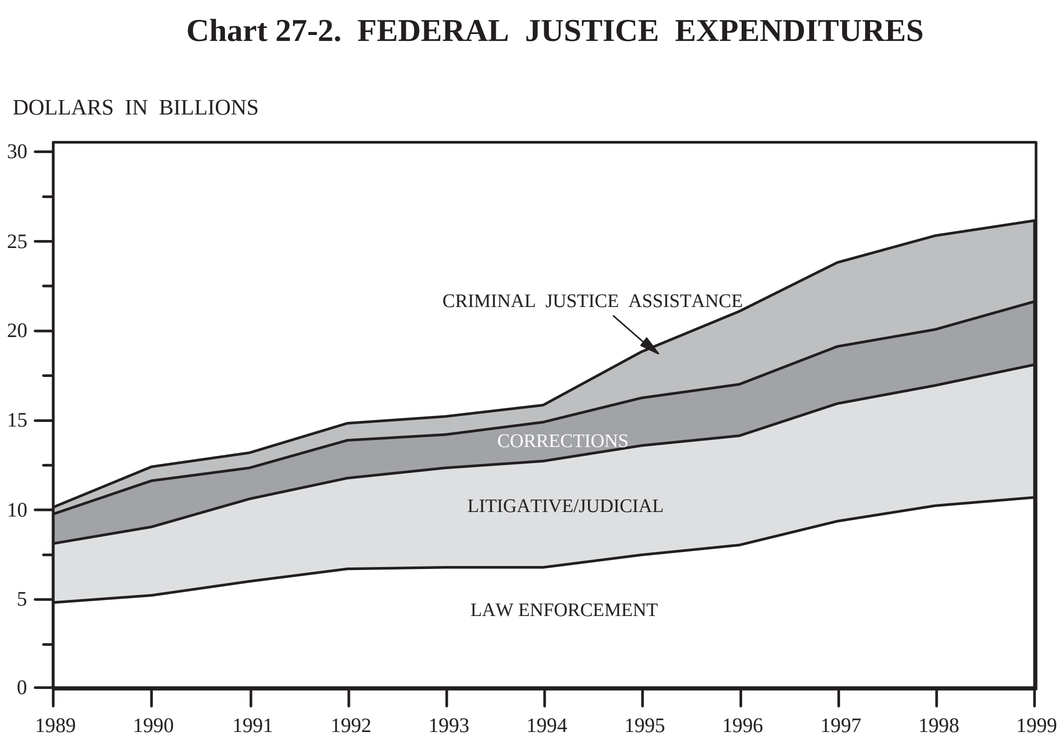
Note: Data includes discretionary and mandatory expenditures.

services to legal aliens. These agencies, and the ones discussed below, also work with State and local law enforcement agencies, often through joint task forces, to address drug, gang, and other violent crime problems.

Within the Treasury Department, the U.S. Customs Service, Bureau of Alcohol, Tobacco and Firearms (ATF), United States Secret Service, and other bureaus enforce laws related to drug and contraband smuggling across our borders; firearms trafficking; arson and explosives crime; financial crime and fraud, including money laundering, counterfeiting, and credit card fraud; and the regulation of the alcohol, tobacco, and firearms industries. The Secret Service protects the President, Vice President, and foreign dignitaries. The Federal Law Enforcement Training Center (FLETC) trains Federal law enforcement personnel.

Federal responsibility to enforce civil rights laws in employment and housing arises from Titles VII and VIII of the Civil Rights Act of 1964, as well as more recent legislation, including the Age Discrimination in Employment Act and the Americans with Disabilities Act. The Department of Housing and Urban Development enforces laws that prohibit discrimination on the basis of race, color, sex, religion, disability, familial status, or national origin in the sale or rental, provision of brokerage services, or financing of housing. The Equal Employment Opportunity Commission enforces laws that prohibit employment discrimination on the basis of race, color, sex, religion, disability, age, and national origin. DOJ enforces the criminal civil rights laws.

Litigation and Judicial Activities: After law enforcement agencies such as the FBI, DEA, and ATF have investigated and apprehended perpetrators of Federal crimes, the United States must prosecute them—and the budget proposes $7.5 billion for this purpose. This task falls primarily to the 93 United States Attorneys and the 4,450 Assistant United States Attorneys. Along with prosecuting cases referred by Federal law enforcement



Note: Data includes discretionary and mandatory expenditures.

agencies, the U.S. Attorneys work with State and local police and prosecutors in their efforts to bring to justice those who have violated Federal laws—whether international drug traffickers, organized crime ringleaders, or perpetrators of white collar fraud. The U.S. Marshals Service protects the Federal courts and their officers; apprehends fugitives; and maintains custody of prisoners involved in judicial proceedings.

In addition, DOJ contains several legal divisions specializing in specific areas of criminal and civil law. These divisions—including the Civil, Criminal, Civil Rights, Environment and Natural Resources, Tax, and Antitrust Divisions—work with the U.S. Attorneys to ensure that violators of Federal laws are brought to justice. The Federal Government, through the Legal Services Corporation, also promotes equal access to the Nation's legal system by funding local organizations that provide legal assistance to the poor in civil cases.

The Judiciary's growth in recent years arises from increased Federal enforcement efforts and Congress' continued expansion of the Judiciary's jurisdiction. Accounting for 13 percent of total law enforcement spending, the Judiciary comprises the Supreme Court and 12 circuit courts of appeals, 90 bankruptcy courts, and 94 district courts, 94 federal probation offices, the Court of Appeals for the Federal Circuit and the Court of International Trade. The Federal Judiciary is overseen by 2,096 Federal judges and nine Supreme Court justices.

Correctional Activities: The budget proposes $3.5 billion for corrections activities. Due to higher spending on law enforcement and tougher sentencing, the number of Federal Prison System inmates has risen to 114,000, more than double the number in 1988. The Federal inmate population—less than a tenth of the total U.S. inmate population—will continue to grow due to the abolition of parole, minimum mandatory sentences, and sentencing guidelines. State inmate populations will grow, in part, due to sentencing requirements tied to Federal prison grant funds. In the Federal system, about 62 percent of inmates serving time were convicted on drug-related charges.

