BUDGET

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1998

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 1998 contains the Budget Message of the President and information on the President's 1998 budget proposals. In addition, the *Budget* includes a descriptive discussion of Federal programs organized by function, i.e., by the primary purpose of the activity.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 1998 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

The *Analytical Perspectives* volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; detailed information on Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates; and other technical presentations. It also includes information on the budget system and concepts and a listing of the Federal programs by agency and account.

Historical Tables, Budget of the United States Government, Fiscal Year 1998 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment covering an extended time period—in most cases beginning in fiscal year 1940 or earlier and ending in fiscal year 2002. These are much longer time periods than those covered by similar tables in other budget documents. As much as possible, the data in this volume and all other historical data in the budget documents have been made consistent with the concepts and presentation used in the 1998 Budget, so the data series are comparable over time.

Budget of the United States Government, Fiscal Year 1998—Appendix contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committee. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Supplemental and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget totals.

A Citizen's Guide to the Federal Budget, Budget of the United States Government, Fiscal Year 1998 is an Office of Management and Budget (OMB) publication that provides general information about the budget and the budget process for the general public.

Budget System and Concepts, Fiscal Year 1998 contains an explanation of the system and concepts used to formulate the President's budget proposals.

AUTOMATED SOURCES OF BUDGET INFORMATION

The information contained in these documents is available in electronic format from the following sources:

CD-ROM. The CD-ROM contains all of the budget documents and software to support reading, printing, and searching the documents. The CD-ROM also has many of the tables in the budget in spreadsheet format.

Internet. All budget documents, including documents that are released at a future date, will be available for downloading in several formats from the Internet. To access documents through the *World Wide Web*, use the following address:

http://www.access.gpo.gov/su_docs/budget/index.html

For more information on access to the budget documents, call toll-free (888) 293–6498.

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

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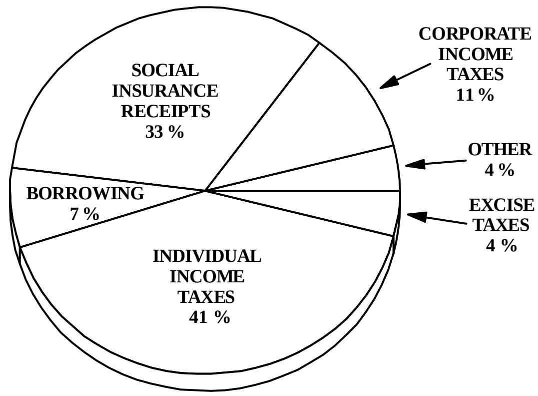

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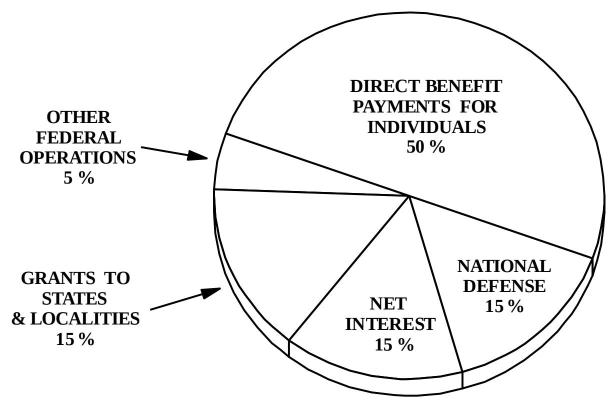


Table I–1. RECEIPTS, OUTLAYS, AND SURPLUS OR DEFICIT

(In billions of dollars)

	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Receipts	1,453	1,505	1,567	1,643	1,727	1,808	1,897
Outlays	1,560	1,631	1,687	1,761	1,814	1,844	1,880
Surplus/Deficit (–):							
Unified	–107	–126	–121	–117	–87	–36	17
On-budget	–174	–199	–197	–205	–183	–139	–93
Off-budget	67	74	76	87	96	103	110

THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The 1998 Budget, which I am transmitting to you with this message, builds upon our successful economic program of the last four years by balancing the budget while investing in the future.

My budget reaches balance in 2002 the right way—cutting unnecessary and lower-priority spending while protecting our values. It strengthens Medicare and Medicaid, improves last year's welfare reform law, and provides tax relief to help Americans raise their children, send them to college, and save for the future. It invests in education and training, the environment, science and technology, and law enforcement to raise living standards and the quality of life for average Americans.

Over the last four years, my Administration and Congress have already done much of the hard work of reaching balance in 2002. We have reversed the trend of higher deficits that we inherited, and we have gone almost two-thirds of the way to reaching balance. Now, I want to work with Congress to achieve the final increment of deficit cutting and bring the budget into balance for the first time since 1969.

Building a Bridge to the 21st Century

For four years, my Administration has worked to prepare America for the future, to create a Government and a set of policies that will help give Americans the tools they need to compete in an increasingly competitive, global economy.

We have worked to create *opportunity* for all Americans, to demand *responsibility* from all Americans, and to strengthen the American *community*. We have worked to bring the Nation together because, as Americans have shown time and again over the years, together we can overcome whatever hurdles stand before us.

Working with Congress and the American people, we have put America on the right path. Today, the United States is safer, stronger, and more prosperous. Our budget deficit is much smaller, our Government much leaner, and our policies much wiser.

The economic plan that we put in place in 1993 has exceeded all expectations. Already, it has helped to reduce the deficit by 63 percent—from the record $290 billion of 1992 to just $107 billion in 1996—and it has spurred a record of strong growth, low interest rates, low inflation, millions of new jobs, and record exports for four years.

While cutting the deficit, we also have cut the Federal work force by over 250,000 positions, bringing it to its smallest size in 30 years and, as a share of the civilian work force, its smallest since the 1930s. We have eliminated Federal regulations that we don't need and improved the ones we do. And we have done all this while improving the service that Federal agencies are providing to the American people.

We have cut wisely. We have, in fact, cut enough in unnecessary and lower-priority spending to find the resources to invest in the future. That's why we were able to cut taxes for 15 million working families, to make college more affordable for 10 million students, to put tens of thousands of young people to work through national service, to invest more in basic and biomedical research, and to help reduce crime by putting more police on the street.

My plan to reach balance in 2002 provides the resources to continue these important investments. We must not only provide tax relief for average Americans, but also increase access to education and training; expand health insurance to the unemployed and children who lack it; better protect the environment; enhance our investments in biomedical and other research; beef up our law enforcement efforts; and provide the needed funds for a thriving global policy and a strong defense.

Putting the Building Blocks in Place

When my Administration took office in 1993, we inherited an economy that had barely grown over the previous four years while creating few jobs. The budget deficit had hit record levels, and experts in and out of Government expected it to go higher. Savings and investment were down, interest rates were up, and incomes remained stagnant, making it harder for families to pay their bills.

We put in place a comprehensive set of policies that are bearing fruit. By cutting the deficit from $290 billion to $107 billion last year, my economic program (and the strong economy it helped create) has brought the deficit to its lowest level since 1981. As a share of Gross Domestic Product (GDP), we have our smallest deficit since 1974 and the smallest of any major industrialized nation.

Other parts of my economic policy also are helping to create jobs and raise living standards. With regard to trade, for instance, my Administration not only completed the Uruguay Round of the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, but also more than 200 separate trade agreements, helping to raise exports to record levels. By opening overseas markets to American goods—by encouraging free and fair trade—we are creating high-wage jobs at home.

Taken together, our budget and trade policies have helped to create over 11 million new jobs in the last four years. After two decades of troubling stagnation, incomes have begun to rise again while inequality shrinks. Also, partly due to a strong economy (and partly to our policies), poverty, welfare, and crime are down all across America.

With strong growth, low interest rates, low inflation, millions more jobs, record exports, more savings and investment, and higher incomes, the Nation is enjoying what such experts as Alan Greenspan, the chairman of the Federal Reserve, have described as the healthiest economy in a generation.

Now, our challenge is to complete the job that we began in 1993—to bring the budget into balance for the first time since 1969 while continuing to invest in the American people. My budget does that.

Improving Performance in a Balanced Budget World

Led by the Vice President's National Performance Review, we are truly creating a Government that "works better and costs less."

We have cut the Federal work force by over 250,000 positions, eliminated over 200 programs and projects, closed nearly 2,000 obsolete field offices, cut red tape, and eliminated thousands of pages of regulations while dramatically simplifying thousands more. We also are providing better service for Americans—at the Social Security Administration, the Department of Veterans Affairs, and other agencies.

Our efforts to balance the budget will continue to put a premium on spending wisely. I am determined that we will provide the highest-quality service to Americans for the lowest price. And I will demand that agencies continue to search for better and better ways to achieve results for the American people.

As we move ahead, we plan to follow a series of strategies that build upon our successes to date. We will, for instance, restructure agencies to make them more flexible and decentralized. We will work to ensure that Federal employees and their managers work together to achieve common goals. We will expand competition to ensure that agencies perform their functions as efficiently as possible.

Government cannot solve all of our problems, but it surely must help us solve many of them. We need an effective Government to serve as a partner with States, localities, business and labor, communities, schools, and families. Only when we can show the American people that Government can, in fact, work better for them can we restore their confidence in it. And I am determined to do just that.

Creating Opportunity, Demanding Responsibility, and Strengthening Community

I worked with the last Congress to ensure that as many as 25 million Americans no longer have to fear that they will lose their access to health insurance if they lose their jobs or change jobs; that people no longer will be denied coverage because they have preexisting medical conditions; that insurance companies will sell coverage to small employer groups and to individuals who lose group coverage; and that self-employed people will find it easier and cheaper to get health insurance. Now, I want to strengthen both Medicare and Medicaid to ensure that they continue to serve the tens of millions of Americans who rely on them, to expand health care coverage to help the growing numbers of American children and families who lack insurance, and to promote public health. My budget invests more in biomedical research, in programs to combat infectious diseases, in the Ryan White AIDS program that provides potentially life-extending drug therapies to many people with AIDS, and in community health centers and Indian Health Service facilities that serve critically underserved populations.

We have to ensure that every American has the skills and education needed to win in the new economy, and we can do that only if every American is ready for a lifetime of continuous learning. My budget expands Head Start, increases our investments in Federal elementary and secondary education programs, launches a new effort to jump-start needed school renovation and construction, and provides funds for America Reads to ensure that all children can read well and independently by the end of third grade. To expand higher education and training to all Americans, I propose HOPE scholarship tax credits of up to $1,500 for two years, tax deductions of up to $10,000, the largest increase in Pell Grant scholarships in two decades, lower student loan fees and interest rates, and the G.I. Bill for America's Workers so they can choose where to get the best job training available.

We do not have to choose between a stronger economy and a cleaner environment. Over the last four years, we have produced both. Now, we want to go further. In this budget, I am proposing the funds to speed up toxic waste clean-ups, to redevelop abandoned and contaminated sites known as "brownfields," to improve the facilities at our national parks, to advance our salmon recovery efforts, to invest in energy efficiency and renewable energy, to further our environmental efforts overseas, and to expand our work with States, localities, private groups, and others to restore such sensitive ecosystems as the South Florida Everglades and California's Bay-Delta area between San Francisco and Sacramento.

We must maintain our leadership in research, the results of which have so greatly improved our health and well-being. Federal research, in concert with the private sector, creates new knowledge, trains our workers, generates new jobs and industries, solves many of our health care challenges, strengthens our ability to address environmental issues, enables us to teach our children better, and ensures that we can maintain a strong, capable national defense. I am proposing to increase our investments in basic research in health sciences at the National Institutes of Health, in basic research and education at the National Science Foundation, in research at other agencies that depend on science and technology, and in cooperative ventures with industry, such as through the successful Advanced Technology Program and Manufacturing Extension Partnerships.

I want to build on our efforts to fight crime, curb the scourge of illegal drugs, and secure the Nation's borders. Crime is falling all across America. And, under the Brady Bill that I fought so hard to achieve, we have prevented over 100,000 felons, fugitives, and stalkers from obtaining guns. Now, I want to make further progress and, in particular, target juvenile crime and violence. My budget continues our progress toward putting 100,000 more police on the street. It renews our efforts to fight drug abuse, particularly by focusing on youth prevention programs to reverse the recent trends of softening attitudes toward drugs and more drug use by young Americans. It also strengthens our efforts to control illegal immigration by stopping those who want to enter illegally, quickly removing those who slipped by, and making it harder for illegal immigrants to get jobs.

Because some American communities have grown disconnected from the opportunity and prosperity that most of us enjoy, I want to help communities attract private investment to spur their revitalization. Because permanent solutions must come from the community level, my budget proposes to create opportunities and offer incentives for individuals and businesses to participate directly in addressing local problems. I want to expand my national service program so that more Americans can volunteer and earn money for college. I want to expand Empowerment Zones and Enterprise Communities, making more and more communities eligible for the tax incentives and other support that can spur a return of business and jobs. I also want to expand the Community Development Financial Institutions Fund to enhance credit and other services to distressed areas. In addition, the Nation's capital, which suffers from a unique set of challenges, would benefit greatly from the groundbreaking proposal that I have previously outlined.

I am pleased that, today, 2.1 million fewer Americans are on welfare than the day I took office, both because of a strong economy and because I have helped States to test innovative ways to move people from welfare to work and protect children. I am also pleased that I could sign last year's welfare reform legislation, because I believe it will promote my basic goals of work, family, and responsibility. I have directed my Administration to work closely with States so that we can make welfare reform succeed. Last year's law, however, also included excessive budget cuts, mainly affecting nutrition programs, legal immigrants, and children, that had nothing to do with welfare reform. In signing the bill, I said that I would seek legislation to address those problems. My budget does that.

Over the last four years, we have provided tax relief to millions of working Americans and to small businesses. But I want to go further by helping middle-income Americans raise their children, send them to college, and save for the future. For those Americans, my tax plan offers a $500 per child tax credit for all children under 13, a $1,500-a-year tax credit to help families send their children to college for two years, a $10,000 tax deduction for tuition and fees for higher education and training, and expanded Individual Retirement Accounts to encourage saving and enable families to cope with unforeseen problems. I am also proposing to ensure that homeowners do not have to pay capital gains taxes on 99 percent of all home sales. My tax plan would promote the hiring of long-term welfare recipients in order to help move people from welfare to work, restore the tax credit that encourages business research and development, and expand tax credits for Empowerment Zones and Enterprise Communities. And it would help finance my tax relief by eliminating unwarranted tax loopholes and preferences.

On the international front, we must continue to project our leadership abroad while we advance our national goals. With the Cold War over, we have a great opportunity to expand democracy overseas, but we will have a much better chance to succeed if we fulfill our international commitments. In this budget, I am proposing that we pay our arrears to the United Nations and other international organizations, so that our leadership is not undermined at this crucial time. But I will also insist that these institutions control their budgets and enact the reforms that our Government and others have called for. In addition, we must continue our support for Russia and the New Independent States of the Soviet Union as they make the difficult transition to free markets and democracy, and we must be prepared to do whatever we can to advance the difficult, but vital, peace process in the Middle East. A strong, coherent foreign policy also will help us further our progress in opening markets abroad, and my budget proposes strong, continued support for the Federal efforts that help to expand exports.

Finally, our goals both at home and abroad must rest on the firm foundation of a strong national defense. It is a strong defense that safeguards our interests, prevents conflict, and secures the peace. We must ensure that our armed forces are highly ready and armed with the best equipment that technology can provide. They must be prepared and trained for the new threats to our security—from the proliferation of weapons of mass destruction, to ethnic and regional conflicts, to terrorism and drug trafficking that directly threaten our free and open society. My budget continues to sustain and modernize the world's strongest and most ready military force, a force capable of prevailing in two nearly simultaneous regional conflicts. It fully funds our commitment to maintain the highest levels of training and readiness, and to equip our uniformed men and women with the most advanced technologies in the world. We must never fall short when it comes to defense.

Conclusion

Our policies are working. By dramatically cutting the deficit and investing in the future, we have helped to spur four years of strong economic growth, providing vast new opportunities for millions of Americans. Jobs, incomes, savings, investment, exports, and homeownership are all up. Crime, poverty, teen pregnancy, and inequality are all down. Clearly, we are moving in the right direction.

But our work is not done. For too long, the Federal Government has spent much more than it received, creating deficits that cast doubt on both our economic future and our ability to govern. In the last four years, we have made huge progress, cutting the deficit by nearly two-thirds. I urge Congress to help me finish the job and balance the budget by 2002—giving the American people the balanced budget they deserve.

WILLIAM J. CLINTON

February 6, 1997

II. BUILDING A BRIDGE TO THE 21ST CENTURY

II. BUILDING A BRIDGE TO THE 21ST CENTURY

I would like to be remembered as the President who prepared America for . . . the 21st Century where we had opportunity available to all Americans who were responsible enough to exercise it; where we lived with the diversity of this country and the diversity of the world on terms of respect and honor, giving everyone a chance to live up to the fullest of his or her own ability in building a stronger sense of community, instead of becoming more divided, as so many countries are; and where we continue to be the indispensable Nation in the world for peace and freedom and prosperity.

President Clinton
December 13, 1996

Nearly a century ago, America struggled through what was, up to then, its most profound change—from an economy rooted in the farm to one powered by the machine. As our economy changed, so did the lives and habits of our people. Once mostly isolated in small areas or small communities, Americans moved to towns and cities, transforming how they lived, how they worked, and how they related to one another.

With such change came new challenges. Theodore Roosevelt and then Woodrow Wilson—two former governors, the first a Republican and the second a Democrat—provided the responses for what eventually became known as the Progressive Era. What this burst of Federal activity represented was a new way of thinking—of using Government to address the wrongs, and shape the future, of a growing Nation.

Today, the Nation faces an upheaval that is just as great, as its economy moves from one rooted in machines to one in which information spreads from person to person, city to city, nation to nation, at lightning speed. Like the upheaval of 100 years earlier, this one, too, is transforming the lives of our people, changing the way we live, the way we work, and the way we relate to one another.

But what worked in the Progressive Era was inadequate for the demands prompted by the Great Depression. What worked in the 1930s gave way to a new approach prompted by the Cold War. So, what worked then must, in turn, give way to a new approach for the times that we now face.

The Nation stands at one of those truly unique moments in its history—a moment that demands new thinking. The traditional debates between liberals and conservatives seem not to hold the answers for the challenges before us. We should not move left or right; rather, we must move forward.

As the President has said, "the era of big Government is over." And we are, in fact, cutting the size and scope of Government as we move toward a balanced budget. But, as the President also has said, the issue is not solely bigger versus smaller. It is also how to make Government *better*. For if Americans do not want a Government that tries to solve every problem, they just as surely do not want one that retreats from its proper role.

Generally speaking, governments do certain things well. They "promote the general welfare" by safeguarding the public, financing education, building roads and bridges, distributing benefit checks, and so on. The Federal Government, in particular, defends the Nation against attack, engages in international diplomacy, ensures retirement income, provides health coverage for the elderly, the poor, and people with disabilities, expands access to education and housing, protects the environment, encourages business investment, and more.

But the Federal Government does not—indeed, *cannot*—do it all. Today, Federal spending totals less than 25 percent of the Nation's income, as measured by the Gross Domestic Product (GDP). To promote the goals that Americans share, the Federal Government must work with State and local governments, business and labor, non-profits, communities, schools, and families.

> *I believe that the Federal Government should give people the tools and try to establish the conditions in which they can make the most of their own lives. That, to me, is the key.*
>
> President Clinton
> October 6, 1996

Nor, in this budget, should we think about Government solely in terms of what it spends. The Government provides services and benefits in all sorts of ways. Not only does it distribute cash and provide services, but it also allocates tax incentives to achieve certain goals, such as expanded home ownership and more research and development. At the same time, it pursues social goals through responsible regulation, such as protecting children by reducing their access to cigarettes. (For a discussion of the full range of Federal activities, see Section VI, "Investing in the Common Good: The Major Functions of the Federal Government.")

For four years, this Administration has been creating a Government for the 21st Century. It is leaner, but not meaner. It spends money more wisely. It is no longer wrapped in the red tape and bureaucracy of yesterday. And it provides better service to its "customers," be they Social Security recipients or victims of natural disasters.

Shrinking the Size of Government

Nowhere is our success more dramatic than on the fiscal front. The budget deficit—for too long a kind of public metaphor for waste and mismanagement—had hit a record $290 billion in 1992, the year before President Clinton took office. The national debt, meanwhile, had quadrupled, to $4 trillion, in the 12 years before the President took office. By all accounts, the deficit was on a path ever higher, about to heap more debt on our children and grandchildren and to force the Government to use more of its taxpayer dollars not for anything useful but, rather, to pay interest on the debt.

Then in 1993, the President worked with Congress to enact his economic program of lower deficits and, at the same time, more public investment. Largely due to the plan, and to the strong economic performance that it has helped to spur, the deficit fell by a whopping 63 percent, to just $107 billion in 1996—its lowest level since 1981 and, as a share of GDP, its lowest since 1974.

The plan slowed the growth of entitlements, raised taxes almost entirely on the wealthiest 1.2 percent of Americans, and extended the annual limits, or "caps," on discretionary spending for five years. While helping to dramatically reduce the deficit, the plan also cut taxes for 15 million working families, made 90 percent of small businesses eligible for tax relief, and invested in the future. (For a full discussion of the Administration's fiscal policy, see Section III, "Putting the Building Blocks in Place.")

By limiting total discretionary spending, the caps put a premium on spending wisely—on eliminating wasteful and lower-priority programs while emphasizing investments in the Nation's future. Thus, the Administration has worked with Congress to invest in education and training, and in research, in order to enhance productivity and, in turn, promote higher living standards; to protect the environment and fight crime in order to improve the quality of life for all Americans; and to secure the resources for a global policy that has brought peace to certain troublespots and has expanded markets for U.S. goods.

Facing the challenge of global competition, American businesses are forcing themselves to do more with less. The Federal Government is doing the same. Led by Vice President Gore's National Performance Review, the Administration has worked hard to "create a Government that works better and costs less."

As business downsizes, so does the Federal Government. Four years after the President and Vice President assumed office, and largely due to their efforts, the Federal work force stands at 1.9 million civilian employees[1]—its smallest size in 30 years and, as a share of civilian employment, its smallest since 1931. The Administration has cut the work force by over 250,000 full-time equivalents (FTE),[2] and it will continue shrinking as the President and Congress finish the job of balancing the budget.

The shrinking work force focuses the spotlight on those Federal workers who remain on the job. It is they who must work more effectively if the Federal Government is to work better. From our efforts to reinvent Government, which these workers have led, the Administration knows that the vast majority of them want to do a good job. The President and Vice President will continue to view them as partners in a great quest to give the American people the best Government that they can create.

To the average American, however, the size of Government involves more than the size of its budget or of its work force. It involves the regulations (or rules) with which millions of businesses and individuals must comply. It also involves the responses they receive when they call the Government for help.

Regulations are not *inherently* good or bad; potentially, they can be either. Good rules bring us safer cars and workplaces, cleaner air and water, and fairer business practices. But bad rules—those that are too costly, too intrusive, and too inflexible—can impede businesses and other institutions from doing their jobs.

The President has sought to develop a more sensible regulatory program, one that reduces the burden of existing and new rules while improving their effectiveness. Specifically, the Administration has nearly reached its goal of eliminating 16,000 pages of regulations and dramatically simplifying 31,000 others. In addition, agencies are effectively implementing the President's Executive Order 12866 of 1993—using better data and analysis to make their decisions, considering the costs and benefits of alternative ways to reach their goals, and opening the decision-making process to those affected by the rules.

What do Americans find when they call their Government? Compared to four years ago, they are likely to find a friendlier, more responsive voice on the other end. Agencies are making real progress in improving service to their customers, the American people. They are finding new, innovative ways to deliver service, and they are reaching out to learn more about what their customers want.

If anything, the challenges will only grow for departments and agencies. They face a future of severely constrained resources. As a result, the Administration has developed a set of strategies (or tools) by which agencies will try to make even more progress in this environment. (For a full discussion of these seven tools, see Section IV, "Improving Performance in a Balanced Budget World.")

Achieving Our Goals

But can *smaller* really be *better?* Can we really do more with less? As the Administration has proved across a broad spectrum of areas, the answer is a resounding "Yes!" The right kind of Government, making the right kind of decisions, can have a demonstrably better effect on the lives of millions of Americans.

Opportunity for all, *responsibility* from all, and a stronger American *community*—those have been the underpinnings for what the Administration has sought to achieve. In pursuing these goals, Administration policies have helped to produce a strong economy with better jobs, higher incomes, more pension and health security, greater educational opportunity, safer streets, and a cleaner environment.

By cutting the deficit, for instance, the President's 1993 economic plan helped cut interest rates, spurring strong growth with steady prices. The result: over 11 million new jobs (most of them high-wage); the lowest inflation of any Administration in

[1] Not included in this figure are 1.5 million uniformed men and women and 0.9 million employees of the Postal Service

[2] As of September 1996.

over 30 years; the highest rate of homeownership in 15 years; rising incomes; falling inequality; and record numbers of exports and new small businesses.

With the 1993 plan limiting spending, the President has worked with Congress to spend the available resources most wisely, helping to produce real results in education, the environment, research, and law enforcement.

- His direct lending program has helped make college more affordable for 10 million students.
- His national service program has enabled 70,000 Americans to earn money for college while building houses, helping children to read, patrolling the streets, and performing other vital community work.
- His investments in research are helping to build new, high-powered supercomputers, and to develop drugs that could extend the life expectancy of those with HIV and AIDS.
- His community policing program has already put 64,000 more police (out of 100,000 under the program) on the streets of America's communities, helping to reduce serious and violent crime for five straight years.

The President worked with Congress to:

- Raise the minimum wage, giving 10 million Americans a pay raise;
- Enact the Family and Medical Leave Act, enabling 67 million workers to take up to 12 weeks of unpaid leave from work to care for a newborn or a sick family member;
- Adopt the Kassebaum-Kennedy bill, ensuring that as many as 25 million American workers would not lose their health insurance when they change jobs;
- Reform the Federal pension insurance system, protecting the pensions of over 40 million Americans;
- Take a vital first step "to end welfare as we know it" by requiring able-bodied recipients to work;
- Adopt the Brady bill, imposing a five-day waiting period on gun purchases that has already prevented over 100,000 felons, fugitives, and stalkers from buying handguns;
- Ban the import and manufacture of 19 deadly assault weapons, keeping them from would-be killers; and
- Overhaul the immigration system, cracking down on illegal immigration without punishing legal immigrants.

The Administration also has acted on its own to improve the lives of average Americans. It has:

- Approved waivers (before last year's welfare reform law) to let 43 States find innovative ways to move recipients off welfare and into the economic mainstream. (Due to those efforts and a strong economy, 2.1 million fewer Americans are on welfare than when President Clinton took office.);
- Approved waivers to let 15 States pursue major State-wide health reform initiatives under Medicaid;
- Protected the border by deporting a record 206,000 illegal and criminal aliens from 1993 to 1996; and
- Completed the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, as well as over 200 other trade agreements, helping to spur exports to record levels and, in turn, create high-wage jobs at home.

Our trade agreements, and the benefits they produce, point to a growing reality—we live in an increasingly inter-connected world, one in which our prosperity at home depends on our leadership abroad. Over the last four years, the Administration has reduced tensions in the world's troublespots through the deft use of diplomacy and, when necessary, the deployment of troops. Democracy in Haiti, peace in Bosnia, more dialogue in the Middle East—they are all due to American leadership.

Yet, despite his impressive four-year record of accomplishment both at home and abroad, the President understands that his work is not done. Most importantly, we must finish the job of balancing the budget. For only when we balance the budget can we hope to assure a healthy economic future for all Americans. And only then can we hope to restore the public's confidence in Government.

The Task Ahead: Balancing the Budget

This budget fulfills the President's commitment to reach balance in 2002. In fact, under the Administration's economic and technical assumptions, it would generate a $17 billion surplus that year.

The budget builds on the balanced budget proposals that the President outlined in his negotiations with the bipartisan congressional leadership over the last two years. The negotiations brought the two sides close to an agreement, and the President is determined to finish the job this year. He views this budget proposal as the next step in the march to reach balance.

Specifically, the President continues to seek cuts in unnecessary and lower-priority spending in both discretionary and mandatory programs, and to eliminate unwarranted tax loopholes and preferences. His $388 billion in total savings would do more than bring the budget into balance by 2002. They also would provide enough savings to finance a modest tax cut to help middle-income Americans raise their children, send them to college, and save for the future; and to correct the harsh provisions that Congress attached to last year's welfare reform legislation.

Among its major elements, the budget:

- saves $137 billion in discretionary spending, cutting unnecessary and lower-priority programs while investing in education and training, the environment, science and technology, law enforcement, and other priorities that would raise living standards and the quality of life for average Americans (see Chapters 2–6);
- saves $100 billion in Medicare ($138 billion over six years), ensuring the solvency of the Part A trust fund until 2007 while maintaining the essential quality of Medicare services for the elderly and people with disabilities (see Chapter 1);
- saves $22 billion in Medicaid, building upon the substantial savings that Federal and State experimentation in this jointly-run program is already generating, and continuing the guarantee of essential health and long-term care coverage for the most vulnerable Americans (see Chapter 1);
- saves $76 billion by ending corporate subsidies and other tax loopholes, extending expired tax provisions, and improving tax compliance (see Chapter 8);
- saves $36 billion by continuing the Administration's successful policy of auctioning segments of the broadcast spectrum (for other proposals on mandatory programs, see below);
- provides $18 billion to correct the harsh provisions that Congress attached to last year's welfare reform law, protecting those in need and helping recipients to find self-supporting work (see Chapter 7); and
- cuts taxes by $98 billion, providing tax relief to tens of millions of middle-income Americans and small businesses (see Chapter 8).

With regard to other mandatory programs, the budget proposes to more fully fund the costs of Federal civilian employee retirement; extend previously-enacted savings in veterans' benefits; cut subsidies to financial institutions that make and hold student loans while reducing the costs to borrowers; impose fees to recover the costs of services that the Federal Government provides to private businesses; and privatize or sell, rather than give away, valuable public resources.

All budget plans—the President's, Congress', and others—rest on a set of assumptions about how the economy will perform over the next five years, and about technical matters such as how fast Medicare spending will grow. Those assumptions, in turn, help shape projections about the future direction of the deficit and, thus, the size of the challenge ahead in balancing the budget.

Since the President took office, the Administration has worked hard to develop a set of conservative assumptions each year and, in fact, our economic assumptions generally have proved too conservative. The economy has performed better than most analysts expected in the past four years, providing strong growth, low interest rates, and stable prices. The Government has received more tax revenues, and spent less on certain social programs—and, as a result, the deficit has fallen far more than projected.

The Administration's assumptions also proved more accurate than the even-more conservative assumptions of the Congressional Budget Office (CBO)—although both sets of assumptions were quite reasonable. The Administration is confident that its own assumptions will continue to prove the more accurate.

Nevertheless, the budget includes a mechanism to ensure that the President's plan reaches balance in 2002 under OMB *or* CBO assumptions. If OMB's assumptions prove correct, as we expect, then the mechanism would not take effect. If, however, CBO proves correct—and the President and Congress cannot agree on how to close the gap through expedited procedures—then most of the President's tax cuts would sunset, and discretionary budget authority and identified entitlement programs would face an across-the-board limit.

With this mechanism in place, the American people can rest assured that we will reach balance in 2002—no matter which set of assumptions are used in the budget process.

The Task Ahead: Investing in the Future

Balancing the budget is not an end in itself. Rather, it helps fulfill the President's central economic goal—to raise the standard of living for average Americans, both now and in the future.

So, too, do the spending priorities of this budget. Details matter. *How* the Government spends money—for whom, for what purpose—is just as important as *whether* it does.

Within tight constraints, the budget continues the President's policy of the last four years in shifting Federal resources to education and training, science and technology, and other investments to enable Americans to get the skills to acquire good jobs, and to give businesses the tools to become more competitive, in the new economy. The budget also continues to shift resources to the environment and law enforcement, raising the quality of life for average Americans.

For education and training, the budget proposes to fulfill the President's commitment to put one million disadvantaged children in the Head Start program by 2002; to create safe learning environments for more children; to help more school systems extend high academic standards, better teaching, and better learning to all students; to enable more Americans to serve their communities and earn money for college; to bring technology into more classrooms; to expand college work-study to one million students by the year 2000; to create a $1,000 merit scholarship for the top five percent of graduates in every high school; to let more parents, teachers, and communities create public schools to meet their own children's needs; to make it easier for parents and students to borrow and repay college loans; to create the largest increase in Pell Grant scholarships in 20

> Comparisons between this budget and the President's earlier balanced budget plans can be misleading.
>
> Over the last two years, the President's goal has not changed. He has consistently sought to reach balance by 2002. But with each passing year, the time frame has, by definition, shrunk. Thus, the seven-year plan that he first proposed was followed by a six-year plan, followed by a five-year plan in this budget.
>
> Is the task of reaching balance easier now? Yes and no. On one hand, the continued strength of the economy, slower spending in key programs (such as Medicare and Medicaid), and savings enacted last year have lowered the projected deficits through 2002, reducing the amount of savings needed to reach balance. On the other hand, the shorter time frame makes it harder to phase in savings in entitlement programs, thus making the entitlement cuts deeper than they otherwise would have to be.

years; and, finally, to provide Skill Grants to adults for job training.

On other priorities, the budget proposes to maintain environmental enforcement; protect national parks and other sensitive resources; and provide tax incentives to encourage companies to clean up "brownfields"—abandoned, contaminated industrial properties in distressed areas. The budget would put 17,000 more police on the street, bringing the total to 81,000 and moving closer to the President's goal of 100,000 by the year 2000; and it would provide more funds to combat juvenile crime and step up the fight against drugs, largely by focusing on treatment and prevention aimed at youth. It would increase the number of Border Patrol agents and workplace investigations to prevent illegal immigration and deter the hiring of illegal immigrants.