Criminal Justice Assistance: The budget proposes $4.6 billion to help State and local governments fight crime. The Administration is encouraging the adoption of community policing practices through the Community Oriented Policing Services (COPS) program. The Truth-in-Sentencing/Violent Offender Incarceration grant program seeks to ensure that convicted violent offenders are incarcerated and serve at least 85 percent of their sentences. Similar changes in law from 1984 for Federal prisoners increased the time served by 60 percent.

To combat the significant problem of violence against women, the budget proposes $271 million to enhance the States' abilities to respond, and to further expand access to previously under-served rural, Indian, and other minority populations. To promote increased drug testing and treatment for individuals under the supervision of the criminal justice system, the budget proposes a $94 million increase over the 1998 level for drug testing and treatment and Drug Courts. In addition, the budget continues to provide $553 million in law enforcement assistance grants under the Edward Byrne Memorial State and Local Law Enforcement Assistance Program.

To prevent young people from becoming involved in the juvenile justice system, the budget continues juvenile justice programs, including those that provide supervised afternoon and evening activities for youth. The budget also provides additional assistance to State and local prosecutors' offices to address gang violence and other juvenile crime, and to courts and court-related entities to expedite the handling of violent juvenile cases. Finally, the budget provides a $6 million increase for "Weed and Seed," which helps communities develop and implement comprehensive strategies to "weed" out violent crime, illegal drugs, and gang activity, and to "seed" their communities with programs that prevent crime.

Performance Goals

Federal agencies, as cited below, will work to achieve the following performance goals with the proposed budget funds:

With regard to violent crime:

- The Justice Department will maintain the Federal Government's commitment to reducing the incidence of violent crime below the 1996 level of 634 offenses per 100,000 population.
- The Justice Department will provide funding for communities to hire and deploy 16,000 more officers in 1999.
- The Treasury Department will help solve violent crimes and reduce firearms trafficking by tracing up to 275,000 firearms used in criminal activities, compared to 116,674 in 1996.
- The Justice Department will reduce specific areas of organized crime and its influence on unions and industries from the 1997 level, while intensifying its efforts to prevent emerging organized crime enterprises from gaining a permanent foothold in particular areas.
- The Treasury Department will ensure the physical protection of the President, Vice President, visiting foreign dignitaries, and others protected by the Secret Service.
- The Justice Department will ensure that no judge, witness, or other court participant is the victim of an assault stemming from his or her involvement in a Federal court proceeding.
- The U.S. Marshals Service will apprehend 80 percent of violent offenders within one year of a warrant's issuance, and will reduce the fugitive backlog from 1998 by five percent.
- The Interior and Justice Departments will work to increase the number of law enforcement officers for Indian Tribes from the current level of 1.3 officers per 1,000 citizens to 2.9 officers per 1,000 citizens.

With regard to drug abuse:

- Federal and non-Federal entities will work together to reduce the availability and abuse of illegal drugs.

  Separately, the Office of National Drug Control Policy will present a comprehensive set of societal performance measures for anti-drug programs, recognizing that achieving national drug control objectives depends critically on the actions of not only the Federal Government, but of State, local, and foreign governments and on the behavior of individuals.

With regard to immigration and border control:

- The Justice Department will reduce the average time between application and naturalization of qualified candidates from an estimated 24 months in 1997 to six to 10 months in 1999.
- The Treasury, Justice and Agriculture Departments will increase the percent of legitimate air passengers cleared through primary inspection in 30 minutes or less from an estimated 31 percent in 1997 to 39 percent in 1999; and will work to process legitimate land border travelers through the primary inspection process on the Mexico border in 30 minutes or less in 1999.
- The Justice Department will increase the number of removals of aliens who are illegally in the United States from 111,794 in 1997 to about 134,900 in 1999.
- The Justice Department will identify over 38,500 unauthorized workers, thereby opening up potential jobs for U.S. citizens and other legally authorized workers.
- The Treasury Department will increase trade revenue from duties collected and enhance the accuracy of trade data by improving importers' compliance with trade laws (e.g., quotas, trademarks, and copyrights) from 83 percent in 1997 to 85 percent in 1999.

With regard to civil rights and other matters:

- The Equal Employment Opportunity Commission will reduce the average time to process private sector equal employment complaints by doubling the number of complaints eligible for the mediation-based alternative dispute resolution program.
- The Department of Housing and Urban Development (HUD) will ensure that HUD grantees in 20 communities undertake fair housing audit-based enforcement, using a HUD-developed standardized methodology, to develop local indices of discrimination, to identify and pursue violations of fair housing laws, and to promote new fair housing enforcement initiatives at the local level.
- The Treasury Department will step up its efforts to disrupt and dismantle the illegal activities of major violators of Federal financial crimes laws (e.g., counterfeiting, forgery, money laundering, and credit card fraud).

28. GENERAL GOVERNMENT

Table 28–1. FEDERAL RESOURCES IN SUPPORT OF GENERAL GOVERNMENT
(In millions of dollars)

Function 800	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	11,814	12,489	12,968	12,125	12,174	12,029	12,122
Mandatory Outlays:							
Existing law	692	351	1,033	1,165	907	921	965
Proposed legislation	....	....	3,502	4,033	4,681	5,083	5,480
Credit Activity:							
Direct loan disbursements	223	....	....	....	....	....	....
Tax Expenditures:							
Existing law	47,220	49,230	51,050	52,920	54,770	56,655	58,520
Proposed legislation	....	....	42	79	124	165	197

The General Government function encompasses the central management activities of the executive and legislative branches. Its major activities include Federal finances (tax collection, public debt, currency and coinage, Government-wide accounting), personnel management, and general administrative and property management.

Four agencies are responsible for these activities: the Treasury Department (for which the budget proposes $12.3 billion), the General Services Administration ($142 million), the Office of Personnel Management ($187 million), and the Office of Management and Budget in the Executive Office of the President ($59 million).

Department of the Treasury

Treasury is the Federal Government's financial agent. It produces and protects the Nation's currency; helps set domestic and international financial, economic, and tax policy; enforces economic embargoes and sanctions; regulates financial institutions and the alcohol, tobacco, and firearms industries; manages the Federal Government's financial accounts; and protects citizens and commerce against those who counterfeit money, engage in financial fraud, violate our borders, and threaten our leaders. In 1999, Treasury will seek to collect an estimated $1.7 trillion in tax and tariff revenues due under the law; make over 70 percent of the 900 million payments that it issues electronically; issue $2 trillion in marketable securities and savings bonds to finance the Government's operations and increase citizens' savings; and produce 10 billion Federal Reserve Notes, 15 billion postage stamps, and 13 billion coins.

The Internal Revenue Service (IRS), for which the budget proposes $8.3 billion, is the Federal Government's main revenue collector. Its mission is to collect the proper revenue at the least cost. The budget proposal for the IRS seeks to improve customer service in order to provide taxpayers who need to contact the IRS with various communication options and ensure that the IRS treats each taxpayer as a customer. To help reach this goal, the IRS will revamp its past performance measures, eliminating those that undermine the fair treatment of taxpayers.

In 1999, the IRS will:

- continue its efforts to improve customer service mainly through telephone assistance, answering at least 86 percent of taxpayer calls, up from 65 percent in 1997, with an accuracy rate of 96 percent for tax law inquires;

- expand its problem resolution program by decreasing the number of days it takes to resolve a taxpayer's account problem in district offices to 35, from 36 in 1997;
- collect over $1.64 trillion in net revenue—78 percent of it electronically, a substantial increase from 41 percent in 1997;
- electronically process 19.5 percent of the expected 212 million total returns, both individual and business; (Of those, 5.9 million will use Telefile, which allows taxpayers to file a simple tax return over the telephone in under 10 minutes.)
- process electronic returns with a 99 percent accuracy rate while processing paper returns with a 95 percent accuracy rate;
- process refunds on paper returns in 40 days and electronic returns in 21 days; and
- ensure that its computers can process the year 2000 change by converting, testing, and certifying its computer code by October 1999.

In 1999, Treasury's Financial Management Service will:

- continue working to improve the management of the Nation's finances, saving $33 million by reducing the number of paper checks issued, and process 65 percent of all collections electronically and increase the Government-wide collection of delinquent debt by $95 million compared to 1995.

In 1999, Treasury's Bureau of Public Debt will:

- introduce a new series of inflation-indexed savings bonds of various denominations;
- automate the securities auction process and announce auction results within one hour 90 percent of the time; and
- maintain a 10-year average holding period for savings bonds.

In 1999, Treasury's Bureau of Engraving and Printing and U.S. Mint will:

- introduce a redesigned dollar coin and a new series of quarters featuring emblematic images of the States;
- incorporate new security features into the twenty dollar bill;
- ship all numismatic coins within four weeks of order date; and
- maintain a stamp spoilage rate of no more than 11 percent.

General Services Administration (GSA)

GSA has traditionally focused on its role as the central provider of supplies, general administrative services, telecommunication services, and office space to Federal agencies. In 1999, revenues from its various business lines will approach an estimated $13 billion. Under the Federal Property and Administrative Services Act of 1949 and subsequent laws, GSA also plays a policy leadership role with respect to property management and general administrative services.

Over the past two years, GSA has given greater attention to that leadership role. It has developed a new Federal management model, focusing on performance measurement, accountability for agencies and employees, and the effective use of technology in changing work environments. GSA has established inter-agency groups to advise it on the policies, best practices, and performance benchmarks appropriate for each administrative service and on the information systems to report performance. GSA's ultimate goal is a Federal Government in which agencies receive the administrative services they need according to the best practices known and at the least cost, internal regulation, and burden. When fully developed, GSA's policy role can potentially influence over $50 billion a year for property management and administrative services and the management of assets valued at nearly $500 billion.

GSA also provides expertly managed space, products, and services to support the administrative needs of Federal agencies. It has aggressively responded to the changing needs of its customer agencies by working to transform itself into a market-driven, customer-oriented agency. GSA will seek to exceed all Government-wide performance goals and industry benchmarks for administrative services as they are developed or identified. In the meantime, its overall goals as a service provider are to exceed its customer agencies' expectations for price, service and quality.

In 1999,

- the Public Buildings Service will deliver 88 percent of its construction and repair projects on schedule and within budget, up from 80 percent in 1997;
- the percentage of GSA-sponsored child care centers that meet national accreditation standards will increase to 75 percent, compared to an average national accreditation percentage of less than 10 percent;
- the Federal Technology Service projects a monthly line charge for local telephone service of $20.77, a 28-percent cut from 1994 rates; and
- the Federal Supply Service will lease automobiles and other motor vehicles to Federal agencies at rates that average 20 percent below comparable commercial lease rates.

Because GSA provides services on a reimbursable basis, the budgets of the agencies fund most of GSA's activities. In 1999, for example, the budget proposes an appropriation of $142 million for GSA, principally for its Office of Government-wide Policy and the Office of the Inspector General, but it projects obligations of nearly $14 billion through GSA's revolving funds. In addition, GSA will administer contracts through which agencies will buy over $14 billion in goods and services outside of GSA's revolving funds.

Office of Personnel Management (OPM)

OPM provides human resource management leadership and services, based on merit principles, to Federal agencies and employees. It provides policy guidance, advice, and direct personnel services and systems to the agencies. OPM also operates a Nation-wide job information and application system every hour of every day, publicly available through the Internet and other electronic and traditional sources at convenient and accessible locations. OPM develops and administers compensation systems for both blue-collar and white-collar employees. In addition, OPM provides fast, friendly, accurate, and cost effective retirement, health benefit, and life insurance services to Federal employees, annuitants, and agencies.

- OPM reduced the average time to process an annuity application from 83 days in 1994 to 39 days in 1997, and has targeted a goal of 35 days by 1999.
- OPM reduced customer call wait time for annuity inquiries from 5.1 minutes in 1996 to 3.3 minutes in 1997 and will strive to make further reductions in 1999.