The budget invests in research, including biomedical research at the National Institutes of Health, in programs to combat infectious diseases at the Centers for Disease Control, in the Ryan White AIDS program that provides potentially life-extending drug therapies to many people with AIDS, and in community health centers and Indian Health Service facilities. The budget funds full participation in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which would be 7.5 million people by the end of 1998.

Finally, the budget proposes to add $1 billion to the Community Development Financial Institutions Fund over five years to create jobs and foster development in low-income urban and rural communities. For the same purpose, the budget proposes to expand the number of Empowerment Zones and Enterprise Communities, providing tax relief and other assistance for distressed urban and rural areas.

Over the last year, the President also has proposed a series of initiatives to more quickly, and more effectively, meet his goal of higher living standards and a better quality of life for all Americans.

- Along with his earlier tax deduction proposal of up to $10,000 for college tuition and job training, the President proposes a new $1,500-a-year HOPE scholarship tax credit to make two years of college universal. The budget also proposes to increase Pell Grants for lower-income families who lack the tax liability to benefit from the tax cuts.
- The President proposes the America Reads Challenge to help ensure that all children can read by the third grade, and a five-year, $5 billion school construction fund to help States and communities address the serious problem of dilapidated school buildings.
- Building on his earlier proposal to help the unemployed keep their health care coverage for six months, the President now proposes to help expand health care coverage to uninsured children.
- Having taken the first step to reform welfare, the President now proposes to enhance the Work Opportunity Tax Credit to encourage employers to hire long-term welfare recipients.
- The President proposes to reshape the Federal Government's relationship with the District of Columbia by assuming responsibility for certain pension, justice, and other functions. In exchange, the Government no longer would make an annual discretionary payment to the city, and it also would expect the city to be more accountable for how it uses its resources.

A Look Ahead

A balanced budget; a leaner, more effective Government; investments to help secure a brighter future—these are the priorities that pervade this budget, and that are outlined in the pages that follow. They are the priorities that will, in the President's words that began this section, "prepare America for . . . the 21st Century."

But to fully appreciate the President's agenda for the future, it helps to know what the Administration has already accomplished. The President's economic policies, including a dramatic cut in the deficit, have helped to revive an economy that was suffering from over a decade of debt and other burdens. It is to that record—four years of significant accomplishment—that we now turn.

III. PUTTING THE BUILDING BLOCKS IN PLACE

III. PUTTING THE BUILDING BLOCKS IN PLACE

To reclaim our future, we must strive to close both the budget deficit and the investment gap.

Governor Bill Clinton
Senator Al Gore
Putting People First
1992

With regard to Congress, if I could do one thing, I would pass a balanced budget that would open the doors of college to all Americans and continue the incremental progress we've made in health care reform.

President Clinton
November 10, 1996

President Clinton has pursued a disciplined but fair budget policy, working with Congress to make the tough choices that have dramatically cut the deficit while protecting the values that Americans share. He has cut wasteful and lower-priority spending while protecting safety net programs and investing in the future.

The results are clear: The deficit has fallen by a whopping 63 percent—from $290 billion in 1992, the year before the President took office, to $107 billion last year. Now, with this budget, the President proposes to build on that progress by balancing the budget for the first time since 1969.

Why must we finish the job?

What the Administration Inherited

Large budget deficits damage the economy, hurting taxpayers and discouraging businesses. The sharply higher deficits that began in 1981 have been a serious drag on the Nation's economic performance ever since.

The Debt and What It Means for the Average Citizen: The budget deficit is the annual amount that the Government spends in excess of what it receives in revenues. The Federal debt, by contrast, is the total of the accumulated deficits that have not been offset by surpluses over the years.

At first blush, deficits may appear painless; they allow the Nation's leaders to avoid the hard choices needed to bring spending in line with revenues. But the Government must finance the debt that it accumulates, and the cost of doing so prevents the Nation from meeting future spending needs or cutting taxes.

The Government finances the deficit mainly by borrowing from the public, including foreign investors. The large deficits of the 1980s and early 1990s quadrupled the Federal debt. At the end of 1980, Federal debt held by the public was $710 billion. By the end of 1992, it had grown by $2.289 trillion—to $2.999 trillion.[1] Because the deficit has fallen under this Administration, the debt has risen more slowly, and, in fact, the ratio of the debt to our Gross Domestic Product (GDP) has declined. But until we balance the budget, the debt will keep growing.

In a sense, today's deficits are the legacy of the much larger deficits of the years from 1981 to 1992. The budget would be

[1] This measure excludes the debt held in Federal trust funds. It counts only the debt held directly by private investors and the Federal Reserve System.

balanced today if not for the interest that we pay on the deficits accumulated in those 12 years.

The Federal Government paid $241 billion in interest last year—$241 billion that it could have spent in far more productive ways. If the Government were not paying interest at all, it could have used those funds to have a balanced budget and still have $134 billion left over—which equals half of the military budget, or about 40 percent of Social Security payments, or about 20 percent of income taxes.

How Deficits Have Damaged the Economy: The economy did not perform as well from 1980–1992 as before, partly due to the rise in Federal debt that marked the period. As this experience shows, persistent deficits reduce saving, raise interest rates, stifle investment, and cut the growth of productivity, output, and incomes.

During recessions, when private consumption and investment declines, Government borrowing to finance unemployment and other benefits and to make up for reduced income taxes maintains demand and helps to turn the economy around. But if deficits become "structural"—that is, they persist even in good times—they can cause harm. That's what happened in the 1980s.

A structural deficit—especially when sustained for a long time, as in the 1980s—depletes the Nation's pool of saving. Saving provides the resources to build the new factories and machinery that generate tomorrow's incomes. National saving has two components:

- private saving (by individuals and businesses—the net result of millions of savings decisions); and
- public saving (by Federal, State, and local governments, which save when they run surpluses and *dis-save* when they run deficits).[2]

If the Government taps the savings pool to finance its deficit, that borrowed saving is not available to make productive private investments. With its massive deficits in the 1980s, the Government drained much of the pool. Worse, as Federal deficits were rising, private saving was falling, exacerbating the overall saving problem.

In each year of the 1960s, net national saving[3] totaled at least 10 percent of GDP (see Chart III–1). Since then, net saving has fallen substantially. After averaging about eight percent of GDP in the 1970s, the net national saving rate fell to five percent of GDP in the 1980s, and hit a low point of just 2.4 percent of GDP in 1992.

With less saving, interest rates remained high in the 1980s, choking off demand for private investment. Why? Because lower saving shrinks the pool of available funds. The Federal Government taps the pool first by selling its bills, notes, and bonds at auction, leaving private borrowers to compete for what's left. With so many would-be borrowers, and so little left to borrow, the competition forces interest rates higher.

Real interest rates—that is, the portion of the rate that exceeds inflation—were markedly higher in the 1980s than in the prior three decades. In real terms, short-term rates had actually been negative for much of the 1970s, but they averaged almost four percent in the 1980s; long-term real interest rates were as much as much as two to three percentage points higher than in the prior three decades (see Chart III–2).

Under this Administration, saving has rebounded, mainly due to lower deficits. In the first three quarters of calendar 1996, net national saving averaged 5.4 percent of GDP. In fact, over 90 percent of the improvement in the net saving rate in the last four years is attributable to lower deficits.

Higher real interest rates in the early 1980s attracted foreign capital into the United States, driving up the dollar in foreign exchange markets. The foreign capital helped offset some of the fall in domestic saving and helped to cushion U.S. investment. But it came at a price. The higher dollar pushed up the U.S. trade deficit significantly, causing competitive problems for American manufac-

[2] Recently, the Commerce Department's Bureau of Economic Analysis modified the national income accounts to measure more accurately how government at all levels contributes to saving.

[3] That is, gross saving minus depreciation of the Nation's capital stock.

Chart III-1. SAVING RATES

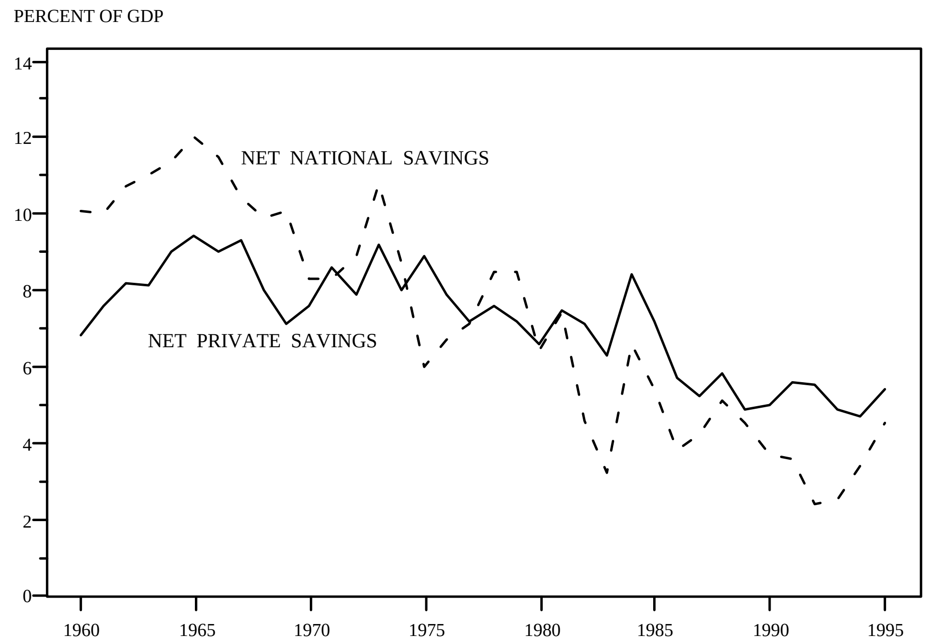
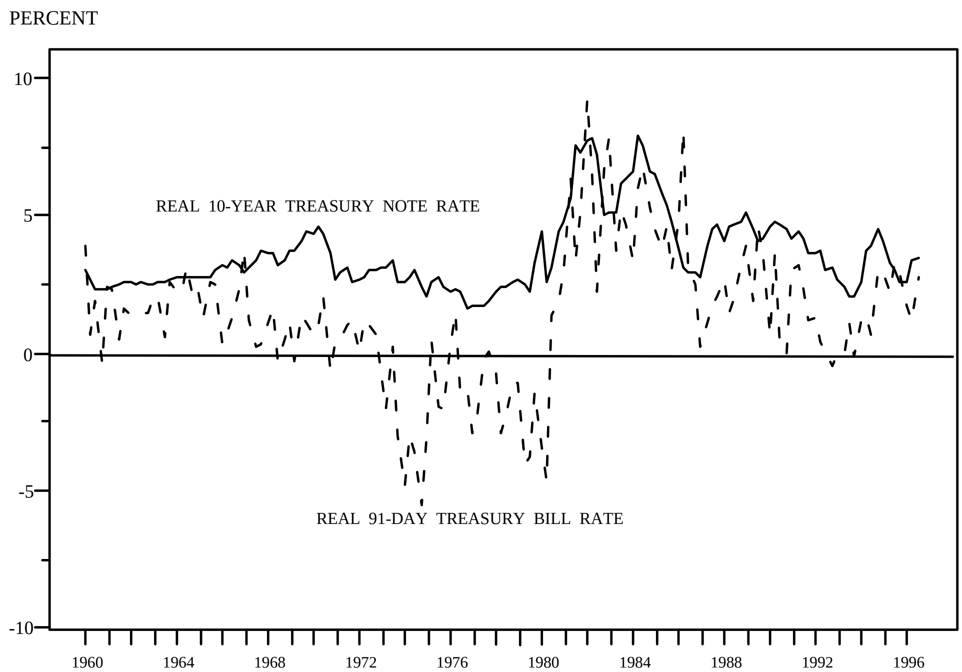


Chart III-2. REAL INTEREST RATES



turers and industrial workers. The Nation entered the 1980s as the world's largest creditor; it left as the largest debtor.

Thus, big deficits unsettle potential investors—they raise interest rates, increase the risk of ballooning future Government credit demands and higher inflation, and create uncertainty in the currency markets. In response, business decision makers and other investors will likely buy safer, shorter-term securities rather than risk their money in long-term commitments for new factories, machines, and other productive investments. As a result, investment declines, and the economy is poorer for the foreseeable future.

And, in fact, despite the increase in borrowing from abroad, net investment[4] fell in the 1980s. The share of net private domestic investment (including residential and nonresidential spending) fell from over seven percent to five percent of GDP (see Chart III–3). By 1992, the ratio of net investment to GDP had dropped to just 2.5 percent.

With the rise in net saving since then, net investment has rebounded. Equipment investment, which includes computer purchases, has risen especially rapidly—with the increases averaging 11 percent a year in inflation-adjusted terms.

The economy grew much slower in the 1980s than in prior decades, partly due to the fall in saving and investment. From the business cycle peak in 1960 to the peak in 1980, real economic growth averaged 3.7 percent a year—compared to 2.6 percent during the business cycle of the 1980s. By reducing national saving, the 1980s-era deficits held down capital formation enough to cut real potential GDP at the end of the decade by an estimated 2.5 to 3.5 percent. If incomes had been three percent higher in 1996, the average person would have had $600 more in disposable income to spend.

[4] That is, gross investment minus depreciation of the Nation's capital stock.

Chart III-3. NET PRIVATE DOMESTIC INVESTMENT

Growth has improved in the past four years, compared to 1988–1992. In fact, private-sector GDP has grown since 1992 faster than in either of the two previous Administrations. Because the government component of GDP is shrinking now, whereas it rose rapidly in the 1980s, the overall numbers do not fully reflect this strength.

Still, several factors continue to hold the economy back. First, the stagnant saving and low investment of the 1980s and early 1990s are still having an effect. Only years of higher investment will offset the capital that was not put in place over the preceding 12 years. Second, the labor force is growing more slowly. And third, the recent slow growth of the major European economies and Japan has constrained the exports of even the newly revitalized and competitive U.S. economy.

What the Administration Has Accomplished

When the President took office, the deficit was high and rising. It had reached almost five percent of GDP in 1992, and projections suggested that it would not fall below four percent of GDP even during the anticipated economic recovery over the following four years. Then, according to the projections, the deficit would rise again, and continue rising without limit in the future.

The President took action.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993): Upon taking office, the President proposed a five-year deficit reduction program that was largely enacted later that year as OBRA 1993.

The law was designed to cut projected deficits from 1994 to 1998 by a total of $505 billion, cutting spending and raising revenues about equally. Of the spending cuts, about $100 billion came in entitlement programs, mostly in health care programs (although expanded health coverage offset some of the savings); other cuts came in discretionary spending and interest costs. All income tax rate increases fell on the top 1.2 percent of families. At the same time, the plan cut taxes for 15 million working families by expanding the Earned Income Tax Credit.

But, largely because the economy has performed better than expected, the Administration now projects that the plan will cut the 1994–98 deficits by $924 billion (see Chart III–4). Specifically, the plan helped cut interest rates and spur growth, thereby generating more Federal revenues and less spending on unemployment compensation and other social benefits. Lower interest rates also helped to cut Federal costs for deposit insurance and for servicing the debt. Meanwhile, the Administration's push for health care reform helped to slow the rise in health care inflation, thus helping to slow the growth in Medicare and Medicaid.

While cutting the deficit, the President's plan also shifted resources toward Administration priorities in education and training, the environment, science and technology, and law enforcement. These investments were intended to raise living standards and the quality of life, both now and in the future.

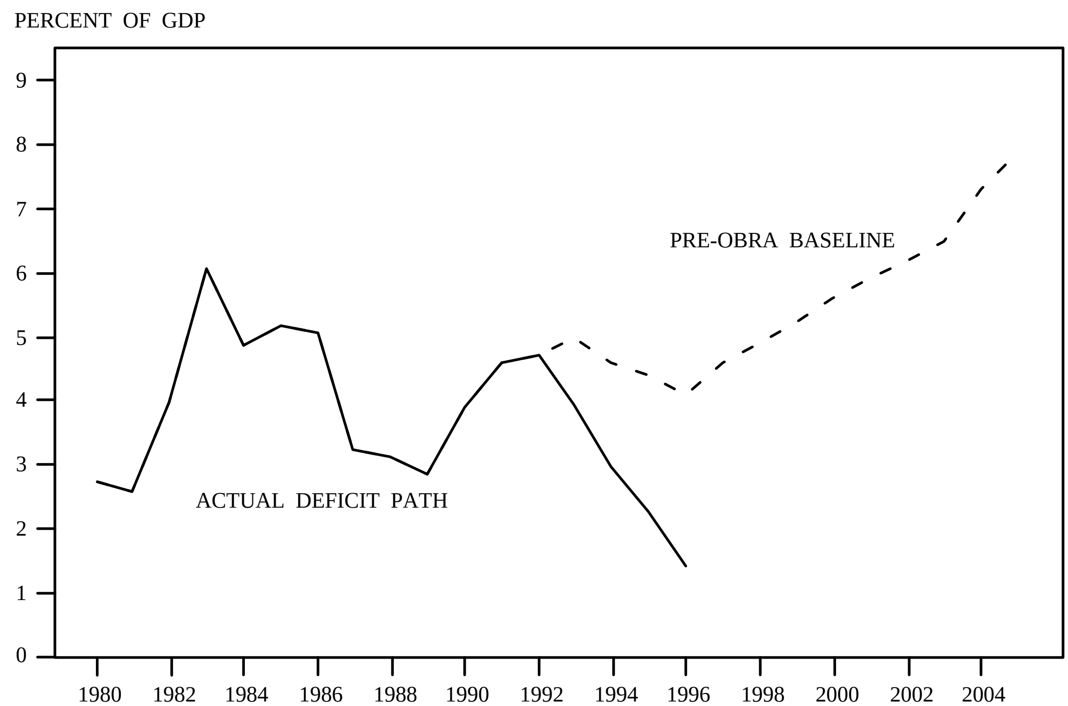
Budget Cuts Since OBRA 1993: The President has continued to cut the budget the right way—eliminating wasteful and lower-priority spending while preserving key investments. The President and Congress have scrapped over 200 programs and projects entirely, while cutting hundreds more. Spurred by the Vice President's National Performance Review, departments and agencies also have cut their workforces, streamlined programs, reduced paperwork, and overhauled their procurement systems.

The Economic Benefits: The President's success in cutting the deficit is paying huge dividends.

Falling deficits enabled the Federal Reserve to hold short-term interest rates low in 1993. In addition, the markets also reacted favorably, cutting long-term rates. Just as rising deficits increase investor uncertainty about credit demands, inflation, and currency fluctuations, the prospect of continually falling deficits into the future eases uncertainty, prompting investors to risk their money on the new factories and equipment that enhance productivity and, thus, make the economy grow.

Short-term rates stayed low through the President's first year in office. As for long-

Chart III-4. BUDGET DEFICITS



term rates, the yield on 10-year Treasury notes fell below six percent in 1993—the first time since 1972 that the rate was this low. Lower long-term rates helped to stimulate investment in housing and business equipment, spurring the recovery.

Interest rates later rose somewhat as the economy expanded, but they remained at very low levels for a rapidly growing economy with such low unemployment. In fact, the last time the economy had unemployment as low as today, the rate on the 10-year Treasury bond was about two percentage points higher.

Future interest rates likely will depend on the success of efforts to balance the budget over the next five years. A bipartisan agreement this year would greatly foster chances of further cuts in both short- and long-term rates.

What have we learned? That, contrary to some views, deficit cutting can go hand-in-hand with economic growth—if the deficit cutting allows the Federal Reserve to maintain low interest rates, and if it's credible in the financial markets. In the months between the announcement and enactment of the President's 1993 economic plan, economic activity picked up. As shown in the monthly employment reports, job gains accelerated, and over the next four years, the economy created over 11 million new jobs—about 93 percent of them in the private sector (see Chart III–5).

The job gains occurred without an increase in inflation, which has been remarkably stable for several years. Although the Consumer Price Index (CPI) rose a bit more last year, the increase was due to faster increases in volatile food and energy prices, which experts do not expect to see again this year. If anything, the underlying rate of inflation has fallen (see Chart III–6).

Chart III-5. JOB CREATION

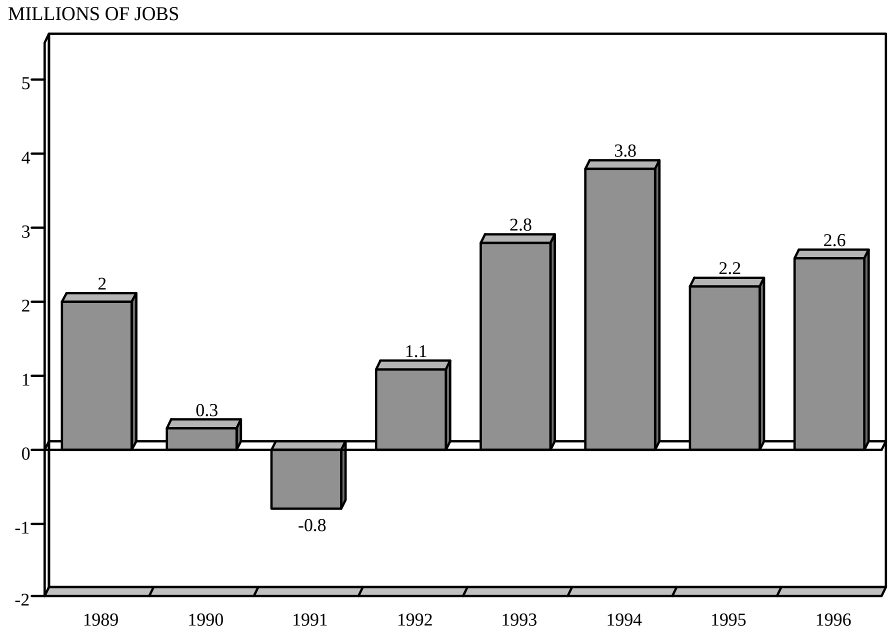
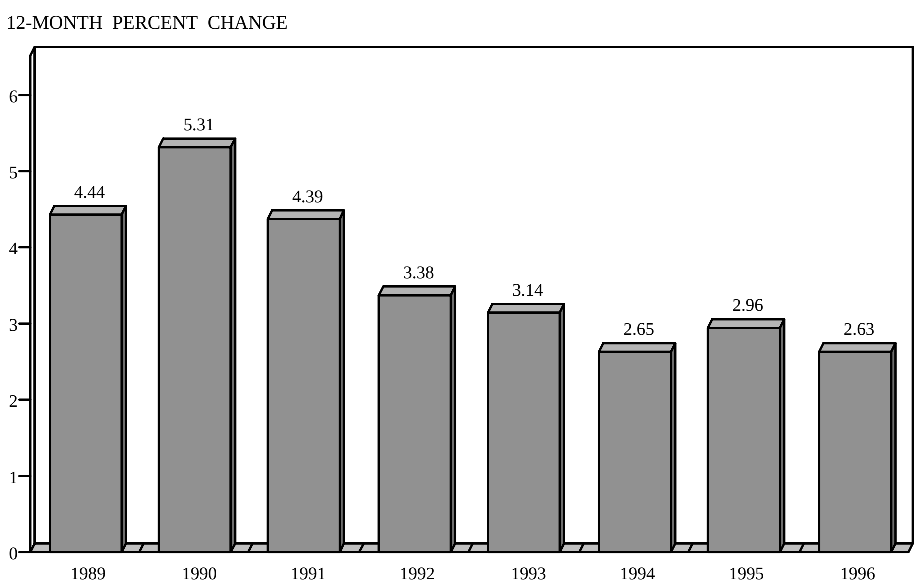


Chart III-6. UNDERLYING RATES OF INFLATION
CPI: ALL ITEMS LESS FOOD AND ENERGY



Family Incomes, Poverty, and Inequality: More jobs, low inflation, and steady growth can foster a widely shared rise in living standards, as witnessed by the last two years. After many years of, at best, modest gains in median family income, 1995 witnessed one of the largest real gains in two decades—1.8 percent. Moreover, people in all kinds of households gained. Poverty fell for the second straight year (see Chart III–7), and groups at the bottom of the income distribution actually enjoyed larger percentage gains than those at the top.

The stronger investment climate also sent stocks much higher. The Dow-Jones Industrial Average has risen an average of 18 percent a year from December 1992 to December 1996—more than half again as fast as in the prior 12 years. Corporate profits, the underpinning for the value of stocks, also have soared. Just as important, the profit gains have not come at the expense of wages, which have risen in this period, but are mainly due to falling corporate interest payments and a slowdown in employers' health insurance costs.

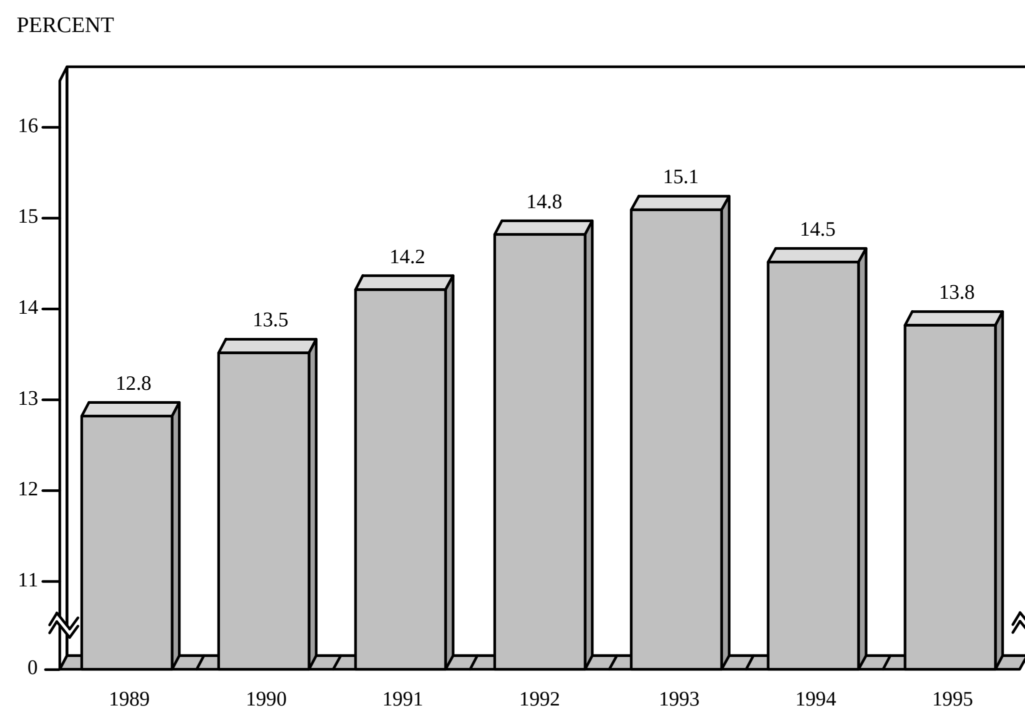
To be sure, the strong economy is not due to the President's budget policy alone. But just as surely, his policies have contributed to a stronger financial climate, enabled the Federal Reserve to maintain low interest rates, released extra saving for private investment, and showed skeptics that the Nation's leaders could cut the deficit. These successes have played their part in revitalizing the economy in the last four years.

What Remains To Be Done

The best way to preserve and strengthen the current economic expansion is to cut the deficit further. This budget reaches balance in 2002—a goal widely shared by Congress and the public. The President is committed to achieving it, and his previous success in cutting the deficit puts it well within reach.

But the goal of reaching balance is not without controversy. Some observers would

Chart III-7. POVERTY RATES



balance the budget *every* year—no matter what the circumstances; they even would enshrine the goal in the Constitution by passing an amendment to that effect. Others argue that further deficit cutting is unnecessary, if not economically harmful. Both of these visions are misguided.

A Balanced Budget Requirement: A requirement to reach balance every year is potentially harmful. Virtually all taxes, and many spending programs, respond automatically to changing economic conditions. That is, when the economy is weak and incomes fall, income tax revenues fall as well; unemployment compensation and other benefits also cushion the effect of the downturn on consumer buying power. Without these "automatic stabilizers," economic downturns would be much worse.

Consider what could happen under a balanced budget amendment. A weak economy would mean fewer tax revenues and more spending on unemployment and other programs. As a result, a balanced budget requirement could force a tax increase or spending cuts—or both—in the middle of a recession. Those steps would make a weak economy even weaker.

Nor are any "escape hatches" from the budget-balancing requirement—for times of economic distress—guaranteed to work. One reason is that economists are notoriously slow to recognize economic downturns. Consequently, by the time they saw the slowdown and Congress acted to ease the balanced-budget requirement, the economic damage would be done. The better practice is to aim for balance, but to adjust budget policy according to circumstances.

A Reversal of Course: Allowing the deficit to begin rising again would be economically damaging. Admittedly, as some analysts argue, continued economic growth and low interest rates could keep Federal debt growing more slowly than the economy as a whole, and that would help to keep Federal interest costs under control. The problem is, the Nation faces some important challenges in the not-so-distant future for which we should begin to prepare. A balanced budget would be a good first step.

Today, the Nation is benefitting from its demography. Its largest population group—the "baby-boom" generation, born between 1946 and 1964—is entering its highest-earning years. They pay much more to the Government than they receive in direct benefits. But the situation will begin to change in about 12 years.

At that point, the oldest baby-boomers will become eligible for early retirement under Social Security. Because the next generation of taxpayers is smaller in size, they will contribute relatively less to the Government in revenues, making it harder to support the baby-boomers in their retirement. The President has already called for a bipartisan process to address that problem. But if we don't balance the budget beforehand, the challenge of supporting the baby boomers will only grow larger.

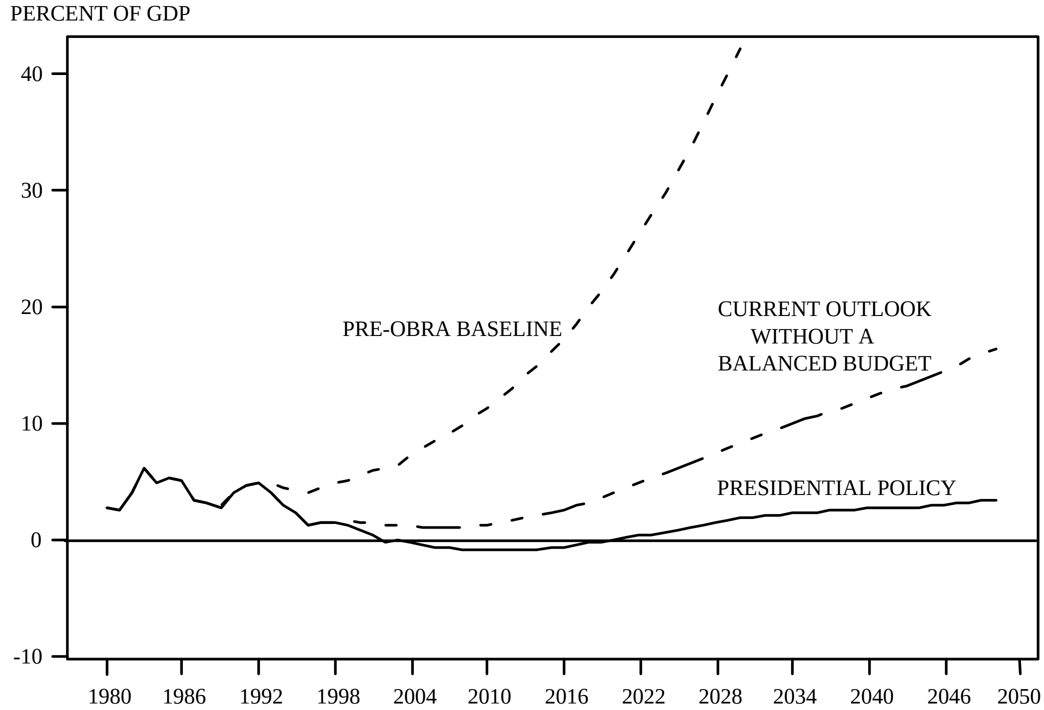
A balanced budget by 2002 will add a margin of safety into the budget to absorb the coming demographic burden—and any unforeseen problems before then. As illustrated in Chart III–8, if Congress enacts the President's budget and continues his proposed limits on Medicaid while controlling discretionary spending beyond 2002, the Government should be able to avoid an explosion of debt when the baby-boomers retire. (See Chapter 2 of *Analytical Perspectives* for a full discussion of the methodology underlying these projections.)

The Administration's Economic Assumptions

This budget, like the Administration's previous budgets, is based on prudent assumptions about economic growth, interest rates, inflation, and unemployment for the foreseeable future. As with the previous budgets, the assumptions are close to the consensus among private forecasters. While the Administration believes that, with sound policies, our economy can do even better, we also believe that we should use prudent, mainstream economic assumptions for budget planning.

The Congressional Budget Office (CBO) also prepares economic assumptions with which to evaluate budget proposals. In the past four years, CBO's assumptions generally have

Chart III-8. LONG-RUN DEFICIT PROJECTIONS



been quite close to this Administration's, although small differences can generate large gaps in budget projections over five to seven years.

In recent years, the economy generally has performed somewhat better than either the Administration or CBO had projected, showing faster growth and lower unemployment and inflation.

The Administration's assumptions include the following:

- ***Growth:*** Real growth will dip slightly below the trend for the next two years, averaging two percent on a fourth quarter over fourth quarter basis. Later, real GDP growth will average 2.3 percent per year—the Administration's estimate of its potential growth rate.
- ***Interest rates:*** If Congress enacts the President's budget plan, interest rates will fall as the budget approaches balance. The yield on 10-year Treasury notes, 6.3 percent at the end of 1996 and higher earlier in the year, will decline to 5.1 percent and then stabilize; on a discount-basis, the 90-day Treasury bill rate will drop to four percent, from around 5.1 percent. The long-term real rate will be about 2.5 percent, and the short-term real rate about 1.5 percent. These real interest rates are consistent with U.S. experience during past periods of steady growth and low inflation.
- ***Inflation:*** Inflation will remain fairly stable. The CPI will rise an average of 2.7 percent a year from 1997 through 2002, down slightly from the 3.3 percent increase in 1996 (which was aggravated by special factors). The price index for GDP (measured on a chain-weighted basis) will rise at a 2.6 percent annual rate—somewhat faster than in 1996. The gap between these two measures of inflation, which has been large in the past, will narrow due to recent and forthcoming changes to the methodology underlying both indexes—including improved measures of health care

inflation (due later this year) and an update of the CPI market basket (effective in 1998).