But perhaps OPM's most important function is administering the Federal civil service merit systems, covering nearly 1.5 million employees, which includes recruiting, examining, and promoting people on the basis of their knowledge and skills—regardless of race, religion, sex, political influence, or other nonmerit factors. OPM runs an aggressive oversight program, identifying opportunities for improving Federal personnel policies and programs and helping agencies meet mission goals by effectively recruiting, developing, and utilizing employees. In 1997, OPM conducted Nation-wide reviews of eight major agencies, finding few serious problems and discovering many "best practices" that were shared with other agencies. OPM encourages maximum employment and advancement opportunities in the Federal service for disabled veterans and those qualified for veteran's preference (26 percent of today's employees). OPM's policies and programs seek to encourage diversity in the Federal workforce.

- In 1999, OPM will help agencies raise the levels of under-represented groups by two percent over the 1997–1998 levels.

Likewise, OPM helps dislocated and surplus employees by assisting agencies with career transition planning and, when vacancies arise, ensuring that dislocated and surplus employees receive hiring preference. In 1996, over 11,000 employees found employment through this process. With its Director chairing the National Partnership Council, OPM supports and promotes labor-management partnerships throughout the Executive branch—partnerships that help agencies deliver the highest-quality services to the American people. In 1996, such partnership councils represented 70 percent of Federal employees in bargaining units, and 1997 survey data indicate continued growth and positive perceptions of such partnerships.

- In 1999, OPM will continue to foster more such partnerships and help those that are having problems.

Finally, OPM helps Federal program managers carry out their personnel management responsibilities through a range of programs, training, and performance management designed to develop the most effective Federal employee. Other Federal agencies with personnel management responsibilities are the Merit Systems Protection Board, the Office of Special Counsel, the Office of Government Ethics, and the Federal Labor Relations Authority.

Office of Management and Budget (OMB)

OMB helps the President carry out his constitutional and statutory duties. It helps the President create policy relating to receipts and expenditures, regulations, information, and legislation; and manage the Executive Branch in the faithful execution of laws, policies, and programs. OMB also provides the President with the highest-quality analysis and advice on a broad range of topics.

OMB advocates the appropriate allocation and effective use of Government resources. OMB helps the President prepare the Federal budget and oversee its execution in the departments and agencies. In helping formulate the President's spending plans, OMB examines the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and provides policy options. OMB works to ensure that proposed legislation, and agency testimony, reports, and policies are consistent with Administration policies. OMB focuses particular attention on managing the processes for coordinating and integrating policies for interagency programs. On behalf of the President, OMB often presents and justifies major policies and initiatives related to the budget and Government management before Congress.

OMB has a central role in developing, overseeing, coordinating, and implementing Federal procurement, financial management, information, and regulatory policies. OMB helps to strengthen administrative management, develop better performance measures, and improve coordination among Executive Branch agencies.

In 1999, OMB will

- produce the President's annual budget documents in a timely, accurate manner; and
- ensure that agencies meet a number of key objectives, including: achieving compliance with year 2000 computer changes; receiving clean audit opinions on annual financial statements; improving the analysis of regulatory alternatives; ensuring that annual performance plans are fully integrated with budget submissions; and effectively using inter-agency working groups on a wide range of Government functions.

Tax Incentives

The Federal Government provides significant tax benefits for State and local governments. It permits tax-exempt borrowing for public purposes, costing $77 billion in Federal revenue losses over five years, from 1999 to 2003 (the budget describes tax-exempt borrowing for non-public purposes in the write-ups on other Government functions). In addition, taxpayers can deduct State and local income taxes against their Federal income tax, costing $182 billion over five years. Corporations with business in Puerto Rico receive a special tax credit, costing an estimated $15 billion over five years. Finally, up to certain limits, taxpayers can credit State death taxes against Federal estate taxes, costing $24 billion over five years.

32. REGULATION: COSTS AND BENEFITS

Along with taxing and spending, the Federal Government makes policy through regulating—that is, generally, through Executive Branch actions to interpret or implement legislation. As with taxing and spending, the Administration carefully designs and implements regulations to provide the most public benefit for the least cost. The Office of Management and Budget (OMB), the White House office that sets regulatory policy, has adopted the following objective in its Strategic Plan: "Maximize social benefits of regulation while minimizing the costs and burdens of regulation."

The Government is still learning how to accurately estimate regulatory costs, such as how much the private sector spends to comply with regulations, and benefits, such as safer cars and food. For over 20 years, a series of Executive Orders has charged OMB with reviewing regulations and providing information on their costs and benefits. The President's September 1993 Executive Order, "Regulatory Planning and Review," directs agencies to assess the costs and benefits of available regulatory alternatives and to issue only regulations that maximize net benefits (benefits minus costs), unless a law requires another approach.

Developing and evaluating the best possible data on benefits and costs are central to the Government's ability to assess how well the regulatory system functions to fulfill public needs. To meet that goal, OMB works with the agencies to improve the quality of the data and analyses they use in making regulatory decisions for both proposed and existing regulations, and to promote the use of standardized assumptions and methodologies uniformly across regulatory programs.

Difficulties in Estimation: Estimating regulatory costs and benefits is hard for two reasons: the "baseline" problem and the "apples and oranges" problem.

To estimate how regulations affect society and the economy, the Government must determine the baseline against which to measure costs and benefits; that is, what would have happened if the Government had not issued the regulation? But, several problems arise. First, no one can craft such a hypothetical baseline with certainty. Second, measures of costs and benefits often vary, depending on who is measuring. Agencies generally support their regulatory programs and, thus, may understate costs or overstate the likely benefits; at the same time, businesses and others who bear the costs will likely do the opposite. Third, the timing of estimates also may make a difference. Most estimates are made before the regulation takes effect, but evidence exists that once regulations are in place, the affected entities find less costly ways to comply.

The "apples and oranges" problem derives from the nature and diversity of regulation itself. Over 60 Federal agencies regulate over 4,000 times a year for a wide array of public purposes. The Government must make decisions about the chemical composition and temperature of the atmosphere, the accessibility of public transportation, and safety of the Nation's food supply. Estimating the costs of such diverse activities is hard; estimating the benefits is even harder. Fortunately, the Government is working on this issue and is making steady progress on methodology and data collection.

Costs and Benefits of Regulation: A recent OMB survey, *Report to Congress on the Costs and Benefits of Federal Regulations*, presents estimates of the aggregate costs and benefits of Federal regulation, as well as the costs and benefits of major individual regulations issued in the last year. Despite the inherent problems, the report represents a good first step toward developing a system to track OMB and agency performance in minimizing costs while achieving social benefits.

The report uses information on costs and benefits that was published in peer-reviewed journals, or published for public comment by agencies and reviewed by OMB, to estimate aggregate costs and benefits for four categories: environmental, other social, economic, and paperwork/disclosure (see Table 32–1).

The estimates in Table 32–1 are very rough, particularly the benefit estimates. With that very important caveat, the numbers indicate that regulation has produced as much, if not more, in benefits as in costs, and that environmental and other social regulation, mainly health and safety regulation, has clearly produced benefits significantly greater than compliance costs.

The benefits of environmental regulations reflect the value that society places on improved health, recreational opportunities, quality of life, preservation of ecosystems, biodiversity, and so on. The benefits of other social regulation include the value attributed to reduced mortality and morbidity. Generally, the costs are the expenses incurred in compliance, based on engineering designs and current prices, although sometimes they properly include the opportunity costs of foregoing the benefits of what would have been produced in the absence of the regulation.

Economic regulation directly restricts business' ability to conduct its main economic activities—to set prices and decide what to produce. It may also limit business' ability to enter or leave certain lines of work. These regulations usually apply on an industry basis, such as agriculture, trucking, or communications. Often, economic regulation has protected business from competition, and economic loss comes from the higher prices and inefficiencies that result when competition is restricted. Sometimes, however, as in the case of natural monopolies, economic regulation simulates competition and, thus, produces benefits to consumers. Because the Government has no reliable quantitative estimates of the benefits of economic regulation, Table 32–1 includes none. Most economists, however, believe that because regulatory policy has been slow to adapt to rapidly changing technology, the costs of economic regulation have generally exceeded the benefits. The Federal Government has been deregulating key sectors of the economy over the past 20 years, and many other countries have followed its lead.

The fourth category, paperwork/disclosure, includes regulations requiring that information be disclosed about the characteristics of an economic transaction—e.g., financial, securities, and business transactions—so that both parties to the transaction will have the same information. Although the Government has no reliable estimates of the benefits of such disclosure, most economists believe that benefits exceed costs.

Although Table 32–1 shows that, in total and for important categories, Federal regulations have provided more benefits than costs, it says little about current regulatory policy or how to improve it. To address these issues, the Government needs estimates of the costs and benefits of the incremental changes to recent regulations. In its report,

Table 32–1. Estimates of the Total Annual Benefits and Costs of Regulations for 1997

(In billions of 1996 dollars)

	Benefits	Costs
Environmental	162	144
Other Social	136	54
Economic	*	71
Paperwork/disclosure	*	10
Total	>298	279

* Indicates that significant benefits remain to be quantified including the benefits of regulating local phone monopolies and the information disclosure requirements of the banking and capital market regulatory agencies. Note that financial safety and soundness regulation is not included in the above totals.

Source: OMB, *Report to Congress On the Costs and Benefits of Federal Regulations,* September 30, 1997.

OMB provided information on the costs and benefits of the 41 economically significant final regulations that it reviewed from April 1, 1996 to March 31, 1997. [1]

Twenty-one of these rules require substantial private sector spending, provide significant new social benefits, or both. The Environmental Protection Agency (EPA) issued seven of these rules; the Agriculture Department (USDA) issued four; the Health and Human Services (HHS) and Transportation Departments each issued three; and the remaining four were spread among the Commerce, Interior (DOI), and Labor (DOL) Departments.

For seven of the 21 rules, monetized benefits exceeded costs. For example, the Food and Drug Administration (FDA) estimated that its tobacco rule would provide net benefits of $9 billion to $10.2 billion a year. EPA estimated that its Accidental Release Prevention rule would generate $77 million a year in net benefits. For the remaining 15 rules, agencies did not provide enough information to estimate monetized net benefits. For five of the 15, the agencies quantified the expected benefits (e.g., tons of emissions reduced, number of injuries avoided), but they did not assign dollar values to these effects and, thus, could not calculate monetized net benefits. For five others, the agencies identified qualitative benefits associated with the rule, but did not develop any quantified estimates of the likely effects. For the remaining five, agencies had very little economic data on the effects of the rule.

Of the remaining economically significant final rules, 19 were needed to implement Federal budget programs. These rules generally create "transfers"—that is, payments from one group to another, such as from the Federal Government to beneficiaries, that redistribute wealth. Eight were USDA rules to implement Federal laws on agricultural and Food Stamp policies; seven were HHS and Social Security Administration rules to implement Medicare, Medicaid, and Social Security policy; two were Department of Housing and Urban Development rules linked to Federal mortgage protections; one was a DOL rule tied to Federal service contracts; and one was a joint HHS-Treasury-DOL rule setting standards for health insurance portability group health plans.

In the most basic case, transfers do not directly impose social costs or create social benefits, and do not reflect the "opportunity cost" of resources used or benefits foregone. Thus, OMB did not include transfers in Table 32–1 estimates of costs and benefits. Nevertheless, transfers can have important effects on the distribution of income. They may cause indirect social costs because they must be financed—for example, by income and payroll taxes—in ways that affect the use of real income. Similarly, transfers may generate social benefits if beneficiaries realize marginal benefits from the payments that are greater than the losses for taxpayers who finance them.

Further Action: The Government needs better data and analysis to determine whether proposed regulations maximize social benefits while minimizing cost. But agencies have legitimate reasons for their often incomplete estimates. In some cases, they face significant technical problems in assessing costs and benefits. In others, legal or judicial deadlines force the agencies to act within time frames that do not allow for adequate analysis. In still others, agencies may need to allocate their limited financial and human resources to higher priorities. Finally, in cases of emergencies, the public expects its elected leaders to respond without the delay that careful analysis would entail.