- ***Unemployment:*** Civilian unemployment will be 5.5 percent by the start of 1998, very near the current rate, and the average level will remain there.

The Administration does not forecast the economy's cyclical pattern beyond the next few quarters; within that horizon, it sees no sign of an impending downturn. If the economy continues to grow for the entire forecasting period, the current expansion would become the longest in this century.

In some years, growth may exceed 2.3 percent; in others, it may fall a bit short. But, the Administration's assumptions should be, on average, close to correct for this period, and should provide a sound basis for reaching balance by 2002.

Table III–1. ECONOMIC ASSUMPTIONS[1]

(Calendar years; dollar amounts in billions)

	Actual 1995	Projections						
		1996	1997	1998	1999	2000	2001	2002
Gross Domestic Product (GDP):								
Levels, dollar amounts in billions:								
Current dollars	7,254	7,577	7,943	8,313	8,717	9,153	9,610	10,087
Real, chained (1992) dollars	6,743	6,901	7,056	7,197	7,355	7,525	7,699	7,877
Chained price index (1992 = 100), annual average	107.6	109.9	112.7	115.7	118.7	121.8	125.0	128.2
Percent change, fourth quarter over fourth quarter:								
Current dollars	3.8	5.0	4.6	4.7	5.0	5.0	5.0	5.0
Real, chained (1992) dollars	1.3	2.8	2.0	2.0	2.3	2.3	2.3	2.3
Chained price index (1992 = 100)	2.5	2.3	2.5	2.6	2.6	2.6	2.6	2.6
Percent change, year over year:								
Current dollars	4.6	4.5	4.8	4.7	4.9	5.0	5.0	5.0
Real, chained (1992) dollars	2.0	2.3	2.2	2.0	2.2	2.3	2.3	2.3
Chained price index (1992 = 100)	2.5	2.2	2.5	2.6	2.6	2.6	2.6	2.6
Incomes, billions of current dollars:								
Corporate profits before tax	599	652	676	714	757	796	816	849
Wages and salaries	3,431	3,628	3,808	3,982	4,168	4,374	4,590	4,810
Other taxable income[2]	1,532	1,612	1,684	1,748	1,809	1,882	1,967	2,068
Consumer Price Index (all urban):[3]								
Level (1982–84 = 100), annual average	152.5	156.9	161.2	165.5	170.0	174.6	179.3	184.1
Percent change, fourth quarter over fourth quarter	2.7	3.1	2.6	2.7	2.7	2.7	2.7	2.7
Percent change, year over year	2.8	2.9	2.7	2.7	2.7	2.7	2.7	2.7
Unemployment rate, civilian, percent:								
Fourth quarter level	5.5	5.3	5.4	5.6	5.5	5.5	5.5	5.5
Annual average	5.6	5.4	5.3	5.5	5.5	5.5	5.5	5.5
Federal pay raises, January, percent:								
Military	2.6	2.6	3.0	2.8	3.0	3.0	3.0	3.0
Civilian[4]	2.6	2.4	3.0	2.8	NA	NA	NA	NA
Interest rates, percent:								
91-day Treasury bills[5]	5.5	5.0	5.0	4.7	4.4	4.2	4.0	4.0
10-year Treasury notes	6.6	6.5	6.1	5.9	5.5	5.3	5.1	5.1

NA=Not Available.

[1] Based on information available as of mid-November 1996.

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

[3] 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] Overall average increase, including locality pay adjustments. Percentages to be proposed for years after 1998 have not yet been determined.

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

IV. IMPROVING PERFORMANCE IN A BALANCED BUDGET WORLD

IV. IMPROVING PERFORMANCE IN A BALANCED BUDGET WORLD

We still have work to do, for while the era of big Government is over, the era of big challenges is not. Achieving educational excellence, finishing welfare reform and our campaign for safe streets, helping families to succeed at home and at work, balancing the budget, keeping America strong and prosperous, reforming campaign finance and modernizing Government operations so that, together, we can meet the challenges and seize the opportunities of this remarkable time.

President Clinton
December 11, 1996

The President's challenge is an awesome one—literally, how to do more with less, and how to do it better.

But it is the challenge that we face, shaped by the fiscal and political realities of our times. The President has worked hard to reduce the deficit, and he wants to work with Congress to finish the job and balance the budget by 2002—a goal that is widely shared in Congress and across the Nation. Consequently, departments and agencies no longer can count on more funding each year. For the foreseeable future, their resources will be constrained, perhaps severely so.

And yet, the Federal Government has a legitimate role to play in fulfilling the President's goals. Over the last four years, the President has used Federal resources and the power of his office to begin achieving educational excellence, expanding opportunity, cleaning up the environment, investing in promising research, ending welfare as we know it, protecting health care and pensions, making the tax system fairer, and keeping America strong. The public wants further progress on these and other issues and, with limited resources, the Federal Government must be able to respond effectively.

Led by Vice President Gore's National Performance Review, the Administration promised to create a Government that "works better and costs less." And we have made a good start. We are saving money, cutting the work force, eliminating needless regulations and improving the ones we need, streamlining bureaucracies, cutting red tape, and finding numerous ways to better serve Government's "customers"—the American people.

Costs Less

The Administration has:

- Saved over $100 billion, largely through a series of management reforms.
- Cut the Federal work force by over 250,000 employees,[1] creating the smallest work force in 30 years and, as a share of total civilian employment, the smallest since 1931. Thirteen of the 14 Cabinet Departments have cut their permanent work forces between 1993 and 1996; the Justice Department is growing because of the Administration's expanded war on crime and drugs.
- Eliminated over 200 programs and projects—major programs like the Bureau of Mines, and smaller special-interest or narrowly-focused activities like wool and mohair subsidies and the Tea-Tasters Board.
- Closed nearly 2,000 obsolete field offices.
- Negotiated better deals for Government purchases. The Government now pays $3.62 for a three-pound commercial overnight delivery, compared to the $27 retail rate, and as little as two-cents-a-minute

[1] As of September 1996.

for long-distance calls, compared to the 16-cents-a-minute retail rate.

Works Better

Departments and agencies are:

- Eliminating 16,000 pages of regulations and dramatically simplifying 31,000.[2]
- Improving customer service. Spurred by the President's challenge to be the "best in the business," over 200 agencies have committed to meet over 3,000 customer service standards. The Social Security Administration was rated first in a 1995 independent survey of selected public and private 1–800 services. Agencies including the Postal Service, Veterans Affairs Department (VA), and the Bureau of Engraving and Printing have surveyed over a million customers in the past year to learn how they can improve services.
- Using emerging technologies, particularly the Internet and its World Wide Web, to make Government information readily accessible and easier to find. The White House expanded its home page (www.whitehouse.gov) to provide access to commonly requested services. For example, citizens can get passport applications, their earnings records from the Social Security Administration, or student loan applications. The Commerce Department's "FedWorld" system connects users to hundreds of agency resources and information—from Federal job opportunities, to automobile emission system repair instructions, to information on starting a small business. Users downloaded over 250,000 tax forms and instruction booklets from the IRS' home page during the 1996 tax season.
- Creating "one-stop shops," such as the new U.S. General Stores, which give the public walk-in access to services across a wide range of agencies while cutting agency overhead costs. Similarly, the National Performance Review and the General Services Administration are working with phone companies across the country to convert Federal listings by agency to listings according to services, such as Food Stamps or AIDS information. Over 18 million Americans will get such listings this year.
- Launching pilot projects to shift regulatory enforcement approaches from adversarial relationships to partnerships. In the Maine 200 partnership program, in which both companies and workers look for hazards, workman's compensation claims have dropped 40 percent.
- Cutting "red tape" and paperwork. The President and Congress strengthened the Paperwork Reduction Act, establishing goals for agencies to cut by 25 percent, by 1998, the hours that the public spends filling out Government forms and paperwork.

[2] As of December 31, 1996, agencies had eliminated, or proposed for elimination, 87 percent of the 16,000; they had improved, or proposed for improvement, 78 percent of the 31,000.

A Toolkit of Strategies and Techniques

The Administration is proud of its accomplishments, but our work is not done. As we move forward, the challenge will only get harder. Spurred by the Vice President, the Administration has identified many ways for agencies to improve their performance and cut costs. Some of these tools focus on eliminating obsolete processes; others focus on improving the ones we have. Because agencies and programs operate in such different ways, not all of these tools, techniques, and strategies apply to each agency and department. But every agency and program can benefit from a number of them.

Based on what we have learned over the past four years, we plan to employ the following seven tools, as shown in Table IV–1.

1. Restructure Agencies

A smaller Government is not an end in itself. We want to change the way it operates. In place of highly-centralized, inflexible organizations that focused on inputs, the Administration is creating more flexible, decentralized management structures within agencies to focus on results. Agencies are streamlining their work forces, collapsing redundant layers, increasing spans of control, and creating leaner headquarters. Many are closing small, inefficient field offices while strengthening

Table IV–1. STRATEGIES TO IMPROVE PERFORMANCE AND REDUCE COSTS

1. Restructure Agencies
2. Improve Effectiveness of the Federal Workplace
3. Reform Federal Purchasing Practices
4. Expand Competition to Improve Services and Reduce Costs
5. Follow the Best Private Sector Practices in Using Information Technology
6. Improve Credit Program Performance
7. Improve Business Management Practices

the services they provide to customers through increased electronic communications and systems. And some agencies are fundamentally changing the way they work with State and local governments and with the private sector by creating partnerships to focus on joint goals and the progress toward meeting them.

- *Create more efficient, performance-based organizations (PBOs):* PBOs, which the President has labeled a priority for his second term, are discrete units of a department that commit to clear management objectives, measurable goals, customer service standards, and specific targets for improved performance (see Table IV–2). Once designated, they would have greater personnel and procurement flexibilities and a competitively-hired CEO, who would sign an annual performance agreement with the Secretary and have a share of his or her pay depend on the organization's performance. The British, who have extensive experience with this concept, have found that such agencies have improved performance and cut administrative costs.

- *Consolidate intergovernmental funding streams into Performance Partnerships:* Performance Partnership grants with larger, more flexible funding pools can replace small categorical grants, improving financial incentives, rewarding results, eliminating overlapping authorities, and cutting Federal overhead, micro-management, and paperwork. States or Tribes can now combine up to 15 separate Environmental Protection Agency funding streams across water, air, hazardous waste, and similar programs to improve environmental outcomes. Agriculture Department (USDA) State Directors can combine funding for 18 programs into three funding streams

Table IV–2. PROPOSED PERFORMANCE-BASED ORGANIZATIONS

Department or Agency	Function
Commerce	Technical information dissemination (National Technical Information Service)
Commerce	Intellectual property rights (Patent and Trademark Office)
Commerce	Seafood inspection
Defense	Defense Commissary Agency
Housing and Urban Development	Mortgage insurance services (GNMA)
Housing and Urban Development	Mortgage insurance services (FHA)
Transportation	St. Lawrence Seaway Development Corporation
Treasury	United States Mint
Office of Personnel Management	Retirement benefit services

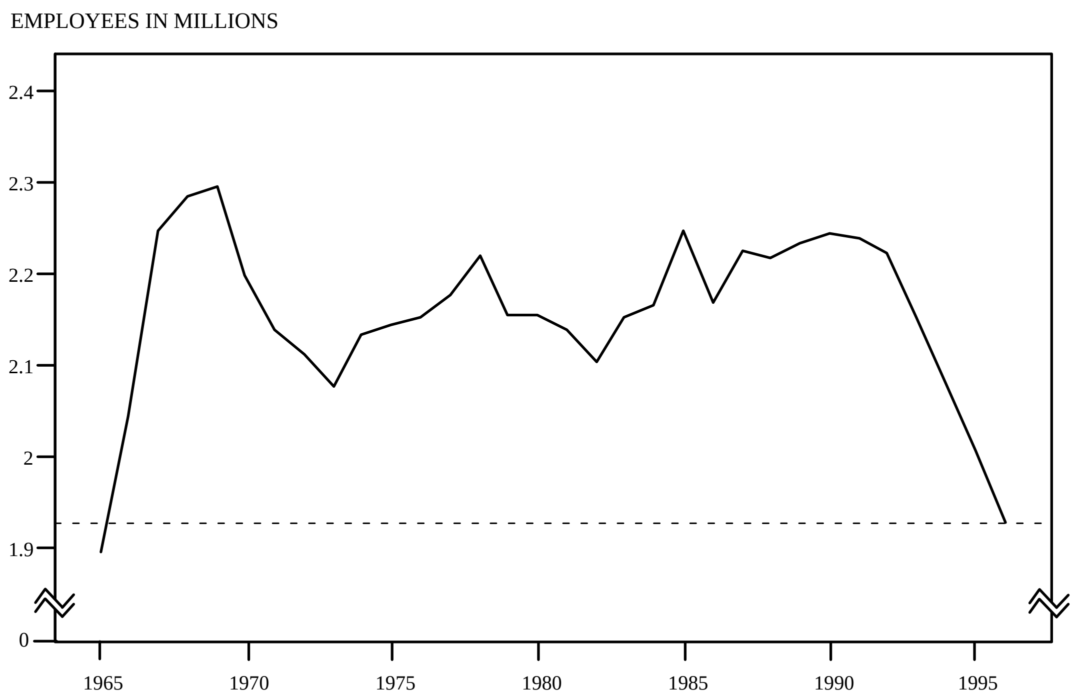
for rural housing, utilities and business or cooperative services.

- *Accelerate implementation of existing streamlining plans:* The President and Congress are ahead of schedule on plans to cut 272,900 Federal positions, or 12 percent of the work force, by the end of this decade (see Chart IV–1). As Chart IV–2 shows, agencies are working hard to implement their streamlining plans—designed to cut overhead, eliminate vertical layers and redundant structures, particularly in headquarters operations, and increase spans of control.
- *Eliminate excess field offices:* Several agencies, including the Departments of Agriculture, Transportation, and the Treasury, and the Small Business Administration, have developed proposals to streamline their field office structures, while improving operations and customer service. Over 890,000 Federal employees work in almost 30,000 separate field offices that vary greatly in size. Although the average field office houses 30 employees, over 11,000 offices house five or fewer.

2. Improve Effectiveness of the Federal Workplace

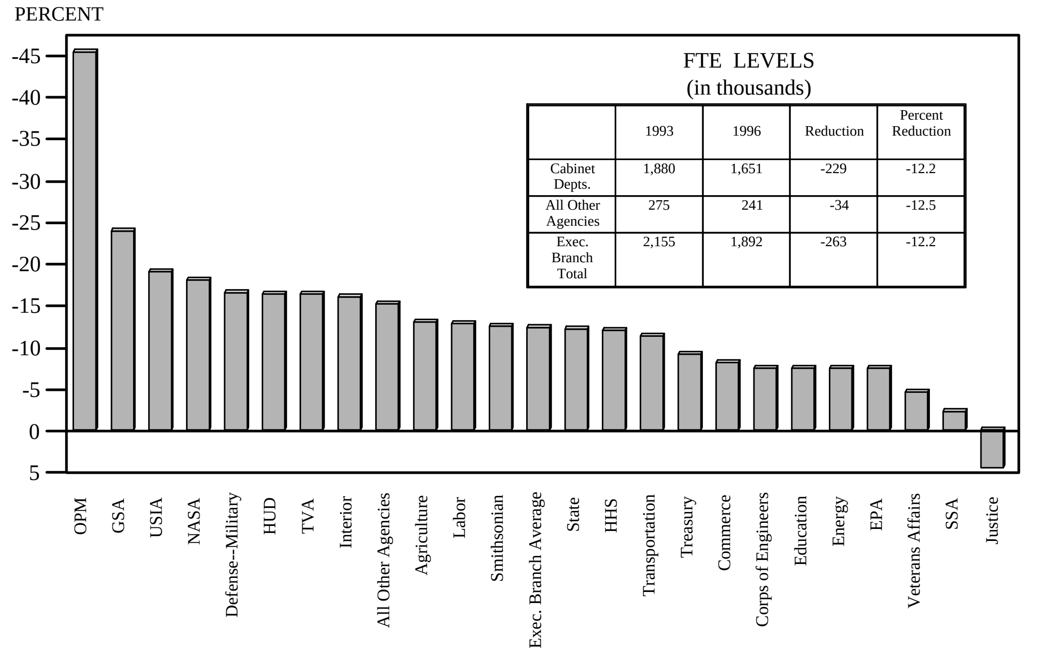
What was true in 1993 remains true today. The main agents for change are Federal employees themselves. With a quarter of a million fewer of them than in 1993, we are asking those who remain to do more with less. They are working harder and smarter each and every day, and our efforts to reinvent Government would be nowhere near as successful were it not for their enthusiastic leadership and support. We must, however, continue to downsize and restructure, if only because of the limited resources that a balanced budget will offer. As with the previous personnel cuts, the Administration plans to closely manage and target further downsizing. Agencies need to avoid workplace

Chart IV-1. EXECUTIVE BRANCH CIVILIAN EMPLOYMENT, 1965 - 1996
(Excluding Postal Service)



Note: Data is end-of-year count.

Chart IV-2. CIVILIAN FTE CHANGES ON A PERCENT BASIS, 1993 - 1996
CABINET DEPARTMENTS AND SELECTED INDEPENDENT AGENCIES



	1993	1996	Reduction	Percent Reduction
Cabinet Depts.	1,880	1,651	-229	-12.2
All Other Agencies	275	241	-34	-12.5
Exec. Branch Total	2,155	1,892	-263	-12.2

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.

disruptions and employee disputes and, when they occur, resolve them quickly and fairly. Employees and managers need to plan and work together for common goals. In addition, the President proposes a 2.8 percent pay raise for both civilian employees and the military.[3]

- *Increase the number and effectiveness of labor-management partnerships:* The Administration plans to add to the more than 850 labor-management partnerships already in place to improve relations between agencies and the unions representing their employees. With these partnerships, the two sides work together toward a common goal—providing the highest-quality service at the lowest cost. The two sides cooperate to solve problems, implement changes, and jointly resolve worksite issues. Good partnerships breed good organizations, with an energized work force focused on doing its job better and more efficiently.

- *Use buyouts to adjust the size and skill mix of the work force:* A well-planned, well-executed buyout program can minimize the need for involuntary layoffs by increasing attrition in targeted occupations, organizations, or locations. In response to changed conditions, missions, and resources, private and public organizations have used buyouts to make needed adjustments in the composition of the work force. Generally, they are less costly than formal reductions-in-force and are always less disruptive to workers—to those who elect to leave and those who remain.

- *Replace formal grievance procedures with Alternative Dispute Resolution (ADR):* The early, voluntary use of ADR can quickly resolve workplace disputes, eliminating the costs, delays, and adverse effects on workplace morale of formal administrative procedures or litigation. ADR encompasses various techniques to resolve disputes and

[3] Once again, the Administration will consult employee organizations and others before recommending how to allocate the civilian pay raise between locality pay and a national schedule adjustment.

reach negotiated settlements and, at the Federal level, ADR has resolved a wide range of workplace disputes, including employee grievances and allegations of discrimination. For example, a Postal Service alternative mediation pilot program in Florida resolved 77 percent of cases using ADR, and generally reached settlements within two weeks of the offer of mediation services. ADR's expanded use can produce quicker, better settlements and significant savings.

3. Reform Federal Purchasing Practices

Prior to this Administration, efforts to make Government work better and cost less were often hindered by the Government's unique acquisition system. It was heavily rule-driven, leaving little leeway for Federal managers and employees to exercise good business judgment and common sense and providing too much incentive for wasteful and costly litigation. With leadership from the National Performance Review, the Administration issued an early call for fundamental reform and—with strong bipartisan support that helped produce the 1994 Federal Acquisition and Streamlining Act—is transforming the system into one that operates much more like private sector acquisition. The Administration seeks a Government acquisition system that performs like those of our most successful companies and, to achieve it, is pursuing important reforms.

- *Use performance-based service contracting (PBSC):* The Government spends over $100 billion a year for contracted services. PBSC is a valuable tool that can not just save money, but also better enable agencies to achieve their missions. PBSC emphasizes what the Government wants from a contractor in measurable, mission-related, results-oriented terms, rather than prescribing how to do the work. PBSC also cuts costs by moving the Government away from cost reimbursement contracts, which are open-ended, to fixed price contracts. An ongoing Government-wide pilot project already has generated savings of 15 to 20 percent, and the agencies involved have expressed more satisfaction with contractor performance.

- *Use past performance in selecting contractors:* Agencies have realized, as have successful companies, that they need not settle for mediocrity when they can get better overall value from stronger performers. By paying more attention to a contractor's past performance, agencies are beginning to do business only with firms that provide quality performance in exchange for taxpayers dollars. For example, a Navy installation in Seattle reports that its use of past performance has improved on-time delivery from 20 to over 70 percent and significantly reduced defects in the past 18 months.

- *Apply successful commercial buying strategies:* Recent legal and regulatory reforms are letting agencies more easily and effectively use commercial purchasing practices. Many agencies, for instance, are leveraging the Government's buying power as a large customer of commercial products, often by consolidating their orders. VA entered into a single national contract for one of its pharmaceuticals, cutting its costs from about $2.5 million a year to just $550,000. By consolidating its requirements for lab testing services in the Southeast region, the Army cut its bill in half. The Defense Logistics Agency is using another approach—a "prime vendor" strategy in which customers order and receive products directly from distributors—reducing the value of its pharmaceutical inventories by nearly $85 million.

- *Streamline the buying process:* The Administration is revising the rules for source selection, letting contracting officials more easily get the best deals while still allowing all interested firms to participate. These changes will save the Government the cost of fruitless negotiations with offerors who are not leading contenders, and allow firms to focus resources on situations in which they likely will be the most competitive.

4. Expand Competition to Improve Services and Reduce Costs

Competition spurs efficiency. Agencies that provide administrative and other commercial or industrial products or services to "captive customers"—be they other agencies, or individuals or businesses—lack the stimulus of competition to sharpen their performance and control their costs. The Administration's effort to expand competition encourages agencies to compete with one another, and with the private sector, to provide common administrative support services. More competition will bring new technologies, capital, management techniques, and opportunity to Federal employees and their customers.

- *Accelerate and expand the use of competition:* Agencies are using competition to purchase support services from their own employees, from "franchise funds" in other agencies, and from the private sector. Competition allows agencies to focus on their core mission requirements while giving them access to the best service providers, both public and private, and it encourages employees to organize themselves to cut costs and meet performance standards. The Social Security Administration, for example, recently chose to purchase payroll services from the Interior Department at lower annual operating costs. Through competition, the Defense Department (DOD) is cutting costs without cutting service. Indeed, experience here and abroad has shown that a greater use of competition can cut costs by as much as 30 percent.

- *Spin off or privatize functions:* Agencies are spinning off or otherwise converting to the private sector a range of assets and activities that the Government no longer needs to own or perform, including the Alaska Power Administration, the Interior Department's helium processing, the Naval Petroleum Reserve known as Elk Hills, and, eventually, the U.S. Enrichment Corporation. Similarly, VA relied on "just in time" deliveries in buying medical supplies, eliminating its internal warehousing system and saving about $100 million a year. In a new, innovative approach, the Office of Personnel Management converted its background investigation staff to an Employee Stock Ownership corporation, saving money, protecting jobs, and letting those former Government employees expand services into State, local, and private markets.

5. Follow the Best Private Sector Practices in Using Information Technology

Well-managed information technology should improve the Government's productivity while cutting its costs. Table IV–3 at the end of this chapter lists some of the most important investments in information technology for which the President is proposing funding. To ensure the maximum return on investment, agencies can now copy the successful practices of private firms, due to their new authority under the 1996 Clinger-Cohen Act. These practices—reengineering, buying and managing smart, integrating information—ensure that the technology provides workable solutions to real problems at a reasonable cost.

- *Re-engineer before automating:* Agencies can redesign how they do business to ensure that automation cuts costs, improves effectiveness, and uses commercial, off-the-shelf technology as much as possible. The Census Bureau, for example, moved its information to the World Wide Web to let researchers draw from the vast stores of Census data. The Weather Service restructured the duties of its forecasters, using advanced workstations to increase their productivity, and the accuracy and timeliness of weather forecasts. The warning time for tornados has risen significantly, giving communities more time to take appropriate precautions, such as moving children off playgrounds.

- *Acquire systems in phases:* By acquiring information technology systems in pieces, rather than all at once, agencies can reap immediate benefits while increasing the chance of having an integrated, working system at the end. A General Accounting Office (GAO) study found that buying systems in phases was one of the most important strategies followed by companies that have most successfully acquired new information technology systems.

- *Buy off-the-shelf:* Agencies can reduce their risks of problems by avoiding custom-designed components. The broad range of information technology equipment, software, and services now commercially available provides new opportunities to use commercial, off-the-shelf technology, rather than designing and building more-costly custom systems from the ground up. Through contracts with the General Services Administration (GSA), agencies can get standard commercial software packages for financial systems.

- *Consolidate and out source:* The Government can close over half of its larger computer centers and eliminate duplicative communications links. The National Aeronautics and Space Administration cut its data center processing costs by 30 percent in its first year of consolidation, and expects to save another 35 to 40 percent next year. GSA will close 11 data centers, outsourcing all of its data center requirements to the private sector.

- *Monitor progress with performance-based management systems:* Agencies are establishing performance-based monitoring systems, enabling managers to track whether major system acquisitions are meeting expectations for costs, schedules, and capabilities. The Federal Aviation Administration's Air Traffic Modernization System is using performance measures that are linked to design and procurement decisions.

- *Integrate information:* By integrating their information, agencies can stop duplicating each others' efforts while making their critical information more accurate. Many agencies collect information that other agencies use. Over 40 agencies, for example, collect and use trade data for analysis and for processing imports and exports. Those agencies are integrating information about shippers, bills of lading, types of cargo, exports, imports, and duties into a cohesive, coordinated system. The new system will eliminate duplicative import forms, speed cargo clearance, and improve our trade statistics. Similarly, eight agencies administering programs that deliver cash benefits to individuals are working together to better coordinate program information across major Federal benefit programs, in order to prevent overpayments and avoid the costs of trying to recoup them after the fact.

6. Improve Credit Program Performance

To fulfill its stewardship responsibilities to taxpayers, the Government must manage its cash and loan assets as wisely as possible. Specifically, it must design and administer its loan programs prudently, and provide incentives to ensure that it can collect its "receivables" (that is, the amounts owed) in a timely fashion. At the end of 1995, contingent liabilities (that is, outstanding guaranteed loans) totaled $737 billion, and non-tax receivables totaled $245 billion, of which $50 billion was delinquent. The 1996 Debt Collection Improvement Act gives agencies a range of new tools to improve credit program performance.

- *Lower costs with improved loan servicing:* The Debt Collection Improvement Act lets agencies withhold Federal payments to those who are delinquent on loans from the Federal Government, refer delinquent accounts to a private collection agency or a private attorney, or sell the "account receivable" to the private sector. Agencies also can keep up to five percent of any increase in their collections in 1997, compared to their average annual collections in 1993–96, but they must use the funds they keep to improve their credit management and debt collection.

- *Obtain higher recoveries on delinquencies with enhanced payment offset:* Also under the Act, the Treasury Department has begun to implement its new authority to intercept any Federal payment to a delinquent individual or entity to offset the delinquent amount. Through agency referrals of such debt to the Treasury Department, the Government expects to recover over $300 million in the next three years, which it will credit to agency accounts.

- *Consolidate Government-wide debt collection:* The Act enables Treasury to designate agencies as Federal Debt Collection Centers to compete for delinquent account referrals and, in turn, be paid from recoveries. By October 1997, Treasury will designate up to five agencies to provide comprehensive account maintenance and special collection services. For agencies with decentralized account servicing operations or few loans, the centers will offer a low-cost alternative to in-house servicing.

- *Coordinate and expedite asset sales:* The Act encourages agencies to sell loan assets when the Federal Government will benefit financially. In 1996, the Department of Housing and Urban Development received over $300 million more by selling collateralized loans than it would have—had it continued to hold these delinquent loans in its portfolio. VA sells over $1 billion in collateralized loan assets each year. The Small Business Administration will undertake loan sales in 1998.

7. Improve Business Management Practices

The Administration is trying to transform a Federal Government with vestiges of early 20th Century thinking into one suited for the next century, and seeking to provide financial accountability for Government spending. An efficient, effective Government needs sound financial management, reliable information, and, where appropriate, fees from those who benefit from Government's business-like activities. The Administration is taking a coordinated approach to electronic process initiatives in order to re-engineer financial services; aggressively implement electronic purchasing, payment, and funds transfer; and improve the quality and timeliness of financial reporting.

- *Collect fees from the beneficiaries of Government's business-like activities:* The Federal Government provides services to businesses and others in the private sector. The budget would impose or raise fees on these recipients because, where possible, those who benefit from the Government's business-like activities should finance the services—not the general taxpayer. Specifically, the budget proposes Federal Aviation Administration fees to fund the air traffic control system; Food and Drug Administration fees to finance the testing and approval of new drugs; and Food Safety and Inspection Service fees to fund the costs of meat and poultry inspection in production plants.

- *Re-engineer travel policies and procedures:* The Federal Government spends over $7 billion a year for travel (almost $5 billion in the Defense Department). GAO found that DOD spends an additional 30 percent of its direct travel costs to manage its travel system, while the private sector spends about six percent. DOD has begun implementing the recommendations of a two-year study to streamline its travel management procedures. GSA also has begun implementing the recommendations of a similar study of civilian agency travel management policies and practices. Both efforts likely will dramatically cut travel administrative costs throughout the Government.

- *Use electronic means to improve purchasing and capture financial data for easier accounting:* Purchase cards and electronic data interchange let buyers buy items cheaply and conveniently, while they capture the needed financial data from the buyers. USDA estimates that a paper purchase costs $77 to process, while the same purchase by card costs $33; USDA hopes to cut the card cost to $17 per transaction. At the same time, information technology makes it easier for buyers to learn about items for sale. The "GSA Advantage" World Wide Web site lets Government employees browse through thousands of product listings and order with the Government's "IMPAC" credit card, and agencies can order high-end computer equipment and software through the Web page of NASA's "Scientific and Engineering Workstation Procurement" contract. The Administration wants to adopt "smart card" technology so that, ultimately, every employee will be able to use one card for a wide range of purposes, including travel, small purchases, and building access.

- *Phase-in electronic funds transfer:* The Debt Collection Improvement Act supports agencies' efforts to modernize their payment processes by requiring the Federal Government, by 1999, to make payments to individuals and businesses by electronic funds transfer, thereby eliminating the costs and inconvenience of lost and stolen paper checks.

- *Accelerate implementation of Electronic Benefits Transfer (EBT):* EBT replaces multiple Federal and State paper-based benefit delivery systems with a single card system, cutting overhead costs by streamlining processes and replacing multiple government delivery systems with the private banking infrastructure. EBT also brings dignity, security, and access to benefit recipients. Over half of the States will issue EBT cards in 1997. The Administration's EBT Task Force has estimated that Nation-wide implementation of EBT will save $195 million a year by 1999.
- *Assure integrity of data (with audited financial statements):* Government managers need management and reporting systems that produce reliable information. The basic set of Federal accounting standards is now complete, and agencies are improving the accuracy and reliability of their financial information. Sixty percent of entities that prepared audited financial statements for 1995 received unqualified opinions. Agencies are also making those statements more timely by completing and releasing them earlier.

Public Confidence in Government

The tools discussed above are designed to do more than let agencies function better for their own sake. Ultimately, they are designed to help agencies provide better, more effective services to the American people.

Already, agencies are assessing what their programs actually accomplish and what we must do to improve their performance. The Government Performance and Results Act (GPRA)—the landmark legislation that enjoyed broad bipartisan support in Congress before the President signed it in 1993—makes agencies more accountable for, and focused on, what their programs achieve. The law provides the Administration, working with Congress, an unprecedented opportunity to give the American people a comprehensive picture of what they are getting for their taxes.

GPRA requires all agencies to send strategic plans to Congress by September 30, 1997 and make them available to the public. Each agency will define its mission, and set out its long-term goals for fulfilling it. Complementing the strategic plans, agencies also will create annual performance plans, establishing performance targets for the year ahead. Agencies will send the first of these performance plans, for 1999, to Congress and make them available publicly in February 1998. Finally, at year-end, GPRA requires agencies to compare actual performance against target levels in the performance plan, and to feature the comparisons in annual reports on performance to the President and Congress. Agencies will complete the first of those reports, for 1999, by March 2000.

For the challenges ahead, agencies now have many of the tools they need from not only GPRA but, as illustrated above, from the Federal Acquisition and Streamlining Act, the Debt Collection Improvement Act, the Clinger-Cohen Act, and the Paperwork Reduction Act. Others, however, will require legislation. Working together, the Administration and Congress can build on the groundwork they have laid. Working together, we can help agencies improve the Federal Government's performance in a balanced budget world.