OMB is committed to improving the indicators to assess its performance in meeting the goal of ensuring that it is faithfully executing and managing regulatory policy. It will lead an inter-agency effort to raise the quality of analyses that agencies use in developing regulations, such as by offering technical outreach programs and training sessions on using OMB's "Best Practices" on economic analysis.

OMB also will:

- subject a select set of agency regulatory analyses to peer review in order to identify—based on actual experience—the methodological approaches that need im-

[1] For a copy of this report, see the web site http://www.whitehouse.gov/WH/EOP/OMB/html/rcongress.htm.

provement and to stimulate the development of better estimation techniques;

- continue to develop a database on benefits and costs of major rules, using consistent assumptions and better estimation techniques to refine agency estimates of incremental costs and benefits; and
- work on developing appropriate methodologies to evaluate whether to reform or eliminate existing regulatory programs or their elements.

Regulation and regulatory reform can do much good for society, depending on whether the Government has the needed information and analysis for wise decision-making. The steps outlined above are designed to continue the Government's efforts to improve its ability to make better regulatory decisions.

From *Analytical Perspectives, Fiscal Year 1999*

5. TAX EXPENDITURES

Tax expenditures are revenue losses due to preferential provisions of the Federal tax laws, such as special exclusions, exemptions, deductions, credits, deferrals, or tax rates. They are alternatives to other policy instruments, such as spending or regulatory programs, as means of achieving Federal policy goals. Tax expenditures are created for a variety of reasons, including to encourage certain activities, to improve fairness, to ease compliance with and administration of the tax system, and to reduce certain tax-induced distortions. The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of tax expenditures be included in the budget.

The largest tax expenditures tend to be associated with the individual income tax. For example, tax preferences are provided for employer contributions for medical insurance, pension contributions and earnings, mortgage interest payments on owner-occupied homes, capital gains, and payments of State and local individual income taxes. Tax expenditures under the corporate income tax tend to be related to the rate of cost recovery for various investments; as is discussed below, the extent to which these provisions are classified as tax expenditures varies according to the conceptual baseline used. Charitable contributions and credits for State taxes on bequests are the largest tax expenditures under the unified transfer (i.e., estate and gift) tax.

Because of potential interactions among provisions, this chapter does not present a grand total revenue loss estimate for tax expenditures. Moreover, past tax changes entailing broad elimination of tax expenditures were generally accompanied by changes in tax rates or other basic provisions, so that the net effects on Federal revenues were considerably (if not totally) offset. Nevertheless, in aggregate, tax expenditures have revenue impacts of hundreds of billions of dollars, and are some of the most important ways in which the Federal Government affects economic decisions and social welfare.

Tax expenditures relating to the individual and corporate income taxes are considered first in this chapter. They are estimated for fiscal years 1997–2003 using three methods of accounting: revenue loss, outlay equivalent, and present value. The present value approach provides estimates of the revenue losses for tax expenditures that involve deferrals of tax payments into the future or have similar long-term effects. Tax expenditures relating to the unified transfer tax are considered in a section at the end of the chapter.

The section in this chapter on Performance Measures and the Economic Effects of Tax Expenditures presents information related to assessment of the effect of tax expenditures on the achievement of program performance goals. This section was prepared under the Government Performance and Results Act of 1993 and is a part of the government-wide performance plan required by this Act (see also Sections III, IV, and VI of the *Budget* volume). Tax expenditures are also discussed in Section VI of the *Budget,* which considers the Federal Government's spending, regulatory, and tax policies across functional areas.

Performance Measures and the Economic Effects of Tax Expenditures

Under the Government Performance and Results Act of 1993 (GPRA), Federal agencies are directed to develop both strategic and annual plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Achieving most of these objectives will largely be the result of direct expenditures of funds. However, tax expenditures may also contribute to goal achievement.

The Senate Governmental Affairs Committee report on this Act[4] called on the Executive branch to undertake a series of analyses to assess the effect of specific tax expenditures on the achievement of the goals and objectives in these strategic and annual plans. As described in OMB's May 1997 report on this Act,[5] Treasury in 1997 initiated pilot studies of three specific tax expenditures in order to explore evaluation methods and resource needs associated with evaluating the relationship between tax expenditures and performance goals. Tax expenditures were selected in each of the three main areas—individual, business, and international taxation—within the Office of Tax Analysis. The specific provisions considered were: the tax exemption for worker's compensation benefits; the tax credit for nonconventional fuels; and the tax exclusion for certain amounts of income earned by Americans living

[4] Committee on Government Affairs, United States Senate, "Government Performance and Results Act of 1993" (Report 103–58, 1993).

[5] Director of the Office of Management and Budget, "The Government Performance and Results Act," Report to the President and the Congress, May 1997.

abroad. The results of these studies are summarized in the context of the three specific provisions in the section that follows, which provides provision descriptions.

For the next year, the Administration's plan is to complete additional studies that will focus on the availability of the data needed to assess the effects of selected significant tax expenditures. In addition, summarized data on the beneficiaries and other economic properties of such provisions will be developed where feasible. This effort will complement information published by the Joint Committee on Taxation and the Senate Budget Committee on the rationale, beneficiaries, and effects of tax expenditures.[6] One finding of the pilot studies is that much of the data needed for thorough analysis is not currently available. Hence, assessment of data needs and availability from Federal statistical agencies, program-agency studies, or private-sector sources, and, when feasible, publication of data on selected tax expenditures should prove valuable to broader efforts to assess the effects tax expenditures and to compare their effectiveness with outlay, regulatory and other tax polices as means of achieving objectives.

Comparisons of tax expenditure, spending, and regulatory policies. Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.[7] Because there is an existing public administrative and private compliance structure for the tax system, the incremental administrative and compliance costs for a tax expenditure may be low in many, though not all, cases. In addition, tax expenditures may help simplify the tax system, as where they leave certain income sources untaxed (e.g, exemptions for employer fringe benefits or exclusions for up to $500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities, which benefits recipients; the beneficiaries experience reduced taxes that are offset by higher taxes (or spending reductions) elsewhere. Regulatory or tax-disincentive policies, which can also modify behavior, would have a different distributional impact. Finally, a variety of tax expenditure tools can be used—e.g., deductions, credits, exemptions and deferrals; floors and ceilings; and phase-ins and phase-outs, dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range means that tax expenditures can be flexible and can have very different distributional and cost-effectiveness properties.

Tax expenditures also have limitations. In some cases they can add to the complexity of the tax system, which can raise both administrative and compliance costs; for example, various holding periods and tax rates for capital gains can complicate filing and decisionmaking. Also, the income tax system does not gather information on wealth, in contrast to certain loan programs that are based on recipients' assets and income. In addition, the tax system may have little or no contact with persons who have no or very low incomes, and incentives for such persons may need to take the form of refunds. These features may reduce the effectiveness of tax expenditures for addressing certain income-transfer objectives. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program; for example, grant or direct Federal service delivery programs can prioritize which activities are addressed with what amount of resources in a way that is difficult to emulate with tax expenditures. Finally, tax expenditures tend to escape the budget scrutiny afforded to other programs. For instance, a program funded by a tax expenditure does not increase government outlays as a share of national product and it may even decrease receipts as a share of output. However, the effective government compensation to a service provider can be identical to that of a spending program under which the outlay (and possibly the receipts) share of GDP may increase.

Outlay programs, in contrast, have advantages where direct government service provision is particularly warranted—such as equipping and providing the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a return. Outlay programs may also receive more year-to-year oversight and fine tuning, through the legislative and executive budget process. In addition, there are many types of spending programs—including direct government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts—which provides flexibility for policy design. Regarding limitations, certain outlay programs—such as direct government service provision—may rely less directly on economic incentives and private-market provision than tax incentives, which may reduce the relative efficiency of spending programs for some goals. Spending programs also require resources to be raised via taxes, user charges, or government borrowing. Finally, spending programs, particularly on the discretionary side, may respond less readily to changing activity levels and economic conditions than tax expenditures.

Regulations have a key distributional difference from outlay and tax-expenditure programs in that the immediate distributional burden of the regulation typically falls on the regulated party (i.e., the intended actor)—generally in the private sector. While the regulated parties can pass costs along through product or input prices, the initial incidence is on the regulated party. Regulations can be fine-tuned more quickly than tax expenditures, as they can generally be changed by the executive branch without legislation. Like tax expendi-

[6] Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 1998–2992," JCS–22–97, December 15, 1997; and Committee on the Budget, United States Senate, "Tax Expenditures: Compendium of Background Material on Individual Provisions," prepared by the Congressional Research Service (S. Prt. 104–69, December 1996).

[7] While this section focuses upon tax expenditures under the income tax, tax preferences also arise under the unified transfer, payroll, and excise tax systems. Such preferences can be useful when they relate to the base of those taxes, such as an excise tax exemption for certain types of meritorious consumption.

tures, regulations often largely rely upon voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest, relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives, which can diminish their efficiency, though this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are unnecessary. Also, regulations generally do not directly affect the Federal budget and outlays and receipts as a percentage of national output. Thus, like tax expenditures, they may escape the type of scrutiny that outlay programs receive. However, most regulations are subjected to a formal type of benefit-cost analysis that goes well beyond the analysis required for outlay and tax-expenditure programs. To some extent, the GPRA requirement for performance evaluation will address this lack of formal analysis.

Tax expenditures, like spending and regulatory programs, have a variety of objectives and effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of social security income); reducing private compliance costs and government administrative costs (e.g., favorable treatment of certain employer-provided fringe benefits); and promoting tax neutrality (e.g., accelerated depreciation in the presence of inflation). Some of these objectives are well suited to quantitative measurement, while others are less well suited. Also, many tax expenditures, including those cited above, may have more than one objective. For example, favorable treatment of employer-provided pensions might be argued to have aspects of most, or even all, of the goals mentioned above. In addition, the economic effects of particular provisions can extend beyond their intended objectives (e.g., a provision intended to promote an activity or raise certain incomes may have positive or negative effects on tax neutrality).

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the tax revenue loss. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs.

Thus, for a provision that reduces taxes on certain investment activity, an increase in the amount of investment would likely be a key output. The resulting production from that investment, and, in turn, the associated improvements in national income, welfare, or security, could be the outcomes of interest. For other provisions, such as those designed to address a potential inequity or unintended consequence in the tax code, an important performance measure might be how they change effective tax rates (the discounted present-value of taxes owed on new investments or incremental earnings) or excess burden (an economic measure of the distortions caused by taxes). Distributional effects on incomes may be an important measure for certain provisions.

An overview of evaluation issues by budget function. The discussion below considers the types of measures that might be useful for some major programmatic groups of tax expenditures. The discussion is intended to be illustrative, and not all encompassing. However, it is premised on the assumption that the data needed to perform the analysis are available or can be developed. In practice, data availability is likely to be a major challenge, and data constraints may limit the assessment of the effectiveness of many of the provisions for some time. In addition, such assessments can raise significant challenges in economic modeling, which has inherent uncertainties. For these reasons, and related time, staffing, and resource constraints, the evaluation process is likely to take a number of years and to include qualitative assessments and estimated ranges of effects, in many cases, as opposed to point estimates.

National defense.—Some tax expenditures are intended to assist governmental activities. For example, tax preferences for military benefits reflect, among other things, the view that benefits such as housing, subsistence, and moving expenses are intrinsic aspects of military service, and are provided, in part, for the benefit of the employer, the U.S. Government. Tax benefits for combat service are intended to reduce tax burdens on military personnel undertaking hazardous service for the Nation. A portion of the tax expenditure associated with foreign earnings is targeted to benefit U.S. Government civilian personnel working abroad, by offsetting the living costs that can be higher than those in the United States. These tax expenditures should be considered together with direct agency budget costs in making programmatic decisions.