Table IV–3. PROGRAM PERFORMANCE BENEFITS FROM MAJOR INFORMATION TECHNOLOGY INVESTMENTS

(Budget authority, in millions of dollars)

Program/Project	1996 Actual	1997 Estimate	1998 Proposed	Program Performance Benefits
Agriculture: Field Service Center Initiative.	132	91	101	Allows “one-stop service” for farmers and producers.
Commerce: Advanced Weather Interactive Processing System.	58	100	117	Improves the timeliness and accuracy of forecasts. Lowers the costs of generating forecasts through reduced staffing requirements.
Commerce: Census 2000	6	20	67	Reduces errors, the number of temporary employees needed, and publication costs.
Defense: Defense Messaging System	121	167	203	Provides timely, reliable, standardized, and secure communications worldwide and in the field.
Education: Direct Student Loan Servicing System.	85	135	172	Provides efficient and accurate servicing and record keeping for direct student loans.
Education: National Student Loan Data System.	23	28	32	Identifies institutions with high default rates for corrective action or elimination from student loan programs. Prevents students with previously defaulted student loans from receiving additional aid.
Education: PELL Grant Systems	6	11	11	Distributes grant funds to institutions and supports sound financial management.
Education: Guaranteed Student Loan Data System.	24	23	20	Makes payments and maintains records for transactions between the Education Department, guaranty agencies, and banks, as well as improving debt collection of student loans.
Education: Student Aid Application System.	50	50	52	Assists institutions and students by providing a standardized way to determine financial aid eligibility.
Energy: Telecommunications Integrator Services contract.	—	2	4	Lowers operating and maintenance costs and improves sharing of information by promoting interoperability of telecommunications systems.
Health and Human Services: Medicare Transaction System.	20	75	89	Simplifies and streamlines claims processing, eligibility, and managed care information systems while improving service to Medicare customers.
Health and Human Services: National Directory of New Hires.	—	—	30	Will help locate non-custodial parents who flee their home state to avoid making child support payments.
Housing and Urban Development: Information Technology Investments.	40	43	66	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.	51	42	33	Improves the quality of, and access to, land, resources, and title information for public land managers and the public.
Interior: American Indian Trust System.	—	13	17	Ensures that trust income is collected, invested, and distributed accurately.
Justice: Integrated Automated Fingerprinting Identification System.	84	84	84	Allows the FBI to process routine identification requests in 24 hours and urgent requests in two hours.
Justice: National Criminal Information Center 2000.	62	39	—	Provides the criminal justice community Nation-wide with immediate access to documented information on criminals and criminal activity.
Labor: ERISA Filing Acceptance System.	—	6	3	Increases the speed, accuracy, and integrity of information that three agencies use to safeguard private pensions.
State: Diplomatic and Consular Systems Modernization.	100	144	191	Improve 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. (Includes user fees and budget authority.)

Table IV–3. PROGRAM PERFORMANCE BENEFITS FROM MAJOR INFORMATION TECHNOLOGY INVESTMENTS—Continued

(Budget authority, in millions of dollars)

Program/Project	1996 Actual	1997 Estimate	1998 Proposed	Program Performance Benefits
Transportation: FAA Air Traffic Control System Modernization.	1,368	1,233	1,306	Maintains and improves capability to promote the safe, orderly, and expeditious flow of air traffic
Treasury: Information Technology Investments.	—	—	500	Provides advanced funding for reengineering and redesign of tax administration systems and operations.
Treasury: Treasury Communications System.	46	115	118	Provides secure data transmission and information services worldwide for Treasury bureaus. (Funded through Treasury's working capital fund, not annual appropriations.)
Treasury: Automated Commercial Environment.	15	15	15	Supports business process redesign, systems architecture, development, and implementation for systems to replace Customs' Automated Commercial System.
Veterans Administration: Benefits Payment System transition.	6	6	7	Ensures that benefits are delivered timely and establishes a modern information technology infrastructure.
Veterans Administration: VA Clinical Workstation Information System.	430	450	456	Allows clinicians at VA hospitals and clinics easy access to complete medical records.
Environmental Protection Agency: Toxic Release Inventory System.	7	7	8	Helps to improve the environment by maintaining data related to the release of certain toxic chemical uses. The data is available to EPA staff, State and local governments, educational institutions, industry, environmental and public interest groups, and the general public.
National Aeronautics and Space Administration: Earth Observing System Data Information System.	247	255	245	Archives, manages, and distributes earth science data from NASA missions and provides spacecraft control and science data processing for the earth-observing mission systems.
Social Security Administration (SSA): Automation Investment Fund.	167	235	200	Funds national implementation of a new computing network of intelligent workstations for SSA and the State Disability Determination Services and related technological enhancements, including electronic sharing of information.
General Services Administration: Post-FTS 2000.	10	21	31	Beginning in 1998, will offer the Federal Government low-cost, state-of-the-art, integrated voice, data, video, and long-distance telecommunications. (Cost numbers are not budget authority, but agency contributions to the Information Technology Fund for expenses associated with the FTS 2000 Program.)
Nuclear Regulatory Commission: Agency Document Access and Management System.	1	2	2	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.	—	—	—	Improves product accuracy, customer service, and staff efficiency by reengineering current paper-laden Federal employee retirement processes.
Interagency: Simplified Tax and Wage Reporting System.	—	—	—	Reduces employers' tax and wage reporting burden.
Interagency: International Trade Data System.	—	—	6	Reduces burden on exports and imports, speeds up shipments, and improves the quality of trade statistics.
Data Center Consolidation	—	—	–56	Saves money by requiring all Federal agencies to consolidate or co-locate their data processing centers to fewer larger, more efficient, and cost effective locations, either within the Government or with a private sector provider.

Note: This report is required by the Information Technology Management Reform Act of 1996, 40 USC 1412(c)).

V. CREATING OPPORTUNITY, DEMANDING RESPONSIBILITY, AND STRENGTHENING COMMUNITY

1. STRENGTHENING HEALTH CARE

We can, and we must, work together to reform Medicare and Medicaid so they continue to meet the promise to our parents and our children and continue to expand health care step by step to children in working families who don't have it. We can do that and balance the budget, and take advantage of the fact that new models are clearly making it possible to lower the rate of medical inflation in a way that advances the quality of health care as well as the quality of our long-term objectives in balancing the budget and investing in the future of America. I know it can be done, and I am determined to get it done.

President Clinton
December 11, 1996

Americans have good reason to be optimistic about the Nation's health care as we approach the new millennium.

Medicare ensures that older Americans receive high quality health care and can look forward to a longer life expectancy. Medicaid provides vital health services to low-income pregnant women and children, people with disabilities, and elderly Americans. Together, Medicare and Medicaid serve over 71 million Americans. Meanwhile, the Federal Government is investing more in biomedical research and technology, furthering our knowledge about the prevention and treatment of diseases and providing new insights into the genetic basis of diseases such as breast cancer as well as threats from food-borne illnesses newly emerging infectious diseases.

And just in the past year, we have witnessed the rapid development of new prescription drugs to help people with AIDS and other debilitating diseases. These new developments hold the potential for a vastly increased life expectancy for these Americans.

Our private health system, already the world's most dynamic, is undergoing a dramatic transformation—much of it positive. The best private sector innovations have helped make our delivery system more efficient, and have improved quality by increasing consumer choice, stressing accountability, and focusing on medical outcomes.

In his first term, the President and Congress took important steps to improve our Nation's health care system. One of the most significant was last year's passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), also known as the Kassebaum-Kennedy bill. Now, as many as 25 million Americans have health benefit portability they did not have before; no longer will people who have been sick have to fear that they will lose their access to health insurance if they lose their job or change jobs. Nor can they be denied coverage because they have a preexisting medical condition. Moreover, the law requires insurance companies to sell coverage to small employer groups and to individuals who lose group coverage without regard to their health status. It also made it easier and cheaper for self-employed people to get health insurance, simplified health care paperwork, strengthened Medicare's fraud and abuse efforts, and helped make long-term care insurance more affordable.

Other significant health care initiatives enacted in the last four years include laws requiring health plans to allow new mothers and their babies to remain in the hospital at least 48 hours following most deliveries, and prohibiting health plans from establishing separate lifetime and annual limits for mental health coverage.

With this budget, the President takes the next critical steps toward a better health care future:

- Preserving Medicare and Medicaid, while reforming and strengthening both programs in important ways.
- Helping the growing numbers of American children and families who lack health insurance coverage.
- Strengthening the health care infrastructure by investing more in biomedical research, in programs to combat infectious diseases, in the Ryan White AIDS program that provides life-extending drug therapies to many people with AIDS, and in programs such as community health centers and Indian Health Service facilities that serve critically underserved populations.

Preserving Medicare

The budget preserves and improves Medicare, extending the life of the Part A Hospital Insurance Trust Fund into 2007. Like the President's previous two budgets, it gives beneficiaries more choices among private health plans, makes Medicare more efficient and responsive to beneficiary needs, slows the growth rate of provider payments, and maintains the Part B Supplementary Medical Insurance premium at 25 percent of program costs. The plan saves $100 billion over five years (and $138 billion over six years), according to the Health Care Financing Administration's Office of the Actuary.

The President also wants to work with Congress on a bipartisan basis to address the longer-term problem of financing Medicare to support the health care needs of the "baby boom" generation.

Provider Payment Reforms and Program Savings

- *Hospitals:* The budget reduces the annual inflation increase, or "update," for hospitals; reduces payments for hospital capital; reforms payments for graduate medical education; and begins to reform the payment methodology for outpatient departments while protecting beneficiaries from increasing charges for those services.
- *Managed Care:* Along with the Administration's previous proposals to reduce the current geographic variation in payments, the budget proposes a new managed care payment methodology in light of substantial evidence that Medicare pays too much for managed care plans and, in fact, loses money for every beneficiary who opts for managed care. The budget would reduce Medicare reimbursement to managed care plans from its current rate of 95 percent of fee-for-service rates to 90 percent. To enable the industry to prepare for this change, the Administration would not implement it until the year 2000. The Administration views this reform as a first step and will continue to work with the industry to create a better reimbursement mechanism for Medicare managed care plans.
- *Physicians:* The budget reforms physician payments by paying a single update for all physician services—based on a single "conversion factor," or base payment amount, and replacing the current three conversion factors, effective January 1, 1998. The budget replaces current "volume performance standards" with a sustainable growth rate.
- *Home Health Agencies/Skilled Nursing Facilities:* The budget implements payment reforms, leading to separate prospective payment systems for home health care and skilled nursing facilities. Prospective payments would begin to bring the current double-digit rise in spending on these services under control. The budget also proposes to reform the home health benefit by paying for services following a hospital stay from the Part A Trust Fund and paying for other services from Medicare's Part B Trust Fund. Beneficiaries would not be affected by the change. In addition, the change will not count towards the budget's proposed $100 billion in Medicare savings through 2002, but will help to extend the solvency of the Part A Trust Fund.
- *Other Providers:* The budget makes payments for durable medical equipment and laboratory services more consistent with private market rates and reduces payment updates to ambulatory surgical centers. The budget also proposes to address Medicare's overpayment for prescription drugs that are provided in a physician's office

by making payments more competitive with what private purchasers pay.

- *Beneficiaries:* The budget continues, but does not increase, the requirement that beneficiaries pay 25 percent of Part B costs through the monthly Part B premium. The budget imposes no new cost increases on beneficiaries. The budget also would maintain current law to prevent "balance billing," ensuring that doctors in the new managed care plan options may not charge above Medicare's approved amount and leave the elderly vulnerable to higher costs.

- *Private Plan Choices:* The budget increases the numbers of plans—including Preferred Provider Organizations and Provider Sponsored Networks—available to seniors and people with disabilities. These new options will meet strong quality standards and include consumer protections. The plans would be required to compete on cost and quality, not on the health status of enrollees.

Beneficiary Improvements

The budget proposes reforms to improve and increase services to beneficiaries, to protect them from the burden of additional costs, and to offer them a wider choice of private plans.

- *Preventive Health Care:* The budget covers new preventive health benefits including: colorectal screening; diabetes management; preventive injections like pneumonia, influenza, and hepatitis B; and annual mammograms without coppayments.

- *Alzheimer's Respite Benefit:* The budget establishes a new respite benefit for the families of Medicare beneficiaries with Alzheimer's disease. Medicare beneficiaries would be eligible to receive non-medical care, giving family members a much-needed break from the constant demands of caring for them.

- *Outpatient Department Payments:* Payments to hospitals for outpatient services are one of Medicare's fastest growing components. Due to flaws in the current reimbursement methodology, hospital outpatient departments get a reimbursement higher than their actual costs. In effect, beneficiaries pay about a 50-percent copayment for hospital outpatient services, as opposed to the 20-percent copayment made for other Part B services. Medicare's payments are not always reduced to account fully for these high copayments. The budget corrects these flaws by establishing a prospective payment system for outpatient services and ensuring that, by 2007, beneficiaries pay the same 20-percent copayment as they do for other Part B services.

- *Medigap Protections:* The budget adds protections, such as new open enrollment requirements and prohibitions against the use of pre-existing condition exclusions, to help Medicare beneficiaries who wish to opt for managed care but fear they will be "locked in" and unable to access their old Medigap protections if they switch back to a fee-for-service plan.

- *The Working Disabled:* The budget proposes a Medicare demonstration project to encourage Social Security Disability Insurance (SSDI) beneficiaries to return to work. Under the four-year, Nation-wide demonstration project, SSDI beneficiaries who return to work beginning in 1998 would receive Part A coverage through 2001 without paying the premiums.

Additional High-Priority Initiatives

The budget contains other reforms to improve the Medicare program as well as adjustments to Medicare payments to ensure that rural beneficiaries have access to health care services.

- *Rural Health Care:* The budget would expand access to, and improve the quality of, health care in rural areas. It would extend the Rural Referral Center program; allow direct Medicare reimbursement for nurse practitioners, clinical nurse specialists, and physician assistants; improve the Sole Community Hospital program; expand the Rural Primary Care Hospital program; and provide grants to promote telemedicine and rural health outreach. The proposed changes in managed care payment methodology also would promote access to managed care plans in rural areas.

- *Fraud and Abuse:* The budget proposes strong fraud and abuse provisions, including measures to eliminate fraud in home health care—such as by ensuring that home health agencies are reimbursed based on the location of the service, not the billing office, and by enabling the Secretary of Health and Human Services to deny payments for excessive home health use. The budget also would repeal several provisions in last year's HIPAA law that weakened anti-fraud enforcement. Together, these initiatives would save about $9 billion.

Strengthening Medicaid

The budget would reform Medicaid to give States much more flexibility to manage their programs, while preserving the guarantee of high-quality health care and long-term services for the most vulnerable Americans—millions of children, pregnant women, people with disabilities, and older Americans. The budget would ensure that as we control the costs of Medicaid, we do not compromise what is right with the program.

The growth in Medicaid spending has slowed significantly over the past two years. The budget, however, ensures that our success in bringing Medicaid spending under control will not be lost in future years, when the actuaries project that Medicaid spending will again begin to rise. The budget would save $22 billion from a combination of policies to impose a per capita limit on spending and reduce Disproportionate Share Hospital (DSH) payments and retarget them to hospitals that serve large numbers of Medicaid and low-income patients. The budget also makes a number of improvements to the Medicaid program, including changes to last year's welfare reform law, costing $13 billion over the same period.

Program Savings

- *Per Capita Cap:* Even though the growth in Medicaid spending has fallen in recent years, aggregate Medicaid spending still will grow at an average annual rate of 7.2 percent from 1997 to 2002. To ensure that Medicaid's explosive growth of the 1980s and early 1990s does not resume, the budget would set a per capita cap on Medicaid spending, based on spending per beneficiary in a base year, increased by an annual growth limit. The cap protects States facing population growth or economic downturns because it ensures that dollars follow people, allowing Medicaid spending to respond to changes in caseload and the economy.

- *Disproportionate Share Hospital Payments:* Medicaid DSH spending doubled each year from 1988 to 1993. Although this rapid growth has slowed, due to 1993 legislation that modified the program, the DSH program is still large, and the payments could be targeted better. The budget proposes reforms to reach this goal without undermining the important role these funds play for providers who serve a disproportionate number of low-income and Medicaid beneficiaries.

Provisions to Increase State Flexibility

The budget continues the President's strong commitment to giving States the flexibility to design their own Medicaid program. The budget would ensure accountability for high-quality health care while enabling States to develop programs that meet the special needs of their populations.

- *Coverage for Children:* The budget would let States provide continuous coverage for one year after eligibility is determined, guaranteeing more stable coverage for children and more continuity of health care services. In addition, it will reduce the administrative burden on Medicaid officials, health care providers, and families required to refile paperwork to determine their children's eligibility.

- *Coverage Without Waivers:* The budget would let States, without a waiver, expand coverage to any person whose income is under 150 percent of the poverty line, within their per-capita spending limits.

- *Managed Care:* The budget would allow States to enroll people in managed care without Federal waivers.

- *Home- and Community-based Care:* The budget would allow States to serve people needing long-term care in home- and community-based settings without Federal waivers.

- *Boren Amendment:* The budget would repeal the "Boren amendment" for hospitals and nursing homes, giving States more flexibility to negotiate provider payment rates.
- *The Working Disabled:* The budget would let States establish an income-related premium buy-in program under Medicaid for people with disabilities who work. It would let eligible Supplemental Security Income beneficiaries who earn more than certain amounts purchase Medicaid coverage by paying a premium that States would set on an income-related sliding scale.

Maintaining and Expanding Coverage for Working Families

The President's budget plan would help an estimated 3.2 million families, including 700,000 children, keep their health care coverage for to six months up until their breadwinners find new jobs. The budget also would help provide health coverage for millions of children who do not now have it. Finally, the budget proposes to help States to create voluntary health insurance purchasing cooperatives.

Health Insurance for the Families of Workers Who are In-Between Jobs

While unemployment remains low and job creation remains high, the fast-moving economy creates rapid job turnover and job elimination. An estimated one in four workers will make an unemployment claim at least once in four years.

With health care coverage in this country usually linked to employment, many workers lose their health care coverage during these brief periods of unemployment. Nearly half of workers with one or more job interruptions experienced at least a month without health insurance between 1992 and 1995. Nearly half of children who lose their health insurance do so because of a change in their parent's employment status. A family experiencing a catastrophic illness during this transition loses the benefit of years' worth of premiums. Worse, for families with an ill child or a worker with a chronic condition, the loss of health insurance while their breadwinner is between jobs can make it financially impossible for them to regain coverage.

The budget proposes a national demonstration program to help States finance up to six months of coverage for the unemployed and their families. The program would be available to recipients, based on need, who had employer-based coverage in their prior jobs. Eligible individuals and their families would have access to a policy generally equivalent to the Blue Cross/Blue Shield Standard Option plan available through the Federal Employees Health Benefits program. The plan gives States flexibility to administer their own programs (e.g., through Medicaid, COBRA, or an independent program). It would cost $1.7 billion in 1998, $9.8 billion from 1998 to 2002.

Health Coverage for Children

The budget proposes several measures to expand health care coverage to more children. Combined with the proposal to help the families of unemployed workers (discussed above), and the ongoing phase-in of Medicaid coverage for a million older children, these additional proposals could add coverage for as many as five million children. The President is pleased with the widespread congressional interest in expanding health care coverage for children, and he looks forward to working with both Democrats and Republicans to develop and implement proposals to reach that goal.

- *State Grants to Develop Innovative Programs:* The budget provides $750 million a year in grants to States ($3.8 billion from 1998 to 2002) to build on recent State successes in working with insurers, providers, employers, schools, and others to develop innovative ways to provide coverage to children. This proposal would cover an estimated one million children.
- *Continuous Medicaid Coverage to Children:* The budget provides funds to let States extend one year of continuous Medicaid coverage to children, potentially helping one million children who would otherwise have lost coverage to keep it. The proposal would reduce administrative bur-

dens on States, families, and health care plans who now must determine eligibility at least every six months.

- *Medicaid Outreach:* About three million children are now eligible for Medicaid, but not enrolled. The Administration will ask the Nation's Governors to work with us to find ways to reach and sign up such children.
- *School Health Centers and Consolidated Health Centers (CHCs):* The budget provides more funds for CHCs to expand and enhance services to working families and their children through school-based health clinics.

Voluntary Purchasing Cooperatives

Employees in small businesses and their families are far likelier to be uninsured than other Americans. Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and extraordinarily high administrative costs.

The budget would make it easier for small businesses to provide health care coverage for their employees, by helping them to band together to reduce their risks, lower their administrative costs, and improve their purchasing power with insurance companies. The budget proposes to empower small businesses to access and purchase more affordable health insurance through voluntary health purchasing cooperatives—providing $25 million a year in grants that States can use for technical assistance, and setting up voluntary purchasing cooperatives and allowing them to access Federal Employees Health Benefit Plans.

Promoting Public Health

The budget invests in preventive steps that show the greatest promise of ameliorating pain and suffering while controlling future costs. In particular, the budget focuses on preventing teen smoking; substance abuse; teen pregnancy; the spread of AIDS and HIV infections; food-borne diseases; the spread of infectious diseases; and infant mortality. The budget also invests in health care services for low-income and other vulnerable populations, such as American Indians and Alaska Natives.

Expanding Biomedical and Behavioral Research

The budget continues the Administration's longstanding commitment to biomedical and behavioral research, which advances the health and well-being of all Americans. For the National Institutes of Health (NIH), it proposes $13.1 billion for biomedical research that would lay the foundation for future innovations that improve health and prevent disease. The budget includes funding for high-priority research areas such as HIV/AIDS (including efforts to develop an AIDS vaccine), breast cancer, spinal cord injury, high performance computing, prevention and genetic medicine.

The Office of AIDS Research will continue to coordinate all of NIH's AIDS research. The budget also includes the second year of funding for a new NIH Clinical Research Center, which would give NIH a state-of-the-art research facility in which researchers would bring the latest discoveries directly to patients' bedsides. NIH's top priority continues to be financing investigator-initiated research project grants.

Providing Direct Services and Preventive Care to Special Populations

While basic biomedical research lays the foundation for medical advances, direct health services and prevention activities reduce the cost of medical care, and directly benefit Americans by preventing disease outbreaks and promoting the population's health. The budget proposes funding increases for the following health service and prevention activities:

- *Preventing and Treating AIDS through Ryan White HIV/AIDS Treatment Grants/ HIV Prevention:* The budget proposes just over $1 billion for activities authorized by the Ryan White CARE Act, $40 million more than in 1997, to help our most hard-hit cities, States, and local clinics provide medical and support services to individuals with HIV/AIDS. Under this Administration, funding for Ryan White grants has risen by 158 percent. The proposed level would fund grants to cities and States to help finance medical and support services for individuals infected with the HIV virus; to community-based clinics to provide HIV early intervention services; to pediatric AIDS and HIV dental activities; and to HIV education and training programs for health care providers. The budget also includes $167 million dedicated to State AIDS drug assistance programs funded under Title II of the Ryan White Care act, to improve access to protease inhibitors and other life-extending AIDS medications. The budget also proposes $637 million for the Centers for Disease Control's (CDC) HIV prevention activities, $20 million more than in 1997. The increased funding will help prevent HIV among drug users, who face the greatest risk of HIV infection.

- *Reducing Tobacco Use Among Young People:* Tobacco is linked to over 400,000 deaths a year from cancer, respiratory illness, heart disease, and other health problems. Each year, another million young people become regular smokers, and over 300,000 of them will die earlier as a result. Consequently, in August 1996, the Administration approved an FDA regulation that aims to cut tobacco use among young people by half over seven years; the budget includes $34 million to implement the regulation. The budget also provides $36 million for the CDC and $50 million for NIH for State grants and technical support for tobacco control and cancer prevention activities.

- *Enhancing Food Safety:* Too many Americans get sick from preventable food-borne diseases. The Nation faces new challenges in this area as we enter the 21st Century. New pathogens are emerging and familiar pathogens have grown resistant to treatment. We consume record levels of imported foods, some of which moves across the globe overnight. The budget proposes $42 million for a new interagency food safety initiative to establish a national early warning system for food-borne illnesses Nation-wide, and to improve Federal-State coordination when food-borne disease outbreaks occur. The budget also proposes to continue implementing a new food safety system in the meat, poultry, and seafood industries.

- *Promoting Full Participation in Women, Infants, and Children (WIC):* WIC reaches over seven million women, infants, and children a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. WIC provides prenatal care to those who would not otherwise get it, while reducing the incidence of premature birth and infant death. As a result, Medicaid saves significant sums that it would otherwise spend in the first 60 days after childbirth. Because of funding increases in the last four years, WIC participation has grown by over 25 percent. The budget proposes $4.1 billion to serve 7.5 million people by the end of 1998, fulfilling the President's goal of full participation in WIC.

- *Promoting Childhood Immunizations:* The budget proposes $794 million for the Childhood Immunization Initiative, including the Vaccines for Children program and CDC's discretionary immunization program. The Nation is ahead of schedule to meet the Administration's goal of raising immunization rates to 90 percent for two-year old children for each basic childhood vaccine. The incidence of vaccine-preventable diseases among children, such as diphtheria, tetanus, measles, and polio, are at all-time lows. The budget also includes $47 million to eradicate polio—preventable through immunizations—throughout the world.

- *Improving Substance Abuse Treatment and Prevention:* The budget proposes to increase support for the Substance Abuse and Mental Health Services Administration's substance abuse treatment and prevention activities by $33 million, to $1.7 billion, enabling hundreds of thousands of pregnant women, high-risk youth, and other under-served Americans to get drug treatment and prevention services. The budget proposes a coordinated approach to combating substance abuse among youth with a comprehensive prevention initiative, focusing on State-level data documenting trends in drug use. The Administration again calls on Congress to enact

Performance Partnerships, which would give States more flexibility to better target Federal resources to priorities.

- *Enhancing Abstinence Education and Family Planning:* For each of the next five years, the budget includes $50 million in mandatory funding for States to conduct abstinence education projects to help reduce out-of-wedlock pregnancies. The budget also includes a $5 million increase, to $203 million, to support voluntary family planning services.

- *Preventing and Containing Infectious Diseases:* The budget includes $103 million, $15 million more than in 1997, for CDC's cooperative efforts with States to address infectious disease. It would support training and applied research, and the States' disease surveillance capability. All Americans face threats from infectious disease problems, such as drug resistant bacteria, and from emerging viruses, such as the hantavirus. CDC works with State health departments to monitor and prevent such problems and to contain outbreaks.

- *Promoting Better Health Care for Native Americans through Indian Health Service (IHS):* The budget proposes $2.4 billion for the IHS, $70 million over 1997. IHS clinical services are often the only source of medical care on remote reservation lands, and this increase maintains our commitment to American Indians and Alaska Natives.

- *Caring for Veteran's Health Needs through Veterans Medical Care:* Continuing its longstanding commitment to veterans programs, the Administration proposes $17.5 billion for the Department of Veterans Affairs' (VA) health system, $0.5 billion more than in 1997. The budget would enable the VA health system to retain, and spend for itself, all first- and third-party medical collections. In the past, these collections have gone to the Treasury; in 1998, they would support health services for veterans. The budget would enable the VA to implement eligibility reform legislation that the President signed in October 1996, and pursue ambitious plans to restructure the health system to better deliver care.

2. INVESTING IN EDUCATION AND TRAINING

> *I want to build a bridge to the 21st Century in which we expand opportunity through education, where computers are as much a part of the classroom as blackboards, where highly-trained teachers demand peak performance from our students, where every eight-year-old can point to a book and say, I can read it myself.*
>
> President Clinton
> August 29, 1996

Today's most successful workers are those with skills and a firm educational footing who continue to learn throughout their careers in order to compete successfully in this fast-changing economy.

In recent years, education and wages have become increasingly intertwined. Generally, those with the best skills and education have made steady progress, enjoying higher living standards. Those without the requisite skills and education have fallen behind. Tomorrow's workers face an even greater challenge. As the very nature of work changes with technological innovation, employers will demand even more highly-skilled and flexible workers. The best-paying jobs increasingly will go only to those with education and training beyond high school.

For the most part, our Nation places responsibility for education and training on State and local governments, families and individuals, and the private sector. Nevertheless, the Federal Government plays a crucial, if limited, role in providing education for a lifetime—from pre-school to adult career training.

The President's goals are to help families, communities and States ensure that every child is prepared to make the best use of education; that the education system enables every child to learn to his or her potential; that those who need resources to pay for postsecondary education and training can get them; that those who need a second chance at training and education or a chance to improve or learn new skills throughout their working lives can get those opportunities; and that States and communities that receive Federal funds can use them more flexibly, with fewer regulations and less paperwork.

Federal resources help States improve the quality of education and training for the disadvantaged and for people with disabilities; support State- and locally-designed elementary and secondary school reform; and help low- and middle-income families gain financial access to postsecondary education and skill training through loans and grants. To help States raise student achievement, the President has worked hard to make schools safer, improve teacher quality, move technology into the classroom as quickly as possible, raise academic standards, and better prepare students for college and the new workplace.

The budget reaffirms the President's commitment to America's children by increasing the investment in Head Start and in Federal elementary and secondary education programs—focusing on innovation and technology—and launching a new effort to jump-start needed school renovation and construction. In addition, the President has begun a national, volunteer-based challenge called America Reads, to ensure that all children can read well and independently by the end of third grade.

To ensure that all Americans have access to the high-skill training needed for today's workplace, the President proposes to make two years of postsecondary education universally available, through HOPE scholarship tax credits of up to $1,500 for two years. And to encourage lifelong learning, the budget proposes: tax deductions of up to $10,000 for tuition and fees for college, graduate school, or job training; a $300 increase in the maximum Pell Grant college scholarship (to $3,000), marking the largest increase in two decades and providing grants for at least 348,000 more students; lower student loan fees and interest rates for parents and students; the G.I. Bill for America's Workers so they can choose where to get the best job training available; and new resources to help move welfare recipients from welfare to work (see Table 2–1 and Chart 2–1).

America Reads

Many of our children are falling short of meeting standard educational levels—a failure that they often have trouble overcoming later. In 1994, for instance, two-fifths of fourth-graders failed to reach the "basic" reading level on the National Assessment of Educational Progress and only 30 percent attained the "proficient" level. In response, the President has launched the America Reads Challenge, a multi-part effort to help States and communities ensure that all children are reading well and independently by the end of the third grade. Business and academic leaders already have pledged their support, and the budget proposes the Federal funding component. The Administration will measure the success of this effort on a national basis through the biennial administration of the National Assessment of Educational Progress fourth grade reading assessment.

America's Reading Corps: One-on-one tutoring is one key to better reading. America's Reading Corps will provide individualized after-school and summer help for over three million children in grades K-3 who want and need it. A five-year, $2.45 billion investment, through the Education Department and the Corporation for National and Community Service, would help communities mobilize 30,000 reading specialists and volunteer coordinators to recruit and train over a million tutors, including 100,000 college work-study students.

Parents as First Teachers: Nothing is more important to children's reading skills than the time parents spend reading to, and with, them. Research shows that the first three years of a child's life are crucial to his or her development. An early exposure to books, even for infants, is important to prepare children for pre-reading activities as toddlers. Reading to them for 20 minutes a day can make a big difference in their readiness for school. To give parents help and information in teaching their children, the Administration proposes a Parents as First Teachers Challenge Grant Fund of $300 million over five years, building on the current Even Start Family Literacy program to support effective, proven efforts that help parents help their children become successful readers.

Head Start

A healthy, caring family environment is the best preparation for school. For over 30 years, Head Start has helped low-income families create this environment by taking a comprehensive approach to child development—improving children's learning skills, health, nutrition, and social competency. Head Start involves parents in their children's learning, and links children and their families to a wide array of services in their communities. Over the last four years, the President has secured a 43-percent increase in funds for Head Start, enabling the program to serve 800,000 children in 1997.

The budget proposes $4.3 billion for Head Start, $324 million more than in 1997, to enable 86,000 more children to participate than in 1996 and raising program quality (see Chart 2–2). With this funding, the Administration would be well on its way toward meeting the President's commitment of a million children in Head Start by 2002.

In addition, the Early Start component of Head Start extends comprehensive early development services to infants aged 0 to 3 in a way that supports families, builds parenting skills, and extends a safe, nurturing, and stimulating environment to very young children.

Elementary and Secondary Education

The Administration has energized State and local efforts to raise student achievement by boosting funds for various programs that

Table 2–1. THE BUDGET INCREASES RESOURCES FOR MAJOR EDUCATION AND TRAINING PROGRAMS BY $15 BILLION, OR 56 PERCENT OVER 1993

(Dollar amounts in millions)

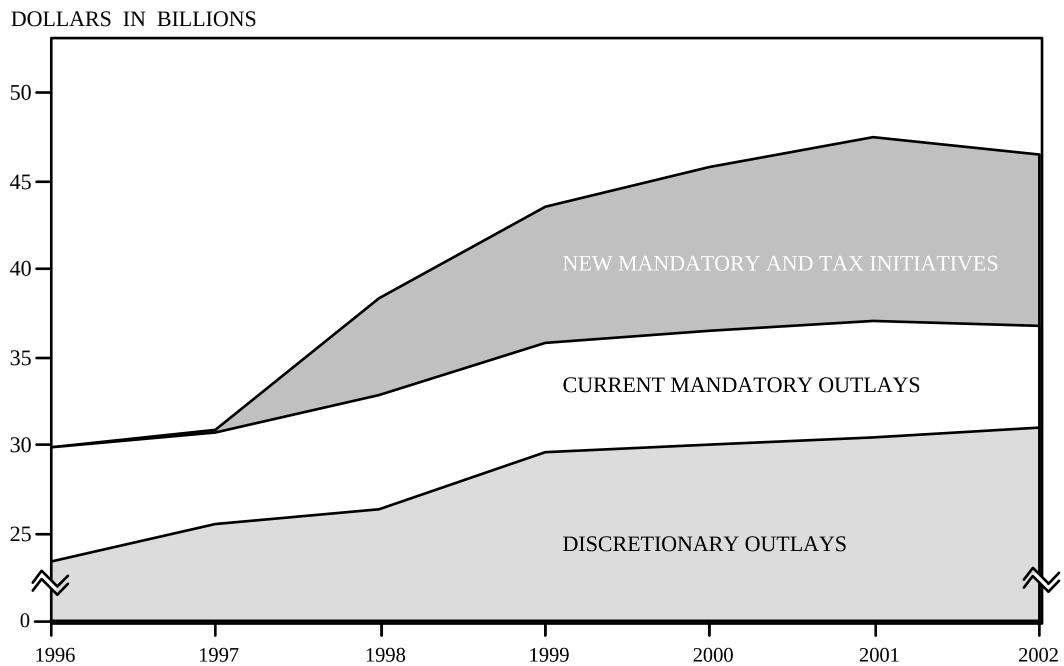
	1993 Actual	1997 Estimate	1998 Proposed	Percent Change: 1993 to 1998
MANDATORY OUTLAYS/TAX EXPENDITURES:				
HOPE scholarships tax credit/deduction	....	100	4,100	NA
America Reads (Education Department)	....	....	31	NA
School construction	....	....	1,250	NA
Work Opportunity Tax Credit	....	120	160	NA
Welfare-to-Work Jobs Challenge	....	....	600	NA
Total, mandatory outlays and tax expenditures	....	**220**	**6,141**	**NA**
DISCRETIONARY BUDGET AUTHORITY:				
Head Start	2,776	3,981	4,305	+55%
Elementary and secondary education:				
America Reads (Corp. for National and Community Service)	....	....	200	NA
Goals 2000	....	491	620	NA
Education technology	23	305	545	+2,270%
Title I Education for Disadvantaged	6,709	7,698	8,077	+20%
Eisenhower Teacher Training	289	310	360	+25%
Special education	2,966	4,036	4,210	+42%
Safe and drug free schools	582	540	620	+7%
Charter schools	....	51	100	NA
After-school learning centers	....	....	50	NA
Postsecondary student aid:				
Pell Grants	6,458	5,919	7,635	+18%
College Work Study	616	830	857	+39%
Other campus-based aid	845	811	771	–9%
Presidential Honors Scholarships	....	....	132	NA
Training and employment:				
Vocational education	1,176	1,131	1,172	–*%
Adult education	304	354	394	+30%
School-To-Work (Education and Labor Departments)	....	400	400	NA
Summer Jobs for Youth	849	871	871	+3%
Job Corps	966	1,154	1,246	+29%
Youth Opportunity Areas	....	....	250	NA
JTPA adult/dislocated worker training	1,666	2,181	2,415	+45%
Employment service and One-Stops	975	974	993	+2%
Total, budget authority	**27,200**	**32,037**	**36,223**	**+33%**
Total, mandatory outlays, tax expenditures, and budget authority	**27,200**	**32,257**	**42,364**	**+56%**
STUDENT LOAN VOLUME (loan amount):				
Direct loans	....	9,938	12,037	NA
Guaranteed loans	16,029	16,965	16,774	+5%
Consolidation loans	1,527	6,803	7,729	+406%
Total, loan volume	**17,556**	**33,706**	**36,540**	**+108%**

NA = Not applicable.
*Less than 0.5 percent.

States and localities then combine with their own funds to help all students achieve at high levels in a safe, modern learning environment. The budget builds on this momentum by proposing additional funds for all major programs, and for the new America Reads initiative (discussed earlier in this chapter) and the new school construction initiative (discussed later).

The Administration's goal for elementary and secondary education is to help States and communities raise the quality of education

Chart 2-1. INVESTMENT IN EDUCATION DEPARTMENT PROGRAMS, HOPE SCHOLARSHIPS AND TAX DEDUCTIONS WILL INCREASE 56 PERCENT BETWEEN 1996 AND 2002



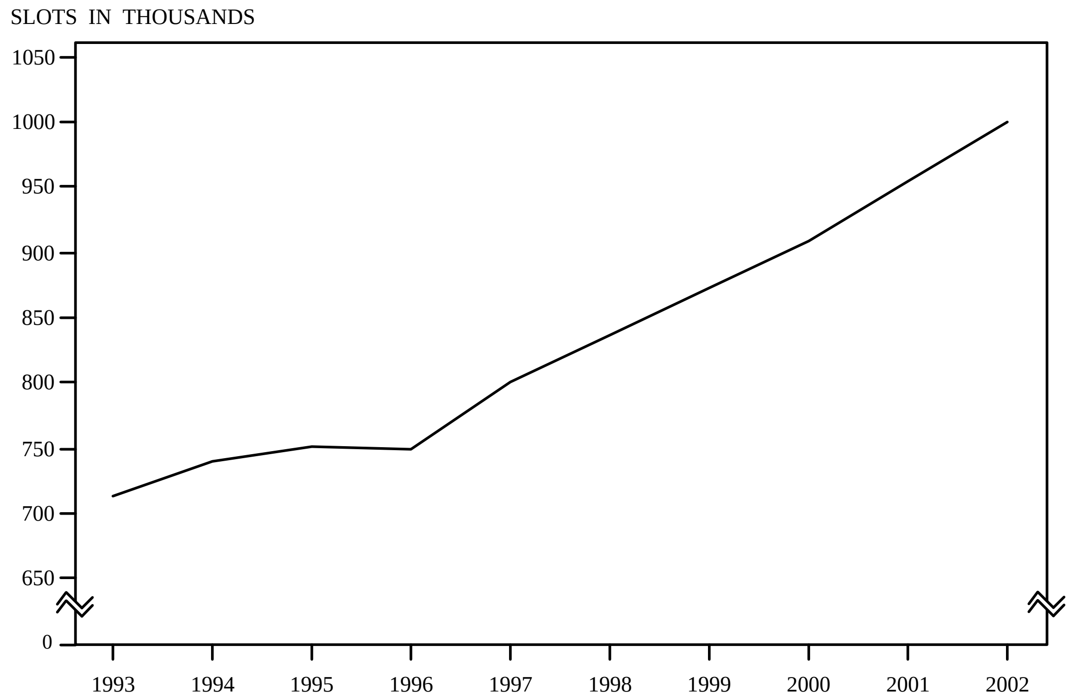
for all children. Administration initiatives launched in 1994 are designed to establish a framework for comprehensive reform and to help States finance their role in it. The goals include: high State standards for all children; new curriculum and teaching methods to help all children achieve those standards; teacher and administrator training to support the standards; assessments of each child's progress; and a safe, technologically up-to-date learning environment. The budget proposes to increase funds for programs that support these goals, and proposes more flexibility to enhance the success of State and community efforts.

School Construction: The General Accounting Office found that a third of all schools across the country, with 14 million students, have one or more buildings needing extensive repair. School districts also face the cost of upgrading schools to accommodate computers and modern technology, and of constructing new classrooms and schools to meet expected record enrollment levels over the next decade. The President proposes to leverage new construction or renovation projects through a $5 billion fund for school districts with substantial need. The fund would support interest subsidies or similar assistance to cut borrowing costs for States and localities in order to reach higher levels of infrastructure investment.

Goals 2000: Enacted in 1994, this Administration initiative helps participating States establish high standards for all children and plan and implement steps to raise educational achievement. It builds on the National Education Goals, first articulated by the Nation's governors (led by then-Governor Clinton) and President Bush in 1989, which provide clear national targets but encourage States to develop their own means to achieve them. All States have now chosen to receive Goals 2000 funding.

The program is working. In Maryland, 40 percent of all students met challenging State academic standards in 1995, a 25 percent gain over 1993. Over the next two years, the Education Department seeks to

Chart 2-2. 36 THOUSAND NEW HEAD START OPPORTUNITIES FOR CHILDREN IN 1998 OVER 1997; ONE MILLION BY 2002



ensure that at least half of all school districts are implementing reforms based on State-developed standards, and that the number of students meeting or exceeding their State's standards continues to rise. Goals 2000 also supports individual school reforms. The budget would finance aid for 4,000 more schools than in 1997—for a total of 16,000 schools. The budget provides $620 million for Goals 2000, 26 percent more than in 1997. It includes $15 million for parental information and resource centers in 42 States to help parents become more involved in their children's education and gain skills in child rearing through parent-to-parent training, hotlines, and other activities. Each center also provides information and training to parents of pre-school aged children, either through the Home Instruction Program for Preschool Youngsters or the Parents as Teachers program.

Charter Schools: One way to improve the quality of public schools is to introduce variety and competition into the system. Charter schools are public schools that parents, teachers, and communities create—and that States free from most rules and regulations and, instead, hold accountable for raising student achievement. Begun as a grassroots movement in 1991, and supported by Federal start-up funds since 1995, charter schools now number over 400, and some are now showing results in higher student test scores and lower dropout rates. For example, in the Vaughn Next Century Learning Center, a Los Angeles public charter school, median scores on a 4th-grade standardized reading test rose from the 19th to 37th percentile in one year. The budget proposes $100 million for public charter schools, nearly double the 1997 level, in order to fund start-up costs for as many as 1,100 schools and to make further progress towards the President's goal of 3,000 schools by 2001.

Title I—Education for the Disadvantaged: Title I provides funds to raise the educational achievement of disadvantaged children. In 1994, the President proposed, and Congress adopted, changes to focus Title I resources more on low-income children, to set the same high standards for those children as for all others, to hold schools accountable for progress toward achieving those standards, and to give States and schools great flexibility in using Title I funds. The budget includes $8.1 billion for Title I, five percent more than in 1997.

Education Technology: Education technology can expand learning opportunities for all students, helping to raise student achievement, but many districts lack the resources to integrate technology fully into their school curricula. In February 1996, the President challenged the public and private sectors to work together to ensure that all children are technologically literate by the dawn of the 21st Century, with the communication, math, science, and critical thinking skills essential to succeed in the Information Age. The budget proposes substantial increases in two technology programs, for a total 1998 investment of $500 million.

First, the President has committed $2 billion over five years for the Technology Literacy Challenge Fund. For 1998, the budget proposes $425 million, more than doubling the $200 million that Congress provided in 1997. Second, the budget proposes $75 million, 32 percent more than in 1997, for the Technology Innovation Challenge Grant program, which gives matching Federal funds to school-centered, public-private partnerships to develop and implement innovative applications of technology in the curriculum.

Teacher Training: The Eisenhower Professional Development program helps States invest in training teachers and other educators so that they can help all children reach the State's challenging academic standards. The President proposed, and Congress enacted, major improvements in 1994 to ensure that the training is of high enough quality and sufficient duration to pay off in the classroom. The budget increases funding to $360 million, 16 percent more than in 1997.

Safe and Drug-Free Schools and Communities: Students can reach their full potential only in safe, disciplined learning environments. The Safe and Drug-Free Schools and Communities program helps 97 percent of school districts implement anti-drug and anti-violence programs in our schools. It helps students resolve conflicts before they escalate into tragedy, teaches them the dangers of drug use, and helps schools increase security. The budget proposes to spend $620 million for the program, 12 percent over the 1997 level, and to encourage States to adopt models of proven excellence.

Special Education: States have made real progress in giving children with disabilities a "free appropriate public education," as the Individuals with Disabilities Education Act (IDEA) calls for. The Administration will propose amendments that will help improve educational results for children with disabilities by promoting accountability for performance and focusing resources on teaching and learning. The budget provides $4.2 billion for special education, four percent more than in 1997.

Bilingual and Immigrant Education: The Bilingual Education program helps schools improve the quality of instructional services for limited English proficient (LEP) students, teaching them English and preparing them to meet the same challenging academic standards as all other students. The Immigrant Education program helps States with large concentrations of immigrant students who have recently arrived, helping to offset their financial impact on school systems. The budget proposes $199 million for Bilingual Education and $150 million for Immigrant Education, 27 percent and 50 percent more than in 1997, respectively.

Postsecondary Education and Training

Education beyond high school is increasingly a prerequisite for success in the rapidly changing job market. The rising rate of college attendance over the last half-century was fueled by State efforts to expand the public college system, and Federal efforts to help families pay for college. The post-World War II GI Bill was a watershed event in Federal investment in higher education, greatly increasing benefits for returning servicemen. Since then, through the Higher Education Act of 1965 and subsequent amendments, the Federal Government has vastly expanded grant and work-study aid to all low- and middle-income students, and made it possible for every American to borrow enough money to attend college. The President wants to ensure that financial barriers to higher education continue to fall for all Americans. The budget provides substantial new support to low- and middle-income families through a new tax credit and tax deduction for education costs (see Chart 2–3).

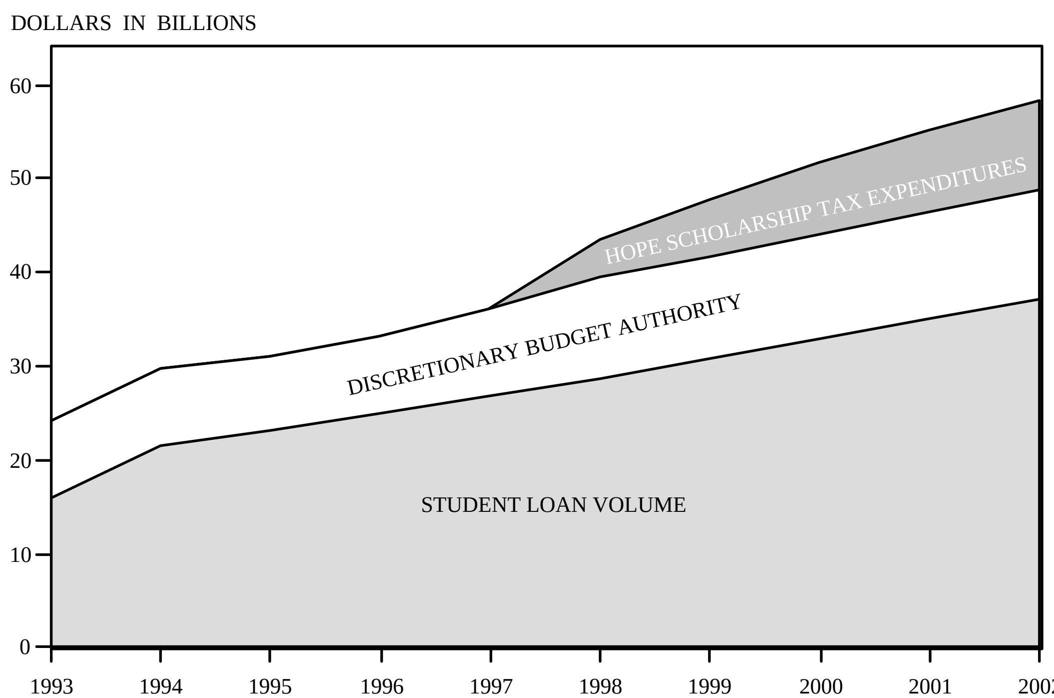
HOPE Scholarships: More than ever, today's employers look for job applicants with more than a high school diploma. HOPE scholarships would make the 13th and 14th years of education the norm for students by offering, to most working families, up to a $1,500 per student tuition tax credit for postsecondary education or training. Students would have to maintain at least a B average to receive the credit in the second year.

Tuition Deduction: To encourage Americans to pursue higher education and to promote lifelong learning, the budget proposes to give families a tax deduction for postsecondary tuition and fees of up to $5,000 in 1997 and 1998, and $10,000 starting in 1999. Together, the tuition deduction and HOPE scholarship would put over $36 billion back in the hands of Americans for education and training between 1997 and 2002.

Pell Grants: The President proposes to raise the maximum Pell Grant award by $300, to $3,000, marking the largest increase in two decades. The Administration's changes also would bring at least 348,000 more students into the program, reaching a total of over four million low- and middle-income undergraduates. Such help is particularly important to raise participation and graduation rates of low-income students. With Pell Grants, they are as likely to stay in school and earn a degree as middle-income students without grants.

Student Loans: An estimated 5.5 million individuals will borrow $37 billion through the Federal student loan programs in 1998. Families at any income level can receive loans, but students who show greater financial need receive greater interest subsidies. The loans finance study toward undergraduate or graduate degrees, or short-term vocational training programs. The annual maximum loan amount

Chart 2-3. THE FEDERAL GOVERNMENT WILL PROVIDE NEARLY $60 BILLION IN STUDENT AID IN 2002, MORE THAN DOUBLE THE 1993 LEVEL



varies from $2,625 for a first-year student financially dependent on his or her parents, to $18,500 for a graduate or professional program student. Under this Administration, the rate of student loan defaults within the first two years after borrowers leave college has reached an all-time low.

Before 1993, students and parents paid fees of up to eight percent of their loan proceeds. The Student Loan Reform Act of 1993, which the President initiated, cut the fees to four percent and has already saved families nearly $2 billion. The 1993 reforms also created the simpler, less costly, and more accountable Federal Direct Loan Program (FDLP), and gave borrowers a way to afford payments on their student loans based on their actual post-college income—which the existing guaranteed loan program could not do.

The budget proposes to cut the loan fees again—by half for needy students, and by a quarter for other students and parents. The budget also would continue to allow schools to choose to participate in either the FDLP or the guaranteed loan program—the Federal Family Education Loan Program (FFELP). In addition, it would reform FFELP to improve Federal management and give lenders and intermediaries financial incentives to prevent defaults. It also would ensure that all borrowers receive a variety of repayment options.

Presidential Honors Scholarships: The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Government's commitment to excellence. The budget requests $132 million for this program.

College Work-Study: Work-study gives students additional aid through subsidized jobs, including an increasing number of community service positions. The budget proposes $857 million for Work-study, three percent more than in 1997, and continues the President's commitment to raise the number of Work-study recipients to a million by the year 2000, including 100,000 reading tutors to support America Reads.

G.I. Bill for America's Workers

For the past two years, the President has sought to dramatically overhaul the complex, inefficient structure of Federal job training programs through his proposed G.I. Bill for America's Workers. It would consolidate multiple programs into a single, integrated work force development system and provide Skill Grants (i.e., vouchers) to adults who need training so that they, not bureaucracies, choose where to get it. It also would streamline program administration, while improving accountability by freeing States and localities to focus on results, not process.

Although Congress did not enact these essential reforms, the Administration has pressed ahead to reform the job training system under current law. The Administration is making grants to establish One-Stop Career Center systems and School-to-Work systems; developing America's Labor Market Information System; expanding America's Job Bank to help match workers to jobs across the

The President's Principles for Work Force Policy Reform:

1. Give resources for training directly to adults so they can make informed choices, without bureaucratic interference.
2. Consolidate and streamline Federal programs for adults, organize them within the One-Stop Career Center delivery system, and ensure that the private sector is a full partner.
3. Ensure strong accountability to taxpayers by establishing high standards for program quality and giving States and localities responsibility for results.
4. Organize Federal programs for youth within the School-to-Work Opportunities Act systems being established in States and local communities.
5. Increase funding for work force development each year, commensurate with the needs of workers and the economy.

country; and implementing new authority to waive certain Federal legal and regulatory requirements in order to help States and local communities make changes to the job training system.

Comprehensive reform still requires legislation. The President will again seek legislation that reflects the principles of his G.I. Bill. Because enactment would not occur before the fiscal 1998 appropriations process begins in Congress, the budget presents funding proposals under the current program structure.

Youth Programs

The President is deeply committed to helping States and communities help young people make a successful transition to the world of work and family responsibility. As discussed earlier in this chapter, the budget includes major new proposals to eliminate financial barriers to postsecondary education and training for all youth. In addition, the budget continues to support the goal by helping States develop and implement their school-to-work systems. And it proposes additional resources to aid disadvantaged youth who have left school, or are on the verge of doing so, and have entered the labor force.

School-to-Work: This initiative, which the Education and Labor Departments fund and administer jointly, gives States and communities competitive grants to build comprehensive systems to help young people move from high school to careers or postsecondary training and education. School-to-Work supports reforms to the education system and its links to employers, so that young people can better prepare for high-skill, high-wage careers; receive top-quality academic and occupational training; and pursue more postsecondary education or training. Businesses get the trained workers they need to stay globally competitive. By 1996, 37 States and 133 local partnerships had already received grants to implement School-to-Work systems. The budget proposes $400 million, maintaining the 1997 level, in accord with the strategy of phasing in School-to-Work in all States by early in the next decade.

After-School Program: Young people need access to after-school activities that keep them off the streets and out of trouble. The Presidential initiative will provide $50 million to keep public schools open during non-school hours, giving students access to after-school tutoring and other educational and recreational activities in a crime-free environment within their own communities.

Youth Opportunity Areas Program: Recognizing the special problems of out-of-school youth, especially those in inner-city neighborhoods where jobless rates can exceed 50 percent, the budget proposes $250 million for new competitive grants to selected high-poverty urban and rural areas with major youth unemployment problems. The Labor Department would award funds to high-poverty areas, including designated Empowerment Zones or Enterprise Communities, based on the quality of the local applications—that is, those that show the best chance of substantially increasing employment among youth. These "seed" funds would leverage State, local, and private resources to sustain public-private efforts to train and employ youth in private sector jobs. (For more information on Empowerment Zones and Enterprise Communities, see Chapter 6.)

Summer Youth Employment and Training Program: The summer jobs program gives many urban and rural disadvantaged students their first work experiences, and localities may include an academic component that re-enforces the skills they have learned during the school year. The budget provides $871 million to finance 530,000 job opportunities for the summer of 1998, assuming that localities spend this flexible funding entirely on summer jobs.

Disadvantaged Youth Year-Round Program: The year-round program helps low-income youth who have dropped out of school, are at risk of dropping out, or are in families on public assistance. The Administration will expand upon ongoing efforts to refocus this program to stress local programs of proven effectiveness. Local service delivery areas that receive these funds under the Job Training Partnership Act can shift resources between the summer and year-round programs, as local needs dictate. The budget proposes $130 million for the year-round program.

Job Corps: The Job Corps provides intensive, work-related vocational skills training, academic and social education, and support services to severely disadvantaged young people in a structured residential setting. The budget proposes $1.2 billion to fund opportunities for 70,000 young people.

Adult Programs

Most adults change jobs and get new skills by themselves or through their employers. But, many others—particularly welfare recipients and those permanently laid off from jobs—need help to get the services and information they need to successfully manage their careers. The budget proposes sizable new support for grants to States and localities to finance a training and employment system that adequately serves these adults, and helps build the job skills of American workers and job seekers into the 21st Century. These activities are the core of the adult portion of the G.I. Bill for America's Workers.

Dislocated Workers and Low-Income Adult Training: The budget proposes $2.4 billion for Job Training Partnership Act programs that provide training, job search assistance, and related services to laid-off workers and economically disadvantaged adults, a $233 million increase over 1997. The dislocated worker program provides readjustment services, job search assistance, training, and other services to help dislocated workers find new jobs as quickly as possible. The program for disadvantaged adults helps welfare recipients and other low-income adults, giving them the skills and support to become employed. States and localities likely will continue to use a sizable portion of these resources to supplement training for welfare recipients under the new Transitional Assistance to Needy Families block grant. (For more information on this new block grant, and on the related Welfare-to-Work Challenge Fund and tax credit, see Chapter 7.)

Adult Education: The Adult Education program helps educationally disadvantaged adults develop basic skills (including literacy), achieve certification of high school equivalency, and learn English. In 1993–94, the program served over 3.75 million adult learners—over 1.4 million enrollments in adult basic education programs, about 1.1 million in adult secondary education programs, and over 1.2 million in English-as-a-second-language programs. The budget proposes $394 million, nine percent more than in 1997 (and over 50 percent more than in 1996), to meet the demand for literacy training that the new welfare and immigration laws have stimulated.

One-Stop Employment Service: The budget proposes $843 million for grants to the Employment Service—the Nation's public labor exchange—and $150 million to continue building One-Stop Career Center systems to streamline re-employment and career development service delivery. To date, 24 States have received grants to implement One-Stop systems and nine more States will receive grants in July 1997. The budget would permit One-Stops to expand to all States in 1998. While the One-Stop grants provide seed money for systems-building and increased automation, Employment Service grants provide the core operating funds for the new system. They help States to match employers and job seekers, and to provide counseling and re-employment assistance to unemployment insurance claimants and others who need more help finding jobs.

3. PROTECTING THE ENVIRONMENT

None of our children should have to live near a toxic waste dump or eat food poisoned by pesticides. Our grandchildren should not have to live in a world stripped of its natural beauty. We can and we must protect the environment while advancing the prosperity of the American people and people throughout the world.

President Clinton
April 22, 1996

The President believes that the Nation does not have to choose between a strong economy and a clean environment. In fact, while the President's policies have contributed greatly to four years of strong economic growth with low inflation, they also have produced a cleaner, healthier environment.

The Administration has helped ensure that the air is cleaner for tens of millions of people. It has protected Yellowstone, one of our national treasures and our first national park, from the ravages of nearby mining. It also has cleaned up more toxic waste sites in its first three years than the previous two administrations did in 12 years. Meanwhile, American industry has continued reducing toxic emissions, which have fallen 43 percent in the last decade.

While Americans want a Government that helps protect the environment and our natural resources, they do not want to burden business unduly, choke innovation, or waste taxpayer dollars. The Administration has reinvented the regulatory process, cutting excessive regulation and targeting investments in programs that will have the biggest impact on improving the environment, protecting public health, providing more opportunities for outdoor recreation, and enhancing natural resources. The President's strategy for environmental protection is reflected in not just the creative approaches the Administration is pursuing, but in the priorities that the budget proposes to fund.

New Approaches for Environmental Success

Working with Congress on a bipartisan basis whenever possible, the Administration has pioneered ways to protect the environment that are cleaner, cheaper, and smarter, while preserving natural resources for current and future generations.

Reinventing Drinking Water Legislation: In August 1996, the President signed the Safe Drinking Water Act Amendments, fulfilling the goals he outlined in 1993—to reinvent the Nation's safe drinking water legislation to better protect public health, and to authorize the creation of new Drinking Water State Revolving Funds (SRFs) to help hundreds of communities protect their citizens from harmful contaminants.

In several respects, the new law is a model for regulatory reform. It gives the Environmental Protection Agency (EPA) more flexibility to act on contaminants of greatest risk, and to analyze costs and benefits while maintaining public health as the paramount concern. It institutes a cost-effective, community-based approach for ensuring safe drinking water. Further, it affirms the right of all Americans to know the quality of their drinking water and the potential threats to its safety, and it authorizes resources to address Federal mandates under the law.

Reforming Food Quality Protection: Also in August, based on his proposal of 1993, the President signed legislation to revolutionize the way our food supply is protected from harmful pesticides. The law overhauls the system that kept harmful pesticides on the market too long and safer alternatives off the market, and it will ensure that families have the safest possible food on the dinner table. Specifically, the law replaces conflicting and outdated pesticide residue standards with a single, health-based standard for all food. It provides incentives for swift approval of safe, new pesticide alternatives for farmers. And, it includes provisions to better protect children from pesticide risks.

"Greening" America's Farm Programs: The 1996 Farm Bill, which the President signed in April 1996, was the most conservation-oriented farm legislation ever enacted. It created five new mandatory conservation programs, including the Environmental Quality Incentives Program (EQIP) that consolidates four cost-sharing conservation programs into one and focuses cost-sharing and technical assistance on locally-identified conservation priority areas, and to areas where agricultural and natural resource management improvements will help meet water quality goals. The law provides $200 million in 1998 ($1.3 billion from 1996 to 2002) for EQIP, dedicating half of the funds to conservation associated with smaller livestock operations. It also authorizes the Wildlife Habitat Incentives Program to help landowners improve wildlife habitat on private lands.

Enhancing the National Park System: Although the budget provides higher funding for parks, available resources can barely keep up with the system's new responsibilities and with ongoing needs to maintain an aging infrastructure. Consequently, the National Park Service is using creative new approaches to manage the parks, enabling it to protect our natural and cultural treasures with limited resources.

The 1996 Omnibus Parks and Public Lands Management Act includes several examples of these creative approaches. It will, for instance, establish the Tallgrass Prairie National Preserve in Kansas as a partnership with a private group that owns most of the land—at far less cost than establishing a traditional park. Also, at the Presidio in San Francisco, a government corporation will be able to lease and manage hundreds of unused buildings in a manner consistent with park purposes, but which reduces the burden on taxpayers. In addition, the budget supports other partnership arrangements by including funds, matched by non-Federal sources, to implement newly authorized non-Federal heritage areas and to restore historic structures at historically black colleges and universities.

Creating a New National Monument: The budget provides funds for start-up activities at the Grand Staircase-Escalante National Monument, which the President created by proclamation in September 1996, in the pristine canyonlands of south-central Utah. The National Monument encompasses 1.7 million acres of public lands and will preserve for future generations hundreds of millions of years of geologic and cultural history. Over the next three years, the Bureau of Land Management will consult with State, local, and Tribal governments; the private sector; the public; and other Federal agencies in preparing a land use management plan for the Monument.

Reinventing Regulation: In March 1995, the President announced a comprehensive program to improve the regulatory system and move toward a better environmental management system for the 21st Century. One prominent element is Project XL (for Excellence and Leadership), which fulfills the President's challenge to EPA and industry to make it easier for businesses to better protect the environment. This national pilot program enables a limited number of regulated entities to adopt alternative strategies to current regulations, as long as they produce superior environmental results.

For example, Intel's new computer chip manufacturing plant in Chandler, Arizona—which recently signed a Project XL agreement with EPA—will adopt a five-year Environmental Management Plan that outlines specific steps to meet tough standards of superior environmental performance. The agreement will eliminate the red tape of the normal permit modification process, enabling Intel to quickly change its manufacturing operations and, in turn, better compete in its fast-paced industry.

Establishing Performance Partnerships: In April 1996, Congress enacted the President's proposal for EPA Performance Partnership Grants, allowing States or Tribes to combine several categorical grants—each of which addresses only air, water, hazardous waste, or similar programs—into a multimedia environmental grant. Twenty States used this approach in 1996, and 24 States have expressed interest for 1997. As more States recognize the benefits, we expect most, if not all, to participate. The grants build on the National Environmental Performance Partnership System, which EPA established with the States in 1995 to give them more leeway to achieve environmental results and emphasize less-intensive EPA oversight for States that show strong performance. Six States participated in 1996 and 28 more have expressed interest for 1997.

Restoring the Everglades: The budget supports the continued Federal, State, local, and Tribal efforts to implement the restoration project for the South Florida ecosystem, which the Administration began in 1993 and which Congress authorized in the 1996 Water Resources Development Act. During 1999, the Army Corps of Engineers will complete the Central and Southern Florida Comprehensive Review Study, providing long-term direction for restoration efforts.

Along with improved water management, the budget recognizes the need for more science and for land acquisition to restore the Everglades' hydrologic functions. The Administration is re-proposing a four-year, $100 million-a-year Everglades Restoration Fund to provide a steady source of funding, mainly for land acquisition. It is also re-proposing a one-cent per pound assessment on Florida-produced sugar to help finance the Fund. The budget proposes $331 million, 163 percent more than Congress approved in 1997.

Making the Endangered Species Act Work: The Endangered Species Act (ESA) gives Federal, State, and local governments, and the private sector the flexibility to protect endangered species and conserve habitat, while allowing for development, by establishing Habitat Conservation Plans (HCPs). From 1983 to 1992, such parties created only 14 HCPs. But the Administration recognized that, to reduce conflict between the needs of conservation and development, it should more fully utilize HCPs. As a result, from 1993 to 1997, the number of HCPs issued or under development soared to 300—covering 8.4 million acres in the Pacific Northwest alone.

Creating Sustainable Fisheries: Last October, the President signed the Sustainable Fisheries Act, reinventing the way the Nation addresses the problems facing its commercial and recreational fisheries. The Act brings the Nation closer to achieving the vast long-term benefits of sustainable fisheries with new measures to prevent overfishing and to ensure that already depressed stocks are rebuilt to levels that produce maximum sustainable yields. The Act also establishes a new national standard to minimize the unintentional catch of non-target fish, and highlights the long-term importance of habitat to fish stocks by requiring fishery management plans to identify essential fish habitat.

Protecting the Northwest Forests: The President's Forest Plan—a balanced, science-based blueprint—is protecting natural resources and providing new economic opportunities in the Pacific Northwest. It represents the first region-wide application of ecosystem management on the part of Federal, State, and local agencies; Tribes; non-governmental organizations; and individuals. The Administration is offering sustainable volumes of timber sales, restoring thousands of acres of key habitat and watersheds, providing training and short-term jobs to displaced timber workers, spurring small business through grants and job training, and strengthening local economies. The Federal Government plans to spend $369 million in the region in 1997 through the coordinated efforts of 12 Federal agencies, and the budget proposes to increase this level of support to $408 million in 1998.

The recent expiration of the July 1995 timber "rider" to a 1995 spending bill restores public participation in the salvage timber program. As the timber program again faces the full range of environmental laws, the Administration will address the concerns that its 1996 Interagency Salvage Review Report identified. The budget modifies the use of the Forest Service Salvage Sale Fund, establishes a new Forest Ecosystem Management Fund, and provides more funding for wildlife and fish management (especially sensitive species), watershed improvements, and monitoring.

Saving Yellowstone Park: To protect Yellowstone, the Federal Government last August agreed to exchange Federal land or other assets for Crown Butte, Inc.'s interest in the New World Mine. The development of the gold mine posed a severe environmental threat to Yellowstone's unique landscape and wildlife resources. The agreement protected Crown Butte's property rights while preserving one of the crown jewels of the National Park System. Following the exchange with the Federal Government, Crown Butte will dedicate $22 million to clean up contamination at the site from earlier mining activities. The Administration is working to identify appropriate assets to execute the agreement, and to appraise their value in order to ensure a fair exchange.

Protecting Headwaters Forest: The Federal Government and California agreed in September 1996 to negotiate an exchange of land and other assets with a private company, enabling them to jointly acquire 7,500 acres, including the Headwaters Grove in northern California—the largest privately-owned grove of old-growth redwoods—to protect it from timber harvesting. The negotiations involve complex issues, including asset appraisals and the development of Habitat Conservation Plans for endangered species. The Administration believes that all parties are working in good faith to negotiate a fair and equitable exchange, and is fully committed to taking all necessary steps to reach a successful conclusion.

Providing a Fair Return for Taxpayers: The Administration proposes a five-percent royalty fee on the "net smelter return" from producing hardrock minerals on Federal lands. The royalties would go into a new reclamation fund to finance the restoration of abandoned mine sites on Federal lands. The budget also proposes to eliminate the percentage depletion tax allowance for non-fuel mineral rights acquired from the Federal Government for only nominal cost under the 1872 Mining Act. In addition, the budget would continue the moratorium on patenting hardrock mineral rights on Federal lands.

Environmental and Natural Resource Investments

The budget proposes to boost funding for high-priority environmental and natural resources programs to levels that would be 17 percent over those in place when the President took office (see Table 3–1).

Kalamazoo Initiative: The President announced a new national commitment last August to protect communities from toxic pollution by the year 2000, and the budget provides almost $800 million in 1998 to help carry it out. The key components are:

- *Accelerating Superfund Cleanups:* The budget proposes $2.1 billion for Superfund, including a $650 million increase over 1997 to begin meeting the President's pledge to nearly double the pace of Superfund cleanups (see Chart 3–1). The Administration proposes to clean up another 500 sites in the next four years, meaning that about two-thirds of the Nation's worst toxic waste dumps would be cleaned up by the year 2000. To ensure available funding, the budget proposes to extend the Superfund taxes that have expired. The budget also funds the "orphan share" cleanup costs, which are attributable to insolvent parties.

- *Expanding Brownfields Redevelopment Initiative:* The budget proposes a major expansion of the President's brownfields initiative, which promotes local cleanup and redevelopment, by providing a $75 million increase. First, the budget proposes that EPA receive a $50 million increase, to nearly $88 million, to expand grants to communities for site assessment and redevelopment planning, and to support revolving loan funds to finance brownfield cleanup efforts of contaminated and abandoned urban properties at the local level. Second, the budget proposes $25 million in Department of Housing and Urban Development funding to leverage State, local, and private funds to redevelop the cleaned-up sites and create jobs. Also, the President again proposes a targeted tax incentive to spur the cleanup of brownfield sites.

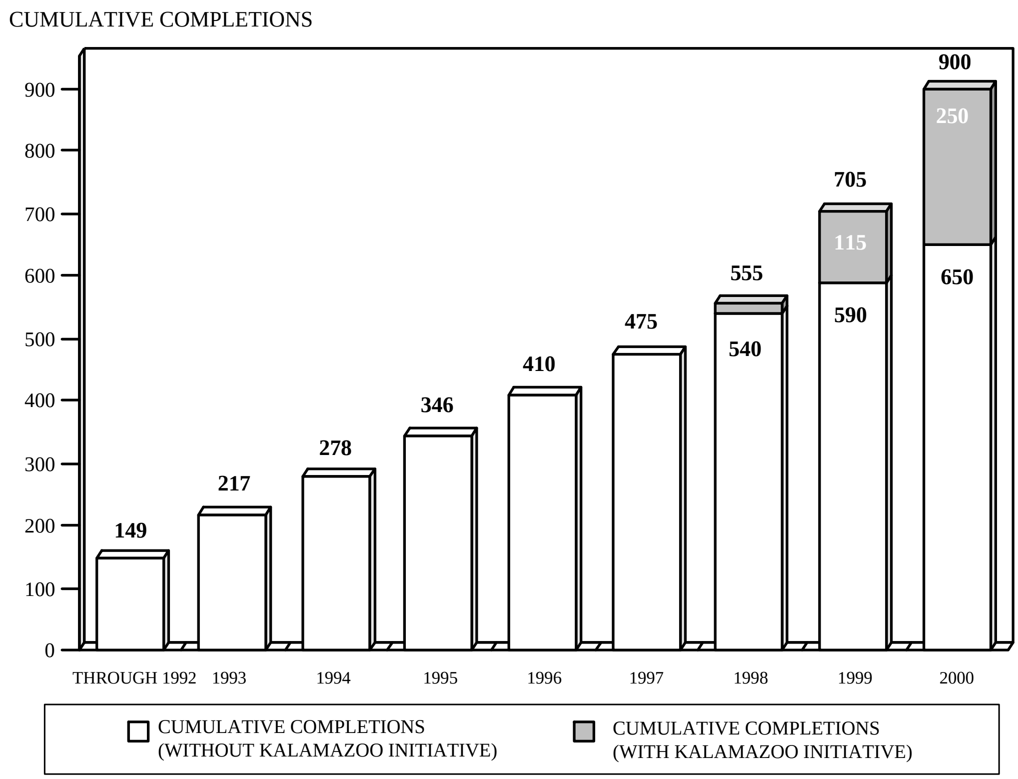
Table 3–1. ENVIRONMENTAL/NATURAL RESOURCE INVESTMENTS AND OTHER HIGH-PRIORITY PROGRAMS

(Discretionary budget authority unless otherwise noted; dollar amounts in millions)

	1993 Actual	1997 Estimate	1998 Proposed	Percent Change: 1993 to 1997	Percent Change: 1997 to 1998
Environmental Protection Agency (EPA):					
Operating Program	2,767	3,109	3,402	+12%	+9%
State Revolving Funds (SRFs):					
Clean Water[1]	1,928	625	1,075	–68%	+72%
Drinking Water[1]	—	1,275	725	NA	–43%
Superfund	1,589	1,394	2,094	–12%	+50%
Other	639	396	349	–38%	–12%
Subtotal, EPA	6,923	6,799	7,645	–2%	+12%
Department of the Interior (DOI):					
National Park Service Operating Program	984	1,155	1,220	+17%	+6%
Bureau of Land Management Operating Program	638	673	688	+5%	+2%
Fish and Wildlife Service Operating Program	531	524	562	–1%	+7%
Subtotal, DOI (Select programs)	2,153	2,352	2,470	+9%	+5%
Department of Agriculture (USDA):					
Forest Service Operating Program	1,319	1,275	1,342	–3%	+5%
Investment Non-Operating Program (NW Forest Plan, infrastructure, other)	276	241	211	–13%	–12%
Rural Water and Wastewater[2]	508	565	555	+11%	–2%
Wetlands	115	212	213	+84%	+*%
Environmental Quality Incentives Program (Mandatory)	—	200	200	NA	+*%
Wetlands Reserve Program (Mandatory)	—	128	176	NA	+38%
Conservation Reserve Program (Mandatory)	1,579	1,862	1,943	+18%	+4%
Subtotal, USDA (Select programs)	3,797	4,483	4,640	+18%	+4%
Land Acquisition: LWCF (DOI/USDA) and Everglades Restoration Fund (DOI)	286	149	301	–48%	+102%
Other Everglades Restoration (DOI, Corps, USDA, DOC, EPA)	70	114	196	+63%	+72%
Department of Energy (DOE):					
Energy Conservation and Efficiency	592	550	688	–7%	+25%
Solar and Renewable Energy R&D	257	270	330	+5%	+22%
Federal Facilities Cleanup (Environmental Management)	6,396	6,027	7,246	–6%	+20%
Subtotal, DOE (Select programs)	7,245	6,847	8,264	–5%	+21%
Department of Defense (DOD):					
Cleanup	1,604	2,043	2,114	+27%	+3%
Environmental Compliance/Pollution Prevention/Conservation	2,227	2,411	2,486	+8%	+3%
Environmental Technology	393	182	171	–54%	–6%
Subtotal, DOD (Select programs)	4,224	4,636	4,771	+10%	+3%
Department of Commerce (DOC)/National Oceanic and Atmospheric Administration (NOAA):					
Fisheries and Protected Species	232	297	313	+28%	+5%
Ocean and Coastal Management	121	128	154	+6%	+20%
Ocean and Atmospheric Research	138	222	223	+61%	+*%
Subtotal, DOC/NOAA (Select programs)	491	647	690	+32%	+7%
California Bay-Delta Ecosystem Rest. (DOI, DOC, EPA, Corps, USDA)	20	70	213	+250%	+204%
Pacific Northwest Forest Plan (USDA, DOI, EPA, DOC, DOL)	—	369	408	NA	+11%
Army Corps of Engineers Regulatory Program (wetlands)	86	101	112	+17%	+11%
Partnership for a New Generation of Vehicles (DOE, DOC, NSF, EPA, DOT)	—	263	281	NA	+7%
U.S. Global Change Research (NASA, DOE, NSF, DOC, others)	1,464	1,810	1,878	+24%	+4%
Climate Change Action Plan (EPA, DOE, USDA)	—	183	277	NA	+51%
GLOBE—Global Environmental Education (DOC, NASA, EPA, NSF)	—	13	15	NA	+15%
Montreal Protocol (State/EPA)	25	40	49	+60%	+23%
Global Environment Facility (Treasury)	—	35	100	NA	+186%
Multilateral and Bilateral Assistance (Funds Appropriated to the President/AID)	272	264	314	–3%	+19%
Border Environmental Activities (State/Treasury)	30	83	88	+177%	+6%
Total[3]	**25,295**	**26,334**	**29,485**	**+4%**	**+12%**

[1] Reflects a one time transfer of clean water funds to drinking water in 1997.
[2] Excludes funding for Rural Community Advancement Program grants to States; 1998 funding would be nine percent higher otherwise.
[3] Total adjusted to eliminate double counts and mandatory spending.
NA = Not applicable.
*Less than 0.5 percent.

Chart 3-1. MAJOR PROGRESS IN SUPERFUND CLEANUPS



- *Improving Americans' Right to Know About Toxics:* The budget proposes $49 million to expand the information that people can get about toxic threats to their families—without imposing more reporting requirements on anyone. It would make the information available for the 75 largest metropolitan areas in the country through a comprehensive monitoring system, with computer links to schools, libraries, and home computers.

EPA Operating Program: The budget proposes $3.4 billion, a nine-percent increase over 1997, for EPA's operating program, which includes most of EPA's research, regulatory, partnership grants (with States and Tribes), and enforcement programs. The program represents the backbone of the Nation's efforts to protect public health through standard setting, enforcement, and other means, ensuring that our water is pure, our air clean, and our food safe.

Within the operating program, the budget proposes important increases to carry out recently-enacted legislation to protect drinking water and food quality. It proposes significant investments to assess the health risks to children, identify new ways to apply advanced technology to environmental needs, and provide urban areas with tools to develop community-based solutions to environmental issues. It also maintains a strong environmental enforcement program to ensure that polluters find an environmental cop on the beat, and fully funds EPA's part of the Climate Change Action Plan.

Water Quality Infrastructure: The budget proposes $725 million in capitalization grants for the new Drinking Water State Revolving Funds (SRFs), which make low-interest loans to municipalities to help them meet the requirements of the new Safe Drinking Water Act Amendments. These funds will help ensure that Americans have a safe, clean drinking water supply—our first line of defense in protecting public health.

EPA also proposes $1.1 billion in capitalization grants to Clean Water SRFs to help municipalities comply with the Clean Water Act, thus helping to reduce beach closures and keeping our waterways safe and clean. In addition, the budget proposes targeted wastewater funds for areas facing unique circumstances—$100 million for Boston Harbor, $150 million for Mexican border projects, and $15 million for Alaskan Native villages. The Administration will request a final $100 million of special Federal assistance for Boston Harbor for 1999—provided EPA finds that the project still requires the funds.

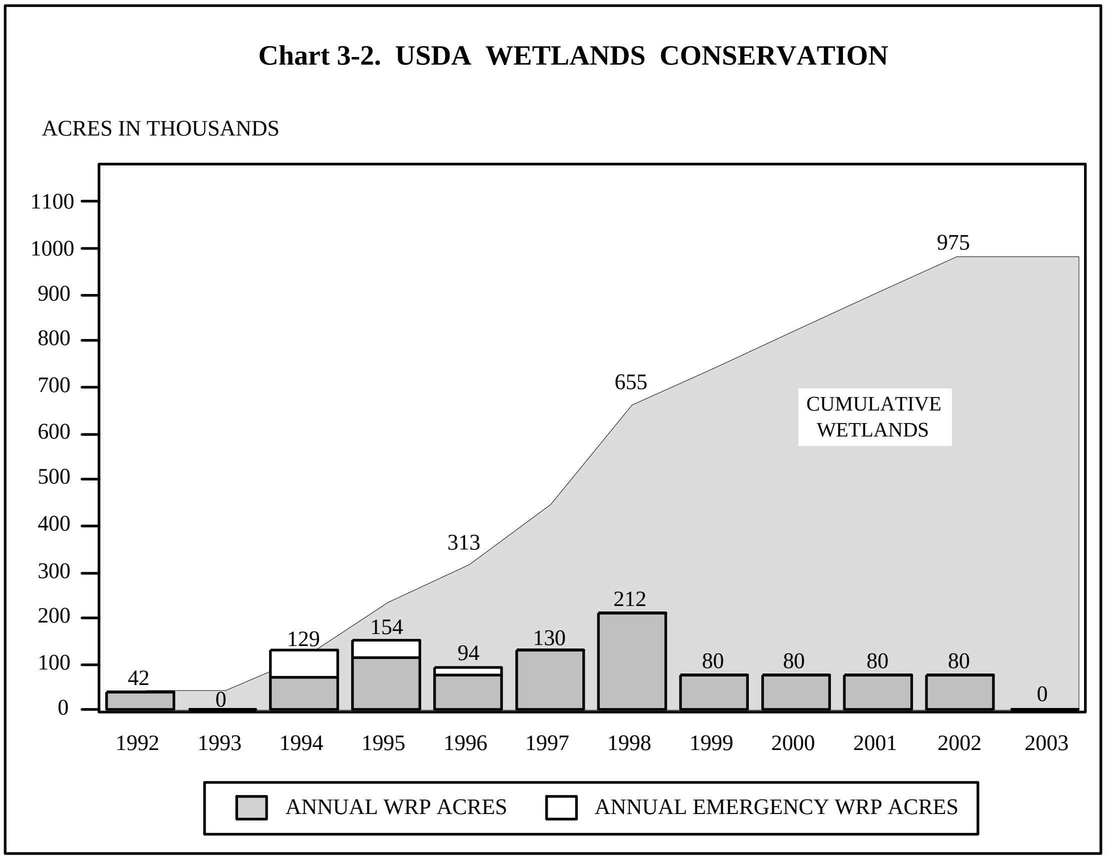
Department of Agriculture (USDA) Water 2000: The budget proposes to continue funding the USDA's Water 2000 initiative—to bring safe drinking water to 2.5 million rural Americans with some of the Nation's most serious problems of water availability, dependability, and quality—within its $1.3 billion for rural water and wastewater loans and grants. In addition, the budget proposes to fund, through the Rural Community Advancement Program (RCAP), rural development grants that States can use to meet their particular rural development needs. With proposed RCAP funding eight percent above the 1997 levels, the Administration expects to fund 227 new water treatment systems in 1998.

California Bay-Delta Ecosystem Restoration: In December 1994, Federal and California officials signed the historic Bay-Delta Accord, calling for a comprehensive series of steps to restore and protect the San Francisco Bay and the Sacramento-San Joaquin Delta ecosystem while strengthening the State's long-term economic health. With Administration support, Congress then adopted the California Bay-Delta Environmental Enhancement and Water Security Act in 1996 to authorize more Federal spending for restoration activities in the ecosystem. Later that year, California voters approved a $995 million bond issue to cover State cost-sharing for past and future Bay-Delta restoration and other water-related activities. The budget proposes $213 million for Bay-Delta ecosystem restoration activities, a 204-percent increase over 1997. As it did for 1998, the Administration plans to request the fully authorized amount under the 1996 law for 1999 and 2000.

Wetlands Reserve Program (WRP): The WRP is a voluntary USDA program in which willing sellers receive the fair market value to permanently retire wetland acres from farm production. Under the 1996 Farm Bill, WRP will use permanent easements on one-third of the acres enrolled, 30-year easements on another third, and cost-sharing agreements on the remaining third. In this last category, landowners will agree to restore wetlands on cropland without an easement, receiving only cost-sharing assistance. For 1998, the budget proposes to enroll 212,000 acres, an increase of 82,000 acres over 1997, bringing cumulative WRP enrollment to over 655,000 acres by the end of 1998. Retiring cropland through the WRP will directly benefit the recovery of threatened or endangered species, almost 35 percent of which depend on wetlands (see Chart 3–2).

Conservation Reserve Program (CRP): The CRP pays producers to temporarily retire from production environmentally sensitive lands. Producers sign 10-year CRP contracts and agree to convert their enrolled acres to approved conservation uses, receiving rental payments in return. After the contracts expire, producers can return lands back to production. The 1996 Farm Bill enables USDA to maintain a 36-million-acre CRP, or roughly the current CRP level. Contracts on about 21 million acres will expire in 1997 and USDA will hold a sign-up to begin to replace them in early spring 1997. Through new program rules, the Administration will seek to enroll land with the highest environmental benefits and release from the CRP less erodible land that is better suited for production. CRP's benefits have been significant—after falling by 35 to 50 percent in the 1970s and 1980s, wild-duck populations bounced back with a 12-percent increase in the mid-1990s.

National Parks: The budget proposes over $1.2 billion for park operations and maintenance, six percent more than in 1997. This level would maintain current services at existing parks and support commitments for new parks and responsibilities under the 1996 Omnibus Parks and Public Lands Management Act. Budgeted funds alone, however, cannot



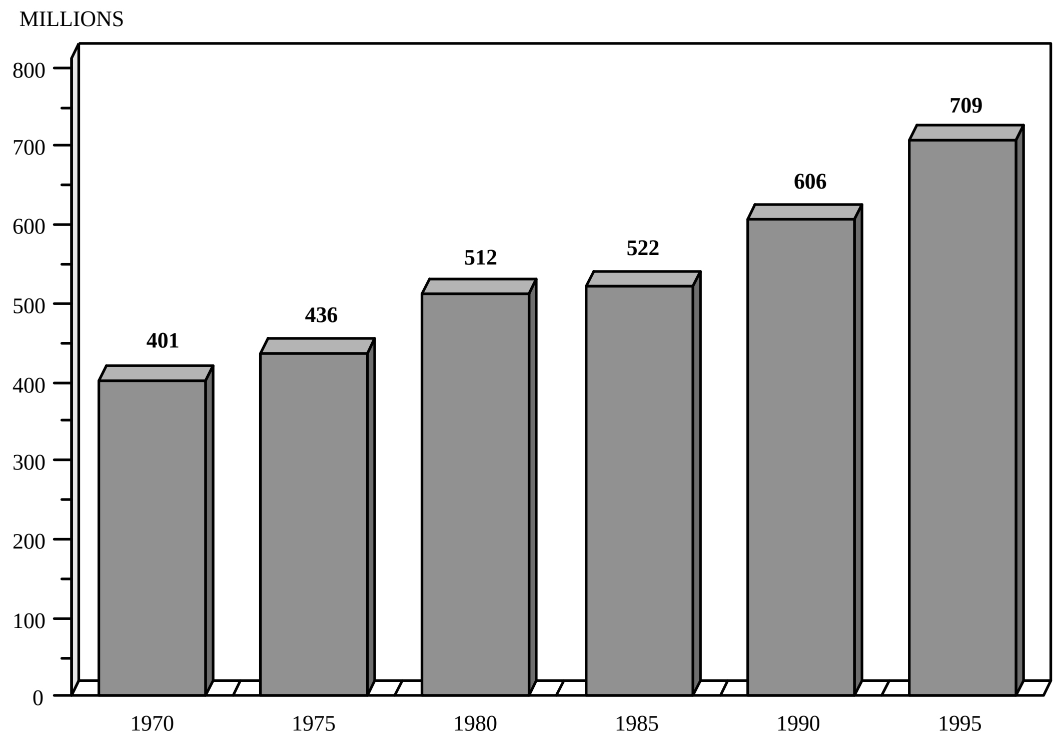
meet the growing demand for recreational and visitor services, as illustrated in Chart 3–3.

Consequently, the Administration is using its temporary demonstration fee authority to finance facility and resource management improvements. Not only do user fees raise funds for repairs and improvements that enhance the visitor experience, they give parks an incentive to please their customers by improving their facilities and operations. The Administration will seek permanent fee authority and legislation to reform park concessions—to increase competition between companies that want to conduct business in the parks, and to give parks an added incentive to negotiate higher returns from concessioners by allowing the National Park Service to keep all new receipts.

Salmon Recovery: Salmon runs throughout the Pacific Northwest are a major part of the region's ecosystem and economy. Salmon runs that originate in the Columbia/Snake River have declined so much that the Commerce Department's National Marine Fisheries Service lists three runs as endangered. The Administration has supported a regional bipartisan effort to help restore the runs, including a stable, multi-year contribution from the Bonneville Power Administration's (BPA) customers because BPA's hydro-power operation has helped to foster the decline. The Administration is carrying out an agreement with congressional and regional interests under which BPA customers would pay, on average, up to $435 million a year for salmon recovery.

The budget also provides funds to fully implement the 1992 Elwha River Ecosystem and Fisheries Restoration Act. The Elwha River, a major waterway within Olympic National Park in Washington State, holds tremendous potential for restoring abundant salmon runs. The budget provides $25 million in funding for 1998—enough to complete acquisition of the river's two dams and perform planning and design activities associated with

Chart 3-3. RECREATIONAL VISITS TO SELECT FEDERAL LANDS



Note: Includes National Park Service, Fish & Wildlife Service, Bureau of Land Management, and Forest Service.

their removal—and seeks future-year funding at levels that would complete dam removal and river restoration.

Multilateral and Bilateral Environmental Assistance: The budget proposes $314 million, 19 percent more than in 1997, for bilateral and multilateral environment assistance. Bilateral assistance includes Agency for International Development activities to address climate change, biodiversity, and sustainable agriculture in developing countries. Multilateral assistance funds U.S. voluntary contributions to the U.N. environment system and other international organizations to address various international environmental activities.

Global Environment Facility (GEF): U.S. participation in the GEF is a cornerstone of U.S. foreign policy on the environment. The GEF has become the world's leading institution for protecting the global environment and avoiding economic disruption from climate change, massive extinction of valuable species, and dramatic collapse of the oceans' fish population. The $100 million budget proposal would meet the 1998 portion of the U.S. pledge to the GEF's four-year (1995–1998) funding program, and doing so is vital to maintaining U.S. leadership of the program.

Energy Efficiency and Renewable Energy: The budget proposes $688 million for energy conservation and efficiency programs, and $330 million for solar and renewable energy programs, increases of 25 percent and 22 percent, respectively. These Energy Department (DOE) programs reduce greenhouse gases and other pollutants by increasing energy efficiency and expanding the use of non-fossil-based energy sources. The energy conservation programs include both near-term efforts to demonstrate and promote the best available technologies, and longer-term efforts to develop breakthrough technologies and products. A prominent example of the latter is the Partnership for a New Generation of Vehicles, a joint government-industry effort to develop cars with triple the fuel economy of today's models. The solar and renewable energy research and development activities include substantial support for reducing the costs of photovoltaics, wind energy, and biofuels.

Federal Facilities Cleanup and Compliance: The Federal Government continues to face an enormous challenge in cleaning up Federal facilities contaminated with radioactive or hazardous waste. DOE faces the most complex and costly problems from over 40 years of research, production, and testing of nuclear weapons. The Defense Department's (DOD) problems include hazardous wastes similar to those found at industrial and commercial sites.

The budget proposes over $7.2 billion for DOE's Environmental Management program, 20 percent more than in 1997, including over $1 billion to implement a privatization strategy to cut costs and speed cleanup and waste disposal. In 1998, DOE will accelerate the Formerly Used Sites Remedial Actions Program (FUSRAP), which is cleaning up private properties contaminated during the weapons production process in order to allow their speedier return to productive use. By the end of 1998, DOE will complete clean-up at 28 of 46 FUSRAP sites and 44 of 86 other DOE sites and facilities.

DOD, which operates one of the Nation's most diverse and successful environmental programs, is focusing its cleanup efforts on reducing relative risk at its active and closing installations. It is conducting studies or clean-ups at 15,240 sites on 770 military installations and 2,641 formerly-used properties. Moreover, it has determined that 10,970 other sites require no further action. DOD also is making real progress in its compliance/pollution prevention, conservation, and environmental technology programs. The budget proposes over $4.7 billion for all DOD environmental activities, three percent more than in 1997.

4. PROMOTING RESEARCH

> *. . . We must harness the remarkable forces of science and technology that are remaking our world. . . . We can make this age of science and technology a true age of possibility for all the American people, but we must invest in it and do it wisely if we expect to get a return.*
>
> President Clinton
> December 11, 1996

Technological innovation has accounted for at least half of the Nation's productivity growth in the last 50 years. We enjoy the fruits of this innovation every day in the many technologies that we have come to depend on for our way of life—including lasers, computers, x-rays, teflon, weather and communication satellites, jet aircraft, microwave ovens, solar-electric cells, human insulin, and a plethora of pharmaceutical products. These advances have generated millions of high-skilled, high-wage jobs and significantly improved the quality of life for Americans.

Because our investments in science and technology (S&T) have paid such rich dividends, U.S. leadership in S&T is a cornerstone of the President's vision for America. Thus, the budget continues these vital S&T investments—investments that contribute significantly to many of the Administration's broader goals, including creating new knowledge, training our workers, creating new jobs and industries, solving our many health challenges, enhancing our ability to address environmental issues, improving our ability to teach our children, and maintaining a strong, capable national defense.

Specifically, the budget adds funds for basic research in health sciences at the National Institutes of Health (NIH), for basic research and education at the National Science Foundation (NSF), for research at other agencies that depend on S&T for their missions, and for cooperative projects with industry and universities.

As the President has said, we need to balance the budget in a way that boosts economic growth and encourages public and private investment in innovative S&T. The budget continues the record of S&T investment that has helped to keep the economy strong over the last four years.

The Federal Role in S&T

The post-Cold War era is one of intense global economic competition. The United States also faces new national security challenges, including the proliferation of nuclear and biological weapons, regional conflicts, threats from environmental degradation, and emerging infectious diseases.

Thus, the Federal Government has an indispensable role to play in investing in S&T—a role critical to the country's economy, national security, environment, health, and other social needs. This is especially true when the risk is too great for individual companies to make the needed investment, or when the public benefit is large but private return is small. Our Nation also must support a balanced mix of S&T investments (i.e., basic research, applied research, and technology development), because the steps involved in scientific discovery and technological innovation are so profoundly interwoven.

The Administration has initiated or expanded public-private partnerships to spur innovations with broad economic impact. These partnerships have traditionally served our Nation well, not only in building transportation infrastructure (e.g., highways, airways, harbors, and railroads), but in nurturing new types of technological infrastructure (e.g., the Internet, global positioning satellites, and environmental monitoring systems). They also enable the private sector to translate new knowledge into novel technologies that benefit its bottom line as well as society at large.

Science and Technology Highlights

As noted above, S&T investments contribute significantly to the Administration's economic, health, environment, national security, and education goals. This chapter describes the contributions in greater detail. Overall research and development investment totals are displayed in Table 4–1, while selected S&T highlights are displayed in Table 4–2.

Table 4–1. RESEARCH AND DEVELOPMENT INVESTMENTS

(Budget authority, dollar amounts in millions)

	1993 Actual	1997 Estimate	1998 Proposed	Dollar Change: 1997 to 1998	Percent Change: 1997 to 1998
By Agency:					
Defense	38,898	37,461	36,780	–681	–2%
Health and Human Services	10,472	12,933	13,478	+545	+4%
National Aeronautics and Space Administration	8,873	9,314	9,603	+289	+3%
Energy [1]	6,896	6,186	7,312	+1,126	+18%
National Science Foundation	2,012	2,458	2,553	+95	+4%
Agriculture	1,467	1,545	1,485	–60	–4%
Commerce	793	1,050	1,115	+65	+6%
Interior	649	581	605	+24	+4%
Transportation	613	639	754	+115	+18%
Environmental Protection Agency	511	504	555	+51	+10%
Other	1,308	1,150	1,229	+79	+7%
Total	**72,492**	**73,821**	**75,469**	**+1,648**	**+2%**
By R&D Theme:					
Basic Research	13,362	14,885	15,303	+418	+3%
Applied Research	13,608	14,529	15,159	+630	+4%
Development	42,795	42,153	41,636	–517	–1%
Equipment [2]	NA	937	960	+23	+2%
Facilities [1,2]	2,727	1,317	2,411	+1,094	+83%
Total	**72,492**	**73,821**	**75,469**	**+1,648**	**+2%**
By Civilian Theme:					
Basic Research	11,951	13,747	14,112	+365	+3%
Applied Research	9,130	10,469	11,125	+656	+6%
Development	7,269	7,860	8,117	+257	+3%
Equipment [2]	NA	492	506	+14	+3%
Facilities [2]	1,979	984	1,128	+144	+15%
Subtotal	**30,329**	**33,552**	**34,988**	**+1,436**	**+4%**
By Defense Theme:					
Basic Research	1,411	1,138	1,191	+53	+5%
Applied Research	4,478	4,060	4,034	–26	–1%
Development	35,526	34,293	33,519	–774	–2%
Equipment [2]	NA	445	454	+9	+2%
Facilities [1,2]	748	333	1,283	+950	+285%
Subtotal	**42,163**	**40,269**	**40,481**	**+212**	**+1%**
By R&D Share:					
Defense	42,163	40,269	40,481	+212	+1%
Civilian	30,329	33,552	34,988	+1,436	+4%
Total	**72,492**	**73,821**	**75,469**	**+1,648**	**+2%**
Civilian (percent)	42	45	46	NA	NA
R&D Support to Universities	**11,674**	**12,979**	**13,268**	**+289**	**+2%**
Merit (Peer) Reviewed R&D Programs	**NA**	**22,220**	**22,717**	**+497**	**+2%**

NA = Not applicable.

[1] 1998 estimates reflect an extra $1 billion for Department of Energy (DOE) facilities acquisition (primarily in defense) as part of DOE's move to fully funding acquisitions up front.

[2] Equipment and Facilities were not collected separately in 1993.

Table 4–2. SELECTED SCIENCE AND TECHNOLOGY HIGHLIGHTS

(Budget authority, dollar amounts in millions)

	1993 Actual	1997 Estimate	1998 Proposed	Dollar Change: 1997 to 1998	Percent Change: 1997 to 1998
National Science Foundation	2,734	3,270	3,367	+97	+3%
National Institutes of Health	10,326	12,741	13,078	+337	+3%
Environmental Protection Agency:					
Particulate matter in ambient air research	NA	19	26	+7	+37%
Science to achieve results	NA	95	115	+20	+21%
National Aeronautics and Space Administration:.					
International Space Station	2,262	2,149	2,121	–28	–1%
Mission to Planet Earth	1,062	1,362	1,417	+55	+4%
Space science	1,756	1,971	2,044	+73	+4%
X-33 reusable launch vehicle technology program	NA	245	330	+85	+35%
Aeronautics initiative	129	417	456	+39	+9%
Department of Energy:					
Science-based stockpile stewardship	NA	1,439	1,444	+5	+*%
Civilian basic science programs	2,583	2,035	2,067	+32	+1%
Large Hadron Collider project	NA	15	35	+20	+133%
Department of Commerce:					
Advanced Technology Program	68	225	275	+50	+22%
Manufacturing Extension Partnerships	18	95	129	+34	+36%
National Information Infrastructure	NA	22	36	+14	+64%
Department of Defense: Dual Use Application Program	NA	181	225	+44	+24%
Department of Agriculture: National Research Initiative	98	94	130	+36	+38%
Department of Transportation: Intelligent Transportation Infrastructure	143	235	250	+15	+6%
National Science and Technology Council initiatives:					
High performance computing and communications:[1]					
Defense	298	334	357	+23	+7%
Health and Human Services	47	90	97	+7	+8%
National Aeronautics and Space Administration	82	114	128	+14	+12%
Energy	100	117	152	+35	+30%
National Science Foundation	233	278	294	+16	+6%
Commerce	12	32	35	+3	+9%
Transportation	NA	20	25	+5	+25%
Education	NA	12	12	+*	+*%
Veterans	NA	22	22	+*	+*%
Environmental Protection Agency	NA	6	6	+*	+*%
Subtotal	772	1,025	1,128	+103	+10%
U.S. global change research program:[2]					
Health and Human Services	1	4	4	+*	+*%
National Aeronautics and Space Administration	1,062	1,362	1,417	+55	+4%
Energy	118	112	110	–2	–2%
National Science Foundation	124	164	166	+2	+1%
Agriculture	55	57	61	+4	+7%
Commerce	66	60	62	+2	+3%
Interior	38	29	29	+*	+*%
Environmental Protection Agency	NA	14	21	+7	+50%
Smithsonian	NA	7	7	+*	+*%
Tennessee Valley Authority	NA	1	1	+*	+*%
Subtotal	1,464	1,810	1,878	+68	+4%
Partnership for a new generation of vehicles	NA	263	281	+8	+7%
Construction and building	NA	176	203	+27	+15%
Educational technology	NA	499	524	+25	+5%
Emerging infectious diseases research	NA	260	280	+20	+8%

NA = Not collected in this year.
* Less than $500 thousand or 0.5 percent.
[1] Listing by agency required by law; estimates include $100 million in 1998 for the Next Generation Internet.
[2] Listing by agency required by law.

Increasing Total Support for Science and Technology: This budget marks the fifth straight year that the President has proposed increases in research and development (R&D)—at $75.5 billion, $1.6 billion or two percent more than in 1997.[1] Continuing previous efforts, the budget also provides an increasing share for civilian R&D investments, with those investments at 46 percent of the total.

Boosting Funding for Basic Research and Applied Research: The budget proposes $15.3 billion for basic research and $15.2 billion for applied research—increases of $418 million and $630 million over 1997, respectively. These investments, which include increases of three percent each for NIH and NSF, reflect the Administration's commitment to create new knowledge that will pay economic dividends down the road and address many of the health challenges that face the nation, such as breast cancer.

Strengthening University-Based Research: University-based research (a mixture of basic, applied, development R&D, equipment, and facilities) is key to America's future; simultaneously, it provides new knowledge and new technology, and it trains the next generation of scientists and engineers. The budget proposes $13.3 billion for university-based research, an increase of $289 million over 1997. It also proposes $22.7 billion for merit-reviewed research (two percent more than in 1997), comprising 18 percent of the R&D budget. Increases in merit-reviewed research ensure that the Nation receives the highest quality return on these investments.

Investing in Innovation to Create New Jobs and Industries: Many of the new jobs created under this Administration have been high-tech, high-wage jobs in industries like biotechnology and computing—jobs that didn't exist a decade or two ago. The budget maintains a strong investment in technology to foster these high-priority civilian S&T industries and jobs. Funding continues or expands for high-performance computing research; for the Advanced Technology Program, which works with industry to develop high-risk, high-payoff technologies; for Manufacturing Extension Partnerships to help small businesses battle foreign competition by adopting modern technologies and production techniques; and for other programs.

[1] Research and Development (R&D) is a widely-accepted measure of investment in S&T.

Investing in Environmental Research: S&T investments are critical for enhancing environmental quality and assuring a sustainable future. While the Nation is making progress on many pollution fronts, emerging global environmental problems pose new risks. The budget maintains vital research to provide safe food, clean air, and pure water. It supports programs to increase energy efficiency and the development of renewable energy sources that cut demand for foreign oil and reduce greenhouse emissions, and partnerships with industry to develop cars that use less fuel. The budget invests in programs that preserve biological diversity and help us understand and prepare for changing climate conditions and natural disasters. These investments also provide a sound scientific basis for rational rule-making on, and cost-effective implementation of, environmental regulations. (For information on energy efficiency and renewable energy R&D programs, see Chapter 3.)

Investing in a 21st-Century Education: Information technology has revolutionized America's businesses, but it has not been widely adopted in America's classrooms. We must use this new technology to help children prepare for the challenges of the 21st Century. Building on the experience of earlier Federal investment in educational technology, the budget includes a second installment for the President's new five-year, $2 billion Technology Literacy Challenge Fund to encourage States and communities, working with private sector partners, to develop and implement plans for fully integrating educational technology into their school curricula. (For more information, see Chapter 2.)

Enhancing Programs to Keep Our Nation Secure: While the budget continues investments in defense research that ensure our strong, future military capabilities, it also fosters key programs to keep nuclear weapons out of the hands of terrorists, to comply with the Comprehensive Test Ban Treaty by using science-based techniques to ensure the safety and reliability of our nuclear weapons stockpiles, and to bolster strong international S&T

cooperation to improve global stability. The budget also supports the Dual Use Applications Program (DUAP), which puts the technical know-how and economies of scale from commercial industry at the service of national defense.

Agency Highlights

National Science Foundation: NSF, recognized world-wide for its high standards of quality and efficiency, funds proposals based on a rigorous, competitive process of merit review. Reflecting the high quality of NSF-backed science, NSF supported five of the six 1996 U.S. Nobel prize winners early in their careers. Alone among Federal agencies, NSF has the broad mission of promoting science and engineering research and education across all fields and disciplines. It supports nearly half of the non-medical basic research conducted at academic institutions, and provides 30 percent of Federal support for mathematics and science education. Because most NSF awards go to colleges and universities, they generate knowledge and train the next generation of scientists and engineers. The budget proposes $3.4 billion for NSF, three percent more than in 1997.

National Institutes of Health: The budget continues the President's commitment to biomedical research, which promotes the health and well-being of all Americans. NIH support for biomedical research grew by $2.4 billion, or by 23 percent, between 1993 and 1997. For 1998, the budget proposes $13.1 billion for NIH, a three-percent increase over 1997. NIH's highest priority continues to be funding investigator-initiated, peer-reviewed research project grants. The budget proposal would enable NIH to increase HIV/AIDS-related research, research into breast cancer and other health concerns of women, minority health initiatives, high performance computing, prevention research, spinal cord injury, and developmental and reproductive biology.

Environmental Protection Agency (EPA):

Particulate Matter (PM) in Ambient Air Research: The budget proposes $26.4 million for PM research, a 37-percent increase over 1997. To reduce the great uncertainty about PM's health effects, EPA will continue its efforts to identify the mechanisms by which particles affect human health. It will launch research into three areas: (1) evaluating the relationship between health effects and PM exposures; (2) determining the amount and size of particles inhaled and retained in the lungs; and (3) investigating biological mechanisms by which PM concentrations in outdoor air may induce health effects and, in doing so, evaluating potential links between PM exposures and health effects.

Science to Achieve Results (STAR) Program: The budget proposes $115 million (21 percent more than in 1997) for EPA's STAR program, which awards grants and fellowships on the basis of rigorous peer review. The program funds research proposals from scientists outside the Federal Government that focus on the most pressing environmental concerns. EPA funds the proposals independently or in cooperation with NSF and other Federal agencies.

National Aeronautics and Space Administration (NASA):

NASA has been on the forefront of Administration efforts to reshape the Federal Government—to make it work better, cost less, and better service its customers, the American people. The budget proposes balanced and sustainable funding for NASA over the next five years, permitting NASA not only to continue improving its operations but also to support important strategic research efforts, including the efforts highlighted below:

Space Science: The space science program has achieved impressive successes this past year—meteoric evidence of possible life on ancient Mars, the possible detection of water on the Moon and a moon of Jupiter, and the identification of possible planets around other stars. To build on these successes and implement the President's directives in his recently-released space policy, the Administration proposes $2 billion for space science, a four-percent increase over 1997. The additional funding will enhance NASA's Origins program, which seeks to understand the creation of the universe, stars, solar system, and life, and determine if life once existed or still exists beyond Earth.

International Space Station: The Administration continues to support the development of the International Space Station—a U.S.-led collaborative effort with the European Space Agency, Canada, Japan, and Russia—that will provide an unique laboratory to explore innovative research on materials and biological processes, on promising new technologies, and on how people can live and work in a low-gravity environment. The budget proposes $9 billion in advanced, multi-year appropriations to complete the $17.4 billion Space Station development and assembly, helping to ensure that the program is completed, as promised, within budget and on schedule.

Mission to Planet Earth (MTPE): MTPE is NASA's effort to observe, understand, and predict natural and human-induced changes to the environment. The budget proposes $1.4 billion for MTPE, four percent more than in 1997. MTPE programs include the Earth Observing System satellites, the Landsat satellite, and a broad range of scientific research and data analysis activities.

X-33 Reusable Launch Vehicle (RLV) Technology: The budget proposes $719 million in advanced multi-year appropriations to complete development of the RLV X-33 test vehicle, that should dramatically cut the cost of getting into space by demonstrating the use of new materials, reusable components, and new operations management approaches.

Aeronautics Initiative: The budget proposes $456 million for NASA's aeronautics initiatives, a nine-percent increase over 1997. These initiatives are partnerships with industry and include advanced subsonic technology and high speed research that may revolutionize the next generation of commercial aircraft.

Department of Energy (DOE):

Stockpile Stewardship: The President's commitment to a Comprehensive Test Ban Treaty (CTBT) is closely linked to the Administration's plan to maintain the safety and reliability of the nuclear weapons stockpile through scientific experiments and computer modeling (i.e., no explosive testing of nuclear weapons). The budget proposes $1.4 billion for Stockpile Stewardship activities in 1998, plus $1.3 billion for related construction projects. Among these projects, $900 million would go to build the National Ignition Facility at the Lawrence Livermore National Laboratory. The President, who plans to submit the CTBT for Senate ratification in 1997, also is committed to funding a comprehensive R&D program over the next decade to improve treaty monitoring capabilities and operations.

Civilian Basic Science Programs: The Administration has designated High Energy and Nuclear Physics, Basic Energy Sciences, and Biological and Environmental Research as high-priority areas of DOE basic science in 1998. These programs, which have a large university-based component, contribute to both our national basic research enterprise and to DOE's core activities. In addition, these programs build and operate large user facilities that serve over 15,000 university, government, and industry scientists. The budget proposes $2.1 billion in 1998 for these activities.

Large Hadron Collider Project: When it comes on-line in 2005, the Large Hadron Collider (LHC) at the European high-energy physics laboratory CERN, in Switzerland, will be by far the world's most powerful accelerator. Its scientific goals are to search for the origin of mass, to explore in detail the structure and interactions of the top quark (the heaviest of the known subatomic particles), and to probe high-energy conditions beyond the Standard Model—the remarkably successful physics theory that describes all the forces of nature, except gravity. Hundreds of U.S. high energy physicists plan to participate in the LHC project. The Administration proposes $394 million in advanced, multi-year appropriations over eight years for DOE, which it designated as the lead Federal agency for U.S. participation. U.S. funding for the LHC would support U.S. scientists and technicians, and support the purchase of U.S. goods and services necessary for our contribution to constructing the accelerator and two detectors.

Department of Commerce:

Advanced Technology Program (ATP): ATP is a rigorously competitive, industry-led, and cost-shared R&D program that fosters technology development, promotes industrial alliances, and creates jobs. ATP pursues technologies that are critical to the competitive position of U.S. industries, but where the risk is so high that industries will not likely invest enough to ensure continued U.S. leadership. The projects have led to significant technology advances that have improved our daily lives. With ATP funding, for example, a consortium of several large and small companies recently developed techniques to make better cars, thus increasing customer satisfaction. The budget proposes $275 million in 1998 for ATP, growing to $500 million by 2002.

The Manufacturing Extension Partnerships (MEP): MEP gives the Nation's 381,000 smaller manufacturers the technological information and expertise to improve their operations. Extension centers are helping to improve the performance of small manufacturers across the country, leading to more sales, more jobs, and savings in labor and materials. The budget proposes $129 million in 1998 to support 78 extension centers and over 300 field offices nationwide.

National Telecommunications and Information Administration National Information Infrastructure (NII) Grants Program: The budget proposes $36 million for grants to help develop the NII, which provides the infrastructure that enables computers to connect to one another and to information systems across the country. These grants help fund innovative demonstration projects to show how information technology can improve the delivery of educational, health, and other social services.

Department of Defense Dual Use Applications Program: The budget proposes $225 million for DUAP, which will build on previous Federal dual-use technology development programs and allow the military services to develop and use technologies, processes, and products available to the commercial sector. Dual-use technologies can enhance the performance and reduce the costs of military applications.

Department of Agriculture (USDA) National Research Initiative: The budget proposes a 38-percent increase, to $130 million, for the National Research Initiative (NRI), USDA's major peer-reviewed competitive grants program. The NRI supports fundamental research on key agricultural problems that will help our Nation's farmers retain their technological edge, such as research in food safety, plant and animal genetics, water quality, integrated pest management, and sustainable food and fiber production systems. Of particular concern is the need to expand the science base for reducing food-borne illness due to microbial pathogens and to the many food and fiber production practices that contribute to environmental degradation, such as the excessive use of pesticides, fertilizers and tillage. As a result, the Administration proposes to target $4 million to expand research in food safety, $10 million to expand research in environmentally sound production practices, and $22 million to expand research on enhancing plants through genetics.

Department of Transportation Intelligent Transportation System (ITS) Initiative: The budget proposes $250 million for the ITS initiative—a package of technologies designed to enhance the efficiency of our surface transportation infrastructure. The request includes $100 million for a new Deployment Incentives program to encourage integrated implementation of ITS. The Administration also proposes to make ITS projects eligible for surface transportation funds and, in 1997, to complete 77 operational tests of ITS standards and technology and a demonstration of the technical feasibility of the Automated Highway System.

National Science and Technology Council Interagency Initiatives

Next Generation Internet (NGI) Program: The budget proposes $100 million for each of the next three years to support the NGI, which seeks to develop a research network that can reach speeds 100 to 1,000 times faster than today's Internet and greatly improve the quality of service. The NGI proposal is a part of an overall request for $1.1 billion, 10 percent more than in 1997, for research and development in computers and communications technologies under the rubric of the Administration's High Performance Computing and Communications initiative.

U.S. Global Change Research Program (USGCRP): The budget continues strong Administration support for the USGCRP, proposing $1.9 million for 1998. Program priorities include research on seasonal to interannual climate variability, climate change over decades to centuries, and on changes in atmospheric chemistry and ecosystems. The program also will continue to increase its focus on understanding the consequences of change, particularly at regional levels.

Emerging Infectious Diseases: The budget proposes $280 million, eight percent over 1997, for research on the development of new tools to detect and control emerging infectious diseases and on the biology and pathology of infectious agents. Focus areas include: surveillance; screening and quarantine; diagnostics, treatment, and prevention measures; training; antibiotic resistance; zoonotic infectious agents; and health effects of climate change.

Partnership for a New Generation of Vehicles: The budget proposes $281 million, a seven-percent increase over 1997, for research to: (1) develop advanced manufacturing techniques that make it easier to get new automobiles and auto components into the marketplace quickly; (2) use new technologies for near-term improvements in auto efficiency, safety, and emissions; and (3) lead to production prototypes of vehicles that are three times more fuel efficient than today's cars, with no sacrifice in comfort, performance, or price.

Construction and Building: The budget proposes $203 million, a 15-percent increase over 1997, for research to develop better construction technologies to improve the competitive performance of U.S. industry, raise the life cycle performance of buildings, and protect public safety and the environment.

Educational Technology: The budget proposes $524 million, a five-percent increase over 1997, for research and development on education and training to improve learning in schools, workplaces, and homes.

5. ENFORCING THE LAW

> *At the beginning of my Administration, we set out to change the country's approach to crime by putting more officers on our streets through community policing, and taking guns out of the hands of criminals. We are making a difference. Today, our neighborhoods are safer, and we are restoring the American people's confidence that crime can be reduced.*
>
> President Clinton
> January 5, 1997

The budget extends the Administration's commitment to cut crime, curb the scourge of illegal drugs, and secure the Nation's borders.

With overall crime dropping, the budget proposes to make further progress while targeting a remaining area of concern—juvenile crime and violence. In addition, the budget continues the President's progress toward putting 100,000 more police on the street, while increasing State grants for prison construction and for preventing violence against women. While crime remains mainly a State and local responsibility, the success of the Brady bill in preventing over 100,000 felons, fugitives, and stalkers from obtaining guns shows the Federal Government also has an important role to play.

The budget renews the Administration's efforts to fight drug abuse, particularly by focusing on youth prevention programs to reverse the recent trends of softening attitudes towards drugs and increased drug use by youth. It also continues efforts to stress treatment and prevention, domestic law enforcement, international programs, and interdiction. It would increase funds for the innovative Drug Courts initiative, for drug testing, for the Safe and Drug-Free Schools and Communities Program, for targeted interdiction efforts along the Nation's Southern border, and for disrupting the drug industry and its leadership overseas. The budget proposes to increase spending for these purposes by over $800 million in 1998, and by more than $6 billion between 1997 and 2002.

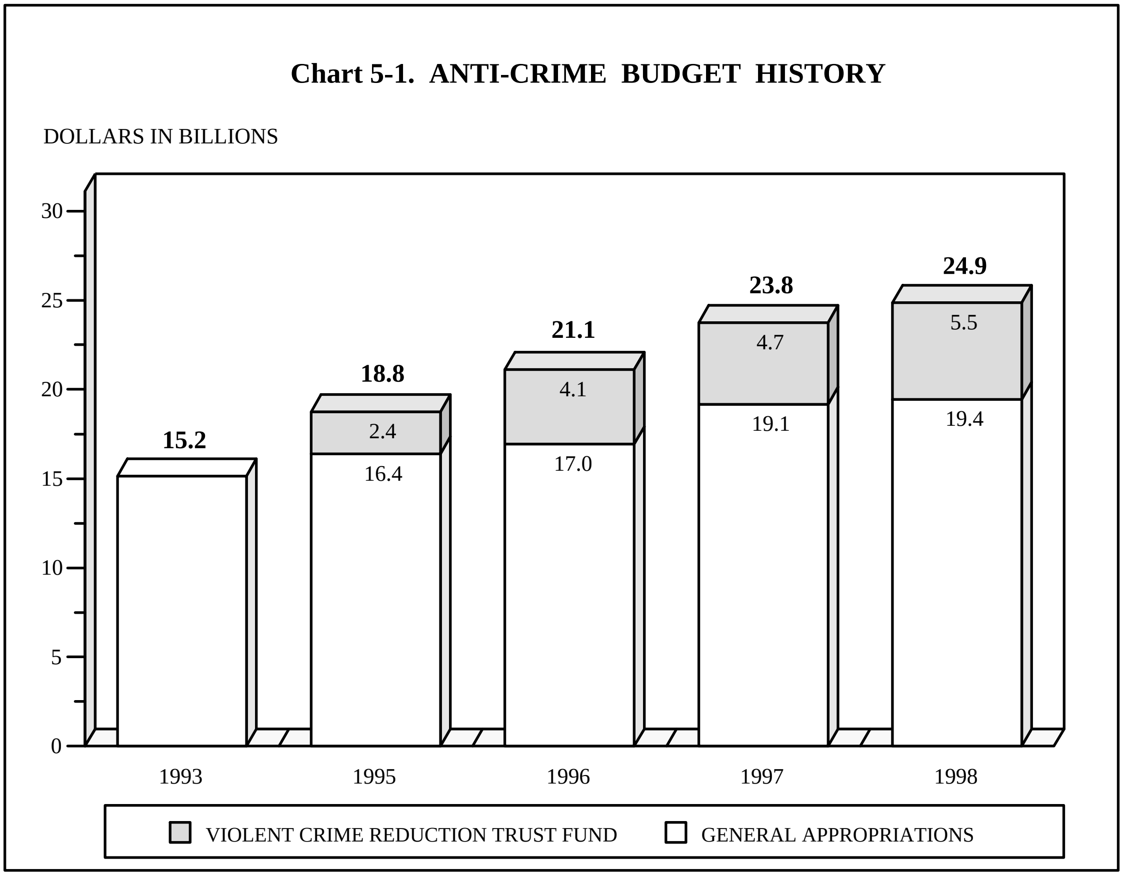
Finally, the budget strengthens the Administration's aggressive efforts to control illegal immigration by targeting resources to stop those who want to enter the United States illegally, detain and quickly remove those who slipped by, and make it harder for illegal immigrants to get jobs. It proposes to strengthen border enforcement in the South and West, to continue Port Courts to expedite removals, and to expand efforts to verify the employment eligibility of newly hired non-citizens.

Fighting Crime

The Administration's efforts to work with communities and local police forces are paying off. Serious and violent crime dropped for the fifth year in a row in 1996, marking the longest period of decline in 25 years.

But, while overall crime rates are dropping, young people are increasingly the perpetrators and victims of some of society's most violent crimes. As a result, the Administration's crime-fighting agenda includes a major focus on reducing juvenile crime and violence. Its programs recognize that youth violence has to be addressed in the home, on the street, and in the community.

The budget proposes $24.9 billion to control crime, an increase of $1.1 billion over 1997, as illustrated on Chart 5–1. Of the total, the Violent Crime Reduction Trust Fund (VCRTF) provides $5.5 billion toward programs authorized in the 1994 Crime Act, an increase of $817 million over 1997, as shown on Table 5–1. Federal spending, however, accounts for only 17 percent of all



law enforcement resources. Thus, the Administration proposes to continue empowering States and communities, which play the central role in controlling crime, particularly violent crime.

Community Policing: The cornerstone of the President's program to fight crime, particularly violent crime in our communities, is his plan to place 100,000 more police officers on the streets by 2000. Putting the idea of community policing into action, the program seeks to cut crime, violence, and disorder by applying proven, effective programs and strategies. By the end of 1997, the Community Oriented Policing Services (COPS) initiative will have funded about 64,000 additional police officers. For 1998, the budget proposes $1.4 billion to put nearly 17,000 more officers on the street in local communities.

In addition to funding new police officers, COPS enables local law enforcement agencies to buy sophisticated crime equipment and hire support personnel. These purchases, in turn, allow communities to deploy more officers. To enhance State and local law enforcement recruitment, retention, and education, the budget proposes $20 million each for the Police Corps and for police scholarships, increasing the number of police officers with advanced education and training.

Juveniles: The budget proposes a $50 million increase to support more local community prevention programs such as mentoring, truancy prevention, and gang intervention. To prevent young people from becoming involved in the juvenile justice system, the budget expands programs that provide supervised afternoon and evening activities for youth. These programs include $63 million for community schools, supervision, and youth services grants—an increase of $50 million over 1997.

Gangs: The President has worked hard to get guns off the streets and out of the hands of children, to crack down on violent teen

Table 5–1. VIOLENT CRIME REDUCTION TRUST FUND SPENDING BY FUNCTION

(Budget authority, dollar amounts in millions)

	1996 Actual	1997 Estimate	1998 Proposed	Dollar Change: 1996 to 1998	Percent Change: 1996 to 1998
Prevention:					
Violence Against Women	228	259	381	+153	+67%
Drug Courts	18	30	75	+57	+317%
Prison Drug Treatment	27	30	63	+36	+133%
Other Prevention Programs	4	34	57	+53	+1,483%
Subtotal, Prevention	277	353	576	+299	+108%
State and Local Assistance:					
Community Policing	1,400	1,420	1,545	+145	+10%
Incarceration of Violent Offenders	618	670	710	+93	+15%
Incarceration of Undocumented Criminal Aliens	300	330	350	+50	+17%
Other State and Local Assistance	690	790	707	+17	+2%
Subtotal, State and Local Assistance	3,008	3,210	3,312	+304	+10%
Federal Law Enforcement Assistance:					
Department of Justice	702	1,002	1,444	+742	+106%
Department of the Treasury	69	89	118	+49	+70%
Judiciary	30	30	50	+20	+67%
Subtotal, Federal Law Enforcement Assistance	801	1,121	1,612	+811	+101%
Total, Violent Crime Reduction Trust Fund	**4,085**	**4,683**	**5,500**	**+1,415**	**+35%**

Note: The Violent Crime Reduction Trust Fund received appropriations for the first time in 1995.

gangs, and to teach children that drugs are wrong, illegal, and dangerous. As gangs become an increasingly powerful and deadly force, the Administration is pursuing a coordinated national strategy to combat them. For example, the budget proposes $100 million for prosecutorial offices to hire more prosecutors and take other steps, $50 million for a new juvenile court initiative, and $75 million for a local youth crime intervention initiative. The budget also proposes programs specifically targeted to stem violence on the street and in public housing, including:

- *Safe Streets Task Forces:* The budget proposes $93 million to continue the Safe Streets program, which blends the efforts of the Federal Bureau of Investigation (FBI) and other Federal law enforcement agencies with those of State and local police departments to investigate street crime and violence.
- *One Strike, You're Out:* The President believes that public housing is a privilege, not a right, and residents who commit crime and peddle drugs should be immediately evicted. The budget provides $290 million to support anti-drug and anti-crime activities in public housing, including enforcement of the President's One Strike, You're Out initiative.

Violent Offenders: The Administration seeks to ensure that convicted violent offenders serve at least 85 percent of their sentences behind bars. To reach this goal, the budget proposes $710 million in State grants to build new prisons and jail cells under two programs—the Violent Offender Incarceration and the Truth in Sentencing Programs. Nation-wide, the prison population is growing by over 1,700 inmates a week, and will likely grow faster as tougher sentencing laws and practices that these grant programs require are implemented. The 1998 funding level finances about 9,500 new prison beds. It includes $150 million to reimburse States for the costs of incarcerating criminal aliens and $35 million to improve State and local correctional facilities that hold Federal prisoners.

Crime Prevention: The President's Crime Prevention Council, which the Vice President chairs, seeks to coordinate Federal approaches to preventing crime. It helps communities get information about crime prevention programs, develops strategies for integrating programs and simplifying grants, publishes a catalog of prevention programs, and provides grants to communities for youth crime prevention programs.

Violence Against Women: The Administration recognizes that violence against women is a growing problem. To combat gender-based crime, the budget proposes $381 million—the full authorized level and an increase of $123 million over 1997. Programs in this category include grants to encourage mandatory arrest policies and to encourage coordination among law enforcement officials, prosecutors, and victims assistance organizations. Academic studies show that mandatory arrest policies often break the cycle of violence and reduce subsequent incidents of domestic violence. The expansion of these programs will enable States to enhance their efforts to respond to violent crimes committed against women, and to further expand access to previously under-served Indian and other minority populations.

State Prison Drug Testing: The budget proposes $63 million for this program, a $33 million increase over 1997. The funding would allow States to increase the number of residential substance abuse programs and treat about 23,000 prisoners. Experts generally agree that drug treatment programs aimed at prisoners are among the most cost-effective programs available in the fight against crime. In 1997, the President proposed and Congress agreed to require States to test prisoners and parolees as a condition for receiving State prison grants.

Counter-terrorism: While acts of domestic terrorism have been isolated incidents, the Administration has sought more Federal resources to ensure the safety and security of the Government and public from these violent, illegal acts. The President sought additional resources last year to fight terrorism, and Congress overwhelmingly agreed, providing $1.1 billion in new counter-terrorism funds. The budget would continue these programs.

Methamphetamine: Methamphetamine is quickly becoming the growth drug of the 1990s. Also known on the street as "crank," "ice," and "speed," methamphetamine is a dangerous stimulant that generates the same addiction cycle and psychological trauma associated with crack cocaine. The Drug Enforcement Administration (DEA) trains its agents, as well as State and local law enforcement agencies, to seize clandestine methamphetamine laboratories. Since 1994, the DEA has devoted almost 10 percent more work hours to methamphetamine investigations. The budget proposes to increase funding by $11 million to continue DEA's anti-methamphetamine efforts.

Digital Telephony: The Communications Assistance for Law Enforcement Act ensures that law enforcement agencies can conduct court-authorized wiretaps as the Nation converts from analog to digital communications technology. With $100 million available in 1997 to help develop the technology changes to provide this capability, the President proposes another $100 million in 1998 to continue the effort.

Combating Drug Abuse and Drug-Related Crime

Drug abuse and drug-related crime cost our society an estimated $67 billion a year[1] and destroy the lives and futures of our most precious resource—our children. Illicit drug trafficking breeds crime, violence, and corruption across the globe, drug use facilitates the spread of AIDS and other deadly diseases, and addiction erodes the user's dignity and productivity. The effects of drug use and drug-related crime are felt acutely by all

[1] "Substance Abuse: The Nation's Number One Health Problem," *Key Indicators for Policy*, Institute for Health Policy, Brandeis University (1993).

Americans, transcending economic, geographic, and other boundaries.

The budget proposes $16.0 billion for anti-drug abuse programs, a five-percent increase over 1997. It builds on earlier initiatives by renewing the emphasis on drug treatment and prevention, especially for children and adolescents; domestic law enforcement; international programs; and interdiction. (For summary information, see Table 5–2.)

In particular, the budget proposes a coordinated, multi-agency approach to combating all types of substance abuse among youth—including tobacco and alcohol—with a comprehensive prevention initiative that focuses, in particular, on State-level data documenting trends in drug use. This comprehensive approach, consistent with the President's National Drug Control Strategy, comes in response to national surveys showing a dramatic rise in substance abuse among adolescents.

Community-Based Prevention: The Administration is committed to reversing the trend of increased drug use by our youth, and it proposes $2.2 billion for drug prevention programs, 15 percent more than in 1997. After significant and consistent declines through the 1980s, teenage drug use is rising and anti-drug attitudes have softened—due in part to drug glamorization in the popular culture and the recent debate concerning drug legalization. In light of the recent "medicinal marijuana" initiatives adopted in California and Arizona, the Administration believes it is more important than ever to continue sending a single "no use" message and to focus on keeping America's youth drug free.

- *National Media Awareness Campaign:* The Office of National Drug Control Policy (ONDCP) will develop a media campaign—to include public service announcements, targeted at youth and their parents, on the consequences of drug use and the use of alcohol and tobacco. ONDCP will finance the campaign from the $175 million in discretionary funds that the budget proposes for ONDCP's Director to combat emerging drug abuse threats.
- *The Safe and Drug Free Schools and Communities Program:* The Safe and Drug-Free Schools and Communities program is the Federal Government's largest effort to inoculate children against drug abuse and ensure that schools are safe and disciplined learning environments. The program supports drug and violence prevention efforts in 97 percent of all school districts through educational activities, teacher training, curriculum development, peer counseling, security services, and other activities. The budget proposes to spend $620 million for this program, 12 percent more than in 1997, and to encourage States to adopt models of proven effectiveness.

Drug Intervention: The budget proposes $3.3 billion to treat drug abuse, seven percent more than in 1997. The Administration seeks to address drug abuse where the battle is toughest—in the streets, in jails, and in urban and rural drug markets. A priority is treating chronic, hard-core drug users; they consume a disproportionate amount of illicit drugs and impose a disproportionate share of drug-related costs on society.

Table 5–2. DRUG CONTROL FUNDING

(Budget authority, dollar amounts in millions)

	1996 Actual	1997 Estimate	1998 Proposed	Dollar Change: 1996 to 1998	Percent Change: 1996 to 1998
Demand Reduction	4,441	4,977	5,474	+1,034	+23%
Supply Reduction	9,013	10,182	10,502	+1,489	+17%
Total, Drug Control Funding	**13,454**	**15,159**	**15,977**	**+2,523**	**+19%**

- *Drug Courts:* The budget proposes $75 million, a 150-percent increase over 1997, for the Drug Courts initiative. These courts offer an alternative to incarceration for non-violent offenders who are willing to participate in, and would benefit from, rehabilitative drug treatment. Drug Court programs rely on sanctions, such as incarceration and increased drug-testing and supervision, to encourage treatment.
- *Substance Abuse Treatment:* The budget proposes $1.3 billion, one percent more than in 1997, to support State substance abuse activities, which target resources to local user populations. In addition, the budget maintains support for treatment and prevention services for everyone in need, including pregnant women, high-risk youth, and other under-served Americans. (For a discussion of funding proposals for the Substance Abuse and Mental Health Administration, see Chapter 1.)
- *Arrestee Drug Testing:* The budget includes $42 million, 40 percent more than in 1997, for the costs associated with drug-testing Federal, State, and local arrestees. With these funds, the Administration would establish Federal demonstration pre-trial drug testing programs and promote new, comprehensive drug testing programs at the State and local levels, for both pre-trial and post-conviction populations. In addition, the Administration has begun requiring, as a condition of receiving Federal highway funds, that every State make it illegal for anyone under 21 to drive with alcohol in his or her bloodstream.

Domestic Drug Law Enforcement: The budget proposes $8.4 billion for domestic drug law enforcement, four percent more than in 1997. The funds would enhance Federal law enforcement efforts while targeting new resources to community-based law enforcement, stopping the flow of illegal drugs through the Southwest border, and training Federal, State, and local law enforcement agencies to seize clandestine methamphetamine laboratories. The Federal role would continue to focus on providing leadership and training; fostering intergovernmental cooperation through the High Intensity Drug Trafficking Areas program, DEA's Southwest border initiative, and other efforts; and providing incentives to States and localities to adopt proven drug control methods. The number of High Intensity Drug Trafficking Areas has risen from five in 1993 to 15 in 1997.

Interdiction and International Programs: The Administration has launched a multi-faceted international strategy, making it harder for traffickers to smuggle illicit drugs into the United States for sale.

- *Southern Tier of the United States:* The Administration is working to stem the flow of narcotics through land and seaports along the Nation's Southern tier. The budget would reinforce efforts by the Customs Service to strengthen border enforcement along the Southern tier by providing $36 million for increased drug interdiction efforts. The budget also increases support for other Southwest border interdiction efforts, including $16 million for the Immigration and Naturalization Service (INS), $46 million for the DEA's and the FBI's Southwest border drug interdiction efforts, and $47 million for Coast Guard interdiction activities.
- *Source Nation Efforts:* Internationally, the United States is focusing on not just interdiction in source countries and transit zones, but also on disrupting the drug leadership and its production, marketing, and money laundering structure. Increased U.S. efforts in Colombia helped secure the arrest of several Cali Cartel leaders. The budget proposes to increase funding for counter-narcotics programs in Peru to $40 million, 74 percent more than in 1997, to encourage that nation to grow crops other than drugs. The budget also proposes to continue funding for the same purpose in Bolivia.

Deterring Illegal Immigration

The President has put a high priority on controlling our Nation's borders, reversing decades of neglect. He has launched an aggressive strategy of deterrence and has fought successfully for a dramatic increase in INS resources to stop illegal entry, detain and promptly remove those here illegally, and end the easy access to the Nation's job market that illegal workers have enjoyed.

As a Nation of immigrants, the United States continues to welcome those who seek legal entry and refugees who seek protection from harm in their home countries. In 1996 alone, the Nation welcomed over a million new naturalized U.S. citizens. As a Nation of laws, however, we are committed to maintaining the integrity of our borders, and deterring and removing those who are here illegally.

Over the past five years, in coordination with Congress, the Administration has increased funding for INS by 111 percent. The budget continues support for efforts that advance border control and illegal alien detention and removal, and the efficient processing of those seeking citizenship. The budget proposes $3.6 billion for INS, 13 percent more than in 1997 and 41 percent more than in 1996 (see Table 5–3).

Securing the Border: Controlling the Nation's 6,000–mile border with limited resources is a continuing challenge for INS. The Administration's goal is unambiguous—to ensure that the border deters illegal immigration, drug trafficking, and alien smuggling, while facilitating legal immigration and commerce. The President's immigration initiative included a strategy to gain control at the Southwest border and restore the rule of law, and the Administration backed it up with unprecedented increases in Border Patrol agents, advanced technology, and investments in infrastructure. The budget would fulfill the President's commitment to a Border Patrol staffing goal of 7,000 agents—an 85–percent increase from 1993 to 1998 (see Chart 5–2).

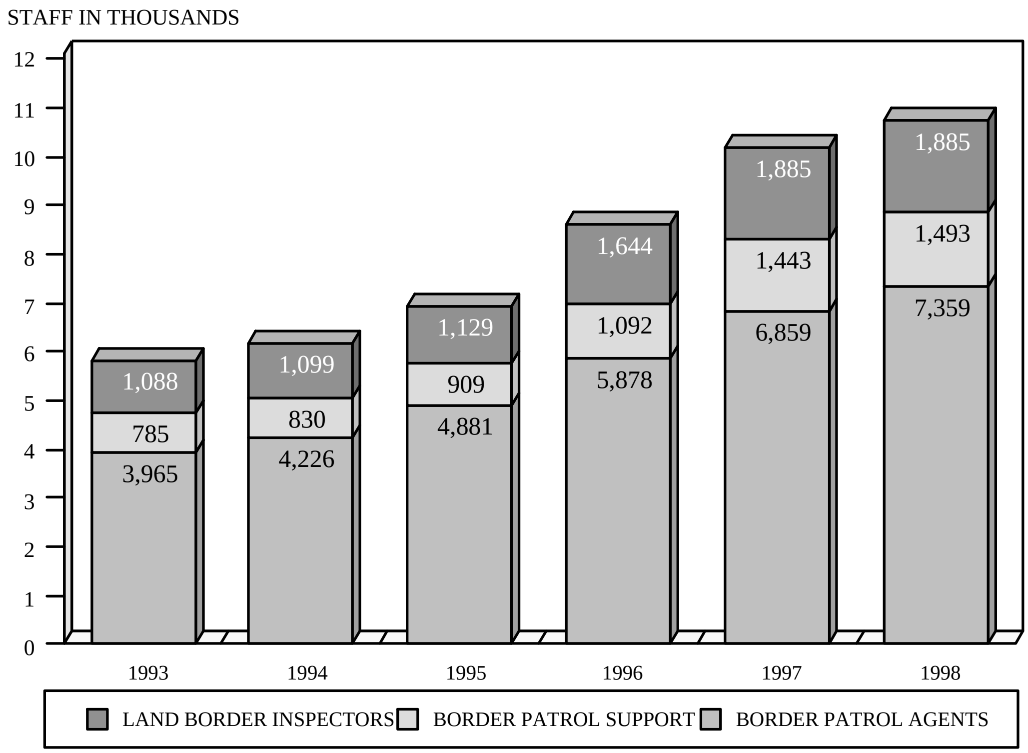
- *Border Enforcement Strategy:* Over the past four years, the Administration has launched targeted enforcement initiatives in Texas, California, and Arizona to control parts of the border that were historically the major corridors for illegal immigration. In the San Diego, El Paso, and Tucson areas—sites that account for over 75 percent of illegal crossings and where the Border Patrol has focused more resources over the past few years—violent

Table 5–3. IMMIGRATION AND NATURALIZATION SERVICE FUNDING BY PROGRAM

(Budget authority, dollar amounts in millions)

	1993 Actual	1996 Actual	1998 Proposed	Dollar Change: 1996 to 1998	Percent Change: 1996 to 1998
Appropriated Funds:					
Border Patrol	354	536	818	+282	+53%
Investigations and intelligence	142	190	277	+87	+46%
Land border inspections	83	116	157	+41	+35%
Detention and deportation	161	289	581	+292	+101%
Program support and construction	227	600	624	+24	+4%
Subtotal, Appropriated Funds	967	1,731	2,457	+726	+42%
Fee collections and reimbursements:					
Citizenship and benefits	308	523	648	+125	+24%
Air/sea inspections and support	243	320	419	+99	+31%
Detention and support	12	11	117	+106	+964%
Subtotal, Fee Collections and Reimbursements	**563**	**854**	**1,184**	**+330**	**+39%**
Total, Immigration and Naturalization Service	**1,530**	**2,585**	**3,641**	**+1,056**	**+41%**

Chart 5-2. IMMIGRATION AND NATURALIZATION SERVICE BORDER PATROL AND LAND BORDER INSPECTION STAFFING



and property crime rates have dropped by a dramatic 15 to 39 percent. This targeted use of Border Patrol agents in urban areas has forced illegal crossers to rural, mountainous, and desert locations where the difficult terrain gives the Border Patrol an advantage in apprehending them.

- *Border Infrastructure and Technology:* The Administration has, along the entire Southwest border, expanded advanced technology to support enforcement. The technology includes the IDENT system, an automated fingerprint identification system that allows INS, for the first time, to readily identify criminal aliens, track illegal crossing patterns, and collect data on repeat crossers. With the help of the National Guard and military personnel, the INS also has built over 63 miles of fencing and 1,200 miles of roads, and installed over 17 miles of lighting to control drug trafficking, alien smuggling, and illegal immigration. And, since 1993, INS has added over 165 infrared night scopes, 8,600 ground sensors, and 8,000 encrypted radios to support enhanced border enforcement.

- *Border Control and Detention Construction:* For too long, INS has worked from decrepit and inadequate Border Patrol stations, and has been forced to incarcerate illegal aliens in antiquated and unsafe detention facilities. The budget supports an INS construction program that would complete six Border Patrol projects and two detention facility projects. Along with the military, INS also would fund 11 fencing, border lighting, vehicle barrier, and road projects to secure the Southwest border.

Detaining and Removing Illegal Aliens: Last year's immigration reform law requires mandatory incarceration, pending deportation, for aliens involved in crime. The Administration is moving quickly to implement the law, funding 1,864 more jail beds in 1998 and adding investigators and detention staff. The budget would bring total detention bedspace to over 13,900 beds in 1998 and fund nearly

3,200 staff to support detention and deportation activities. INS removed over 68,200 aliens, including 37,000 criminal aliens, in 1996 and estimates that it will remove over 93,000 aliens, at least 55,000 of them criminal aliens, in 1997.

- *Port Courts:* The Port Court program, initiated in 1995 in San Diego, imposes immediate consequences—including exclusion and deportation—for those who attempt to enter the United States with fraudulent documents or small amounts of drugs. In its first full year of operation, over 8,000 aliens were removed through expedited proceedings at the Port Court. The budget provides funds to continue the Port Court concept in San Diego and at the Miami Airport.
- *Institutional Hearing Program (IHP):* Under this program, criminal aliens have a deportation hearing while serving time in a Federal or State institution, paving the way for immediate deportation upon completion of a criminal sentence. The program ensures that criminal aliens are not released onto the streets. INS has expanded this program, which began in California, to States with large incarcerated alien populations. In 1995, INS began cooperative IHPs in California, Texas, New York, and Florida. The budget continues funding for IHP programs in these States and in New Jersey and Arizona.
- *State and Local Alien Incarceration:* Through the State Criminal Alien Assistance Program (SCAAP), the President has provided unprecedented help to reimburse State and local governments for the costs of incarcerating illegal criminal aliens. In 1996, the Federal Government provided $495 million to reimburse 49 States and 94 localities—covering most costs associated with incarcerating aliens in non-Federal facilities. The budget extends the commitment, providing $500 million for reimbursements. The Federal Government plans to ensure that States and localities receiving SCAAP funds fully cooperate with INS in its efforts to expedite criminal alien removals.

Reducing the Job Magnet for Illegal Entry: The U.S. economy acts as a powerful "job magnet," drawing hundreds of thousands of illegal aliens to this country each year. The Administration has built a strong foundation for an effective worksite enforcement strategy to reduce the draw of illegal aliens.

- *Employment and Data Verification:* In 1995, INS launched a pilot employment verification system with over 200 employers in Orange County, California. It allowed employers to quickly verify the employment eligibility of newly hired noncitizens. INS expanded the pilot in 1996 to over 1,000 employers and into Florida. The budget proposes over $30 million in additional funding to correct INS data and expand verification efforts.
- *Worksite Enforcement:* In 1996, INS removed over 15,000 illegal workers from the workplace through such enforcement initiatives as Operation JOBS and SouthPAW (Protecting American Workers). Worksite enforcement is the third leg of the Administration's enforcement strategy, and INS is committed to showing both employers who knowingly violate the law as well as illegal workers that we mean business and will enforce the law. INS' efforts have focused on industries with a history of hiring illegal workers. In the past year alone, INS has targeted over 900 employers and apprehended 8,700 illegal workers, freeing up over $117 million in wages for legal workers. Since 1993, INS has removed over 30,000 illegal workers from their jobs.

Encouraging Naturalization and Citizenship: In 1995, in response to an unprecedented increase in citizenship applications, the Administration launched a major naturalization initiative—Citizenship USA. The initiative, targeted in five key cities where over 75 percent of naturalization applications came in and where a naturalization backlog was building, led to streamlined citizenship procedures and reduced applicant processing times. In 1996, over 1.2 million naturalization applicants became U.S. citizens—the highest ever. The average application process, which in the past exceeded a year, is now six months.

6. RESTORING THE AMERICAN COMMUNITY

> *We said in 1991 we would offer opportunity for all, demand responsibility from all, build a stronger American community. We said that this era requires a Government that neither attempts to solve problems for people, nor leaves them alone to fend for themselves. Instead, we envision a Government that gives people the tools to solve their own problems and make the most of their own lives . . . I intend to spend the next four years doing everything I can to help communities to help themselves, to educate all Americans about what is working, and to create, in the process, a national community of purpose.*
>
> President Clinton
> December 11, 1996

Some American communities have grown disconnected from the opportunity and prosperity of their States, their regions, their Nation, and the global economy. The polarization of communities—isolating the poor from the well-off, the unemployed from those who work, and people of one race or ethnicity from others—frays the fabric of our civic culture and depletes the strength of our economy.

The problem affects all Americans; we cannot and should not wall ourselves off from it. If we do not address the problem in our communities, connecting residents of distressed neighborhoods and rural areas to the jobs and opportunities of the regional marketplace, the Nation cannot compete and win in the global economy.

While poverty overall is down in America, the concentration of urban poverty has risen in recent decades (see Chart 6–1). From 1970 to 1990, the number of people living in areas of concentrated poverty (where over 40 percent of the residents are poor) grew from 3.8 million to 10.4 million.[1] The share of people living in our 100 largest cities who were concentrated in these extreme-poverty neighborhoods also rose—from five percent in 1970 to eight percent in 1980 to 11 percent in 1990. In such neighborhoods, social conditions are bleak.

- Over 60 percent of families with children are headed by single women, compared to under 20 percent in non-poverty neighborhoods.
- Over half of all adults have less than a high school education, compared to under 20 percent in non-poverty neighborhoods.
- Over 40 percent of working age men are not working, compared to just over 19 percent in non-poverty neighborhoods.

Poverty also remains a persistent problem in rural America. Of the 765 rural counties with poverty rates of at least 20 percent in 1990, 535 had such poverty rates in 1980, 1970, and 1960. Because they often live in remote areas, and do not live near one another, rural residents often have a hard time receiving critical services or connecting themselves to urban and suburban centers of economic activity.

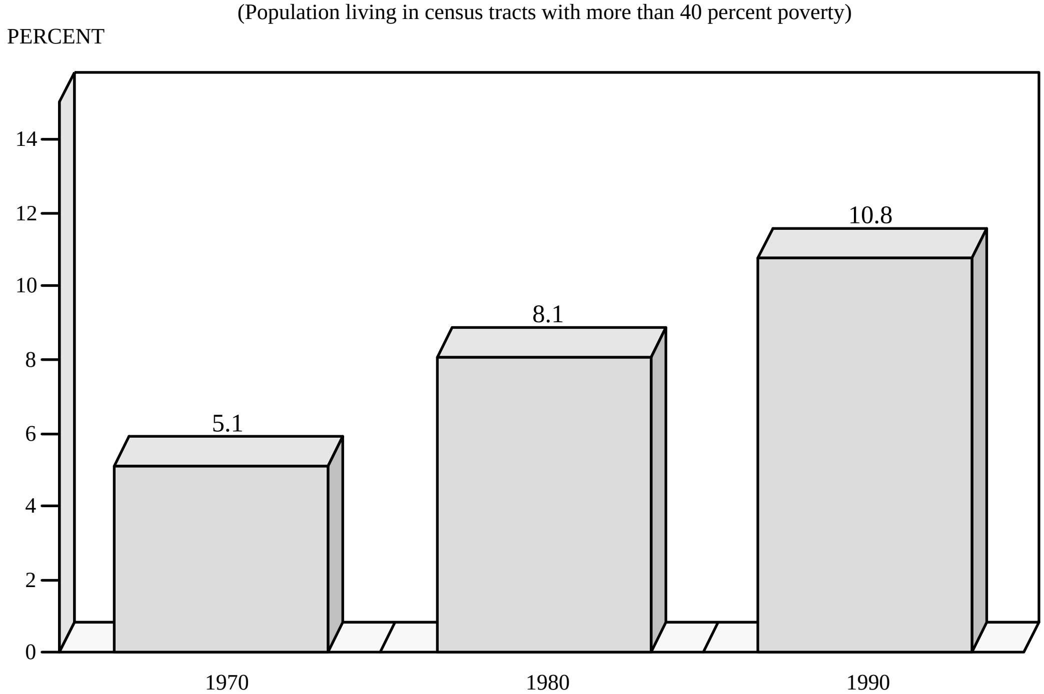
On the other hand, the 1990s have brought signs of progress—in alleviating poverty and creating opportunity both across the Nation as well as in the isolated areas in which the obstacles are so imposing. Across the Nation, poverty, welfare, and inequality are all down, while incomes and homeownership are up. In the last four years, the economy has created over 11 million jobs and record numbers of small businesses, bringing new hope and opportunity to millions of Americans.

The Administration recognizes, however, the barriers that still stand in the way of work and self-sufficiency for many poor Americans, and it proposes important steps to address them and to provide more opportunity.

[1] The President's Urban Policy Report, 1995.

Chart 6-1. CONCENTRATION OF POVERTY IN URBAN AREAS REACHED A 30-YEAR HIGH IN 1990

(Population living in census tracts with more than 40 percent poverty)



Source: U.S. Census data for 1970, 1980, and 1990, as compiled by John Kasarda, Urban Underclass Database Machine Readable Files, Social Science Research Council, New York, 1992 and 1993.

In particular, communities need help to attract the kind and amount of private investment that could spur their revitalization. Although Federal programs can provide support, solutions must come from the community. As a result, the budget proposes to create opportunities and offer incentives for individuals and businesses to participate directly in addressing local problems.

National Service

National service is rooted in the American tradition of neighbor helping neighbor to build communities, reward personal responsibility, and expand educational opportunity. The Corporation for National and Community Service, established in 1993, encourages Americans of all ages and backgrounds to engage in community-based service, addressing the Nation's educational, public safety, environmental, and other needs to achieve direct and demonstrable results. In doing so, the Corporation fosters civic responsibility, strengthens the ties that bind us together as a people, and provides educational opportunity for those who make a substantial commitment to service.

The budget proposes $809 million for the Corporation, a 31-percent increase over 1997, with the increase targeted to the President's America Reads initiative—an effort through which volunteer tutors will help children read well and independently by the third grade. Along with support from the Departments of Education and Health and Human Services, the Corporation's funding will finance 11,000 AmeriCorps tutor coordinators and logistical support to help recruit, organize, and manage an army of a million volunteers who will tutor over three million children—from kindergarten through third grade—after school, on weekends, and during the summer. Every Corporation program will participate in this effort. America Reads builds on the demonstrated success of national service in helping to solve real problems.

AmeriCorps, the Corporation's signature initiative that includes Volunteers in Service to America (VISTA) and the National Civilian

Community Corps, has proven cost-effective. Investment in AmeriCorps members returns $1.60 to $3.90 for each dollar invested, according to independent evaluations. AmeriCorps enables young Americans of all backgrounds to serve in local communities full- or part-time, generally for at least a year. In return, they earn a minimum living allowance set at about the poverty level of a single individual and, when they complete their service, they earn an education award to help pay for postsecondary education or repay student loans. About 70,000 individuals will have participated in AmeriCorps in its first three years, and the budget supports an AmeriCorps program of about 35,000 members.

Among other national service programs:

- Learn and Serve America grants help school districts and communities engage youth to serve their communities and learn citizenship. The budget proposes to fund opportunities for almost 900,000 school-age youth.
- The National Senior Service Corps engages senior citizens—an untapped resource with time, talent, and energy to meet community needs. The budget funds the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program, enabling nearly 600,000 older Americans to serve.

Corporation programs strengthen communities in several ways. AmeriCorps, for example, is run by national, State, and local organizations such as Habitat for Humanity, the Christian Children's Fund, the American Red Cross, the National Coalition of Homeless Veterans, the YMCA, and local United Ways across the country. These institutions select AmeriCorps members to work alongside the men and women already working to solve problems at the local level. AmeriCorps members provide a regular source of service that most volunteers, with their own time constraints, cannot offer. AmeriCorps members also recruit traditional, unpaid volunteers, then help organize and manage these volunteers as they perform direct service.

The Corporation operates in a decentralized fashion, working with bipartisan commissions that the Nation's governors appoint to carry out service programs. The commissions run competitions to determine what programs will participate, and States manage and oversee them. In the Learn and Serve program, State education agencies set priorities and resource allocations for service learning programs. In the National Senior Service Corps, communities define the activities that Senior Corps members will conduct.

Most important of all, national service participants are getting things done.

- In one Ohio project, nine AmeriCorps members conducted home visits with 1,449 students. As a result, school attendance increased, more students applied to college than were originally planning to, and more parents were involved in their children's education.
- In California, 12 AmeriCorps members tutored 230 students, and drop-out rates fell from 50 to 20 percent. Teachers also noted improved attention and behavior among students.
- In Olympia, Washington, three teams of retired volunteers tutored 400 students who were reading below grade levels and almost all were reading at their appropriate grade level by the end of the year.

Empowerment Zones (EZs) and Enterprise Communities (ECs)

As part of his 1993 economic program, the President proposed, and Congress enacted, the Empowerment Zones and Enterprise Communities program. Under it, communities develop a strategic plan to help spur economic development and expand opportunities for their residents, and in return they receive Federal tax benefits, social service grants, and more flexibility in how they use Federal funds.

EZs and ECs are parts of urban or rural areas with high unemployment and high poverty rates. For EZs, the Federal Government provides tax benefits for businesses that set up shop, and grants to community groups for job training, day care, and other purposes. For ECs, the Government provides grants to community groups for the same array of purposes. Both EZs and ECs can apply for waivers from Federal regulations, enabling them to better address their local needs.

The 1994 competition for the first round of EZ and EC designations generated over 500 applications and created new local partnerships for community revitalization—even in communities that were not chosen. The 105 selected communities made well over $8 billion in private-public commitments (aside from the promised Federal resources). In the six urban EZs, the private sector has made or committed over $2 billion in new investment, bringing greater economic opportunity to those cities. One of the six, Detroit, has announced over 21 private developments in its zone, with one linen and supply manufacturer announcing a $5.5 million expansion over the next two years that will create over 100 jobs for zone residents.

But many communities that were not designated as EZs or ECs lack the seed capital to begin their revitalization efforts. Thus, in last year's budget, the President proposed a second round of EZs/ECs to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. Because Congress did not act on the proposal, this budget again proposes a second round of EZs/ECs.

The second round would again challenge communities to develop their own comprehensive, strategic plans for revitalization, with input from residents and a wide array of community partners. The Administration would invest in communities that develop the most innovative plans and secure significant local commitments. The second round would build on the President's "brownfields" tax incentive, which would encourage businesses to clean up abandoned, contaminated industrial properties in distressed communities. This round would also offer a competitive application process that would stimulate the public-private partnerships needed for large-scale job creation, business opportunities, and job connections for families in distressed communities. (For more information on the brownfields program, see Chapter 3.)

The Administration proposes to seek 100 new designations, with communities receiving a combination of tax incentives, direct grants, and priority consideration for funds from Federal economic development programs and for waivers of Federal requirements from the President's Community Empowerment Board, chaired by Vice President Gore.

Community Development Financial Institutions (CDFIs)

Proposed by the President in 1993 and created a year later, the CDFI Fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse set of CDFIs, the Fund will help develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents.

CDFIs provide a wide range of financial products and services, such as mortgage financing to first-time home buyers, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and basic financial services. CDFIs also include a broad range of institutions—e.g., community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. These institutions, not the CDFI Fund, decide which individual projects to finance.

The budget proposes $125 million for the CDFI Fund, $75 million more than in 1997, and gradual increases each year to bring the five-year total to $1 billion by 2002. Private sector interest in the program has dramatically exceeded expectations. In 1996, the CDFI Fund received requests for $300 million in assistance—about 10 times what was available for the first round—from 270 new and existing CDFIs. Of these applicants, the CDFI Fund selected 32 institutions, serving 46 states and the District of Columbia, to receive $37.2 million in financial and technical assistance. In addition, the Fund awarded $13 million to 38 traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs.

Additional resources would enable the Fund to implement a new initiative to support private institutions that provide secondary markets for CDFIs, leveraging public resources with private capital. This initiative would increase the resources to provide incentives, through the Bank Enterprise Award program, for traditional banks to expand their community development lending and support local CDFIs. The funds also would substantially enhance the CDFIs' capacity to take advantage of coordinated, multi-faceted community development efforts, such as EZs and ECs.

A similar program at the Department of Housing and Urban Development (HUD), the Community Empowerment Banking Initiative, also helps economically distressed neighborhoods establish financial institutions. Through a competitive process, the cities of Washington and Baltimore, and a six-county area in rural Mississippi, received funding for empowerment banks in 1997. These recipients will use $20 million as seed money and try to leverage much larger investments from conventional banks, foundations, non-profit groups, investors, and residents. Area residents and businesses will have controlling interest in the banks by purchasing affordably priced stock.

Finally, the budget proposed $100 million in non-refundable tax credits that the CDFI Fund would allocate among equity investors in community development banks and venture capital funds. Investors could take the credit—up to 25 percent of their investments—in the year they invest. This initiative should help leverage over $1 billion of private investment in distressed urban and rural communities.

Federal Relationship With Communities

The Administration has worked to give communities the flexible tools they need to develop affordable housing and revitalize their economies.

Hoping to reverse a decline in the rate of homeownership, for instance, the Administration in 1994 entered into an unprecedented partnership with 58 key public and private sector organizations to form a National Homeownership Strategy.

The partners are reducing the barriers to homeownership by lowering mortgage closing costs and down payment requirements; by simplifying the process of financing home purchases and repairs; and by opening markets for women, minorities, central-city homebuyers, and others traditionally locked out of the conventional lending markets. Coupled with a stable economy and low interest rates, this initiative has helped the Nation reach an all-time high national homeownership rate. The rate is now 65.6 percent—its highest level in nearly 16 years—and 4.4 million Americans have become homeowners in the last four years, including record numbers of minorities.

For housing programs in general, HUD has focused on initiatives that "build from the ground up"—giving communities the power and responsibility to assess their housing and economic development needs, and to tailor their responses accordingly. HUD has paid particular attention to streamlining and simplifying Federal requirements in exchange for demanding a higher level of performance.

In addition, the Administration has worked closely with Congress to advance the most profound changes to public housing in over a generation. This effort reflects HUD's four-part transformation agenda:

- Replace the most dilapidated, distressed developments with smaller-scale, affordable housing and portable housing vouchers;
- Restore management excellence to housing agencies that are systematically troubled;
- Provide incentives for tenants to become self sufficient by rewarding work, and connecting them to educational and employment opportunities; and
- Place conditions on public housing residency through tougher occupancy and eviction rules.

The budget builds on the progress to date by supporting efforts to demolish 54,000 of the worst public housing units in the next three years and, rather than operate or modernize those units, provide portable subsidies to residents and construct a limited amount of mixed-income housing. Portable subsidies, now held by nearly 1.5 million households, give recipients a greater range of housing and neighborhood choices, reducing the isolation of poor families and the concentration of poverty (see Chart 6–2).

But, because their needs can be so different, no single approach will help both urban and rural communities. Nor, in fact, will any single approach help all rural areas. The Administration had proposed giving States, localities, and Tribes more flexibility in how they use the community and economic development assistance they receive from the Agriculture Department (USDA). In last year's Farm Bill, Congress adopted the proposal as part of the new Rural Community Advancement Program (RCAP), thus combining 12 separate USDA programs into Performance Partnerships in which the Federal Government provides more flexibility in exchange for requiring more accountability for how the money is spent. The budget proposes $689 million for the RCAP, which also would give States block grants for rural community and economic development.

Government-to-Government Commitment to Native Americans

The Administration continues to strengthen the Government-to-government relationship with Native Americans.

In the past year, the Administration proposed steps to advance and protect Tribal interests; negotiated an historic settlement to the century-old land dispute between Navajos and Hopis; and fought attempts to cut Tribal funding and undermine Tribal sovereignty. For 1998, the budget proposes $6.5 billion, six percent more than in 1997, for Government-wide programs that address basic Tribal needs and encourage self-determination (see Table 6–1).

Chart 6-2. HOUSING VOUCHER RECIPIENTS ARE LESS LIKELY TO LIVE IN HIGH POVERTY NEIGHBORHOODS THAN ARE RESIDENTS OF PUBLIC HOUSING

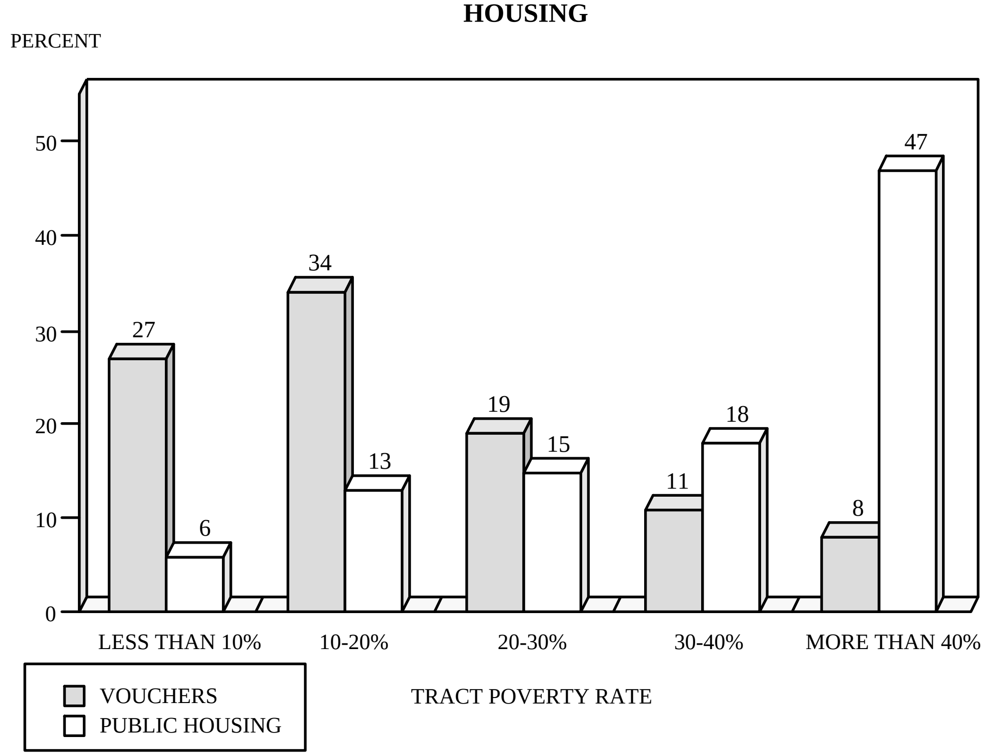


Table 6–1. GOVERNMENT-WIDE NATIVE AMERICAN PROGRAM FUNDING

(Budget authority, dollar amounts in millions)

	1993 Actual	1997 Estimate	1998 Proposed	Percent Change: 1993 to 1997	Percent Change: 1997 to 1998
BIA	1,647	1,607	1,732	–2%	+8%
IHS [1]	2,022	2,342	2,412	+16%	+3%
Subtotal, BIA/IHS	3,669	3,949	4,144	+8%	+5%
All other	1,833	2,138	2,309	+17%	+8%
Total	**5,502**	**6,087**	**6,453**	**+11%**	**+6%**

[1] IHS program level includes both budget authority and Medicaid, Medicare, and private insurance collections.

The Interior Department's (DOI) Bureau of Indian Affairs (BIA) and the Health and Human Services Department's Indian Health Service (IHS) comprise two-thirds of Federal funding for Native American programs. For the BIA, the budget proposes $1.7 billion, eight percent more than in 1997, to help improve the living conditions on reservations, promote Tribal self-sufficiency, and continue to meet the Federal trust responsibility to Native Americans. Over 90 percent of BIA operations funding goes for basic, high-priority reservation-level programs such as education, social services, law enforcement, housing improvement, and natural resource management.

The budget also would enable DOI's Office of Special Trustee to continue to improve the management of Indian trust funds. In December 1996, DOI sent a report to Congress that outlined legislative settlement options for resolving disputed balances in Tribal trust accounts. For any settlement, the Administration is determined to achieve fairness and justice with respect to these accounts. DOI will continue consulting with Tribes on settlement options and submit a follow-up report to Congress this Spring.

For the IHS—whose clinical services are often the only source of medical care available on remote reservation lands—the budget proposes $2.4 billion, three percent more than in 1997. Along with higher funding, IHS and the Health Care Financing Administration have worked together to enhance IHS' ability to receive Medicare and Medicaid reimbursements, thus helping to ensure that IHS facilities provide quality medical care. The budget also allows Tribes to continue taking greater responsibility for managing their own hospitals. And the budget invests in construction to replace two antiquated IHS facilities—Ft. Defiance on the Navajo reservation and Keams Canyon on the Hopi reservation—thereby helping IHS provide high-quality medical services to Native Americans.

BIA and IHS will continue to promote Tribal self-determination through local decision-making. Tribal contracting and self-governance compacting now represent half of the BIA operations budget, and over a third of the IHS budget. Self-governance compact agreements, which give Tribes greater flexibility to administer Federal programs on reservations, will likely grow in number to over 70 in BIA in 1998, a 40-percent increase from 1997, and to over 35 in IHS.

Finally, the Administration continues to stress the spirit of consultation and recognition of the unique status of Native Americans. In August 1996, Tribal leaders attended the second annual White House meeting—marking the anniversary of President Clinton's historic April 1994 meeting with over 300 Tribal leaders. At last year's meeting, the First Lady and three Cabinet officials highlighted progress on improving Government-to-government relations with Tribes and assisting the Native American community. In addition, the Administration unveiled a number of initiatives to improve Federal programs for Tribes.

The District of Columbia

The Nation's capital, which should serve as a symbol of pride to all Americans, has fallen on hard times. It faces not only serious budget problems, but even serious obstacles to providing the most basic services to its residents.

But no simple solution will do. For as the President said recently, the District of Columbia suffers from the "not quite" syndrome—"not quite a State, not quite a city, not quite independent, not quite dependent." In managing its resources and performing public functions, the District is not like other cities, which receive assistance from their States. In fact, the District has broad responsibilities for what are, elsewhere in the Nation, separate State, county, and local functions. And while Congress has voted to give the city a lump sum annual payment in recent years, it has kept the payment basically flat while imposing strict limits on the District's budget and taxing powers.

Clearly, the current structure does not work. The Administration proposes to significantly re-order the relationship between the Federal and city governments in order to revitalize the Nation's capital and to improve self-government within the District. Specifically, the Administration proposes a three-part strategy to improve the city's financial, managerial, and economic resources.

First, the Federal Government would directly assume certain public functions in which it has a clear interest:

- *Pensions:* The Federal Government would take over the District's pension plans for law enforcement officers and firefighters, teachers, and judges, thus resuming responsibility for the unfunded pension liability that it transferred to the District in 1979. The District would transfer to the Federal Government (or its designee) $3.3 billion in associated pension assets, leaving the Federal Government to assume the $4.3 billion unfunded liability. The District would establish new plans for its current and future employees.
- *Criminal justice:* The Federal Government would provide full funding for the District's Court System (which would remain self-managed), take over the District's Lorton prison facility and its currently sentenced felons, and assume responsibility for incarcerating District felons in the future who are sentenced in accordance with Federal standards.
- *Medicaid:* The Federal Government would assume the roles normally played by the Federal and State governments under this Federal-State program, paying 70 percent of Medicaid spending in the District (compared to the current 50 percent share).

In exchange, the Federal Government would end the Federal payment to the District, which most recently was $712 million. The Federal Government, however, would agree to this exchange of responsibilities only if the District took specific steps to improve its management and performance. The Administration, the Mayor, the City Council, and the District of Columbia Financial Assistance Authority would enter a Memorandum of Understanding, setting forth the District's obligations to meet specific criteria.

Second, the Federal Government would establish the National Capital Infrastructure Fund (NCIF), and would provide seed money from the Federal Highway Trust Fund to fund it. The NCIF would fund transportation infrastructure projects in the District to benefit residents and commuters alike—including the construction of local roads, bridges, and transit facilities.

Third, the Federal Government would create an economic development corporation (EDC) to provide grants and tax incentives for economic development. The EDC would craft a strategic economic development plan for the District, and recommend how to use various financial incentives that the Federal Government would provide. It would build local economic markets, develop strategies to link District residents to newly-created jobs, and help the District foster regional economic strategies.

And fourth, Federal departments and agencies would give the District more intensive technical assistance in education and training, housing, transportation, health care, and procurement, in order to contribute more to the District's success. For instance, the Internal Revenue Service would assume responsibility to collect the District's individual income and payroll taxes. This fourth step would build on the Administration's activities through the President's inter-agency Task Force on the District of Columbia.

The President's plan for the District of Columbia reflects his overall goals for the Nation. It would increase *opportunity* for District residents, demand *responsibility* from the District government, and build a strong *community* in the Nation's capital that all Americans can look to with pride.

7. IMPLEMENTING WELFARE REFORM

> *... [W]e have an historic opportunity to make welfare what it was meant to be—a second chance, not a way of life. And even though the bill has serious flaws that are unrelated to welfare reform, I believe we have a duty to seize the opportunity it gives us to end welfare as we know it.*
>
> President Clinton
> July 31, 1996

Not long ago, America's welfare system was broken. It did not serve the taxpayers or those trapped in it. And it undermined the values of work and family.

The President made welfare reform a key goal of his first term—reform that would promote the basic goals of work, family, and responsibility. When Congress twice sent him welfare legislation that did not meet those goals, he was forced to veto