International affairs.—Tax expenditures are also aimed at promoting U.S. exports. These include the exclusion for income earned abroad by nongovernmental employees and preferences for income from exports and U.S.-controlled foreign corporations. Measuring the effectiveness of these provisions raises challenging issues. In addition to determining their effectiveness in markets of the benefitting firms, analysis should consider the extent to which macroeconomic factors lead to offsetting effects, such as increased imports, which could moderate any net effects on employment, national output, and trade deficits. Similar issues arise in the case of export promotion programs supported by outlays.

General science, space and technology; energy; natural resources and the environment; agriculture; and commerce and housing.—A series of tax expenditures reduces the cost of investment, both in specific activities—such as research and experimentation, extractive industries, and certain financial activities—and more generally, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it could be useful to consider the strength of the incentives by measuring their effects on the cost of capital (the interest rate which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment—such as research spending, exploration activity, or equipment—could also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the degree of tax subsidy provided. Measures could also indicate the provisions' effects on production from these investments—such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefitting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

Housing investment also benefits from tax expenditures, including the mortgage interest deduction and preferential treatment of capital gains on homes. Measures of the effectiveness of these provisions could include their effects on increasing the extent of home ownership and the quality of housing. In addition, the mortgage interest deduction offsets the taxable nature of investment income received by homeowners, so the relationship between the deduction and such earnings is also relevant to evaluation of this provision. Similarly, analysis of the extent of accumulated inflationary gains is likely to be relevant to evaluation of the capital gains preference for home sales. Deductibility of State and local property taxes assists with making housing more affordable as well as easing the cost of providing community services through these taxes. Provisions intended to promote investment in rental housing could be evaluated for their effects on making such housing more available and affordable. These provisions should then be compared with alternative programs that address housing supply and demand.

Transportation.—Employer-provided parking is a fringe benefit that, for the most part, is excluded from taxation. The tax expenditure revenue loss estimates reflect the cost of parking that is leased by employers for employees; an estimate is not currently available for the value of parking owned by employers and provided to their employees. The exclusion for employer-provided transit passes is intended to promote use of this mode of transportation, which has environmental and congestion benefits. The tax treatments of these different benefits could be compared with alternative transportation policies.

Community and regional development.—A series of tax expenditures is intended to promote community and regional development by reducing the costs of financing specialized infrastructure, such as airports, docks, and stadiums. Empowerment zone and enterprise community provisions are designed to promote activity in disadvantaged areas. These provisions can be compared with grant and other policies designed to spur economic development.

Education, training, employment, and social services.—Major provisions in this function are intended to promote post-secondary education, to offset costs of raising children, and to promote a variety of charitable activities. The education incentives can be compared with loans, grants, and other programs designed to promote higher education and training. The child credits are intended to adjust the tax system for the costs of raising children; as such, they could be compared to other Federal tax and spending policies, including related features of the tax system, such as personal exemptions (which are not defined as a tax expenditure). Evaluation of charitable activities requires consideration of the beneficiaries of these activities, who are generally not the parties receiving the tax reduction.

Health.—Individuals also benefit from favorable treatment of employer-provided health insurance. Measures of these benefits could include increased coverage and the distribution of this coverage across different income groups. The effects of insurance coverage on final outcome measures of actual health (e.g., infant mortality, days of work lost due to illness, or life expectancy) or intermediate outcomes (e.g., use of preventive health care or health care costs) could also be investigated. The distribution of employer-provided health insurance is not readily evident from tax return information; thus, the distribution of benefits from this exclusion must be imputed using tax as well as other forms of information.

Income security, social security, and veterans benefits and services.—Major tax expenditures in the income security function benefit retirement savings, through employer-provided pensions, individual retirement accounts, and Keogh plans. These provisions might be evaluated in terms of their effects on boosting retirement incomes, private savings, and national savings (which would include the effect on private savings as well as public savings or deficits). In considering the provisions' distributional effects, it may be useful to consider beneficiaries' incomes while retired and over their entire lifetimes. Interactions with other programs, including social security, also may merit analysis. As in the case of employer-provided health insurance, analysis of employer-provided pension programs requires imputing the benefits of the firm-level contributions back to individuals.

Other provisions principally have income distribution, rather than incentive, effects. For example, tax-favored treatment of social security benefits, certain veterans benefits, and deductions for the blind and elderly provide increased incomes to eligible parties. The distribution of these benefits may be a useful performance measure. The earned-income tax credit, in contrast, should be evaluated both for its effects on labor force participation and its distributional properties.

General purpose fiscal assistance and interest.— The tax-exemption for public purpose State and local bonds reduces the costs of borrowing for a variety of purposes; borrowing for non-public purposes is reflected under other budget functions. The deductibility of certain State and local taxes reflected under this function primarily relates to personal income taxes; property tax deductibility is reflected under the commerce and housing function. Tax preferences for Puerto Rico and other U.S. possessions are also included here. These provisions can be compared with other tax and spending policies as means of benefitting fiscal and economic conditions in the States, localities, and possessions. Finally, the tax deferral for interest on U.S. savings bonds benefits savers who invest in these instruments; the extent of these benefits and any effects on Federal borrowing costs could be evaluated.

The above illustrative discussion, while broad, is nevertheless incomplete, both for the provisions mentioned and the many that are not explicitly cited. Developing a framework that is sufficiently comprehensive, accurate, and flexible to reflect the objectives and effects of the wide range of tax expenditures will be a significant challenge. OMB, Treasury, and other agencies will work together, as appropriate, to address this challenge. Particularly over the next few years, a significant portion of this effort is likely to be devoted to data issues. Because the compilation of data is resource intensive, and must be balanced with other objectives (including minimizing information collection burdens), careful planning will be essential. Given the challenges inherent in this work, the nature of the analyses is likely to evolve and improve over the next several years.

Other Considerations

The tax expenditure analysis could be extended beyond the income and transfer taxes to include payroll and excise taxes. The exclusion of certain forms of compensation from the wage base, for instance, reduces payroll taxes, as well as income taxes. Payroll tax exclusions are complex to analyze, however, because they also affect social insurance benefits. Certain targeted excise tax provisions might also be considered tax expenditures. In this case challenges include determining an appropriate baseline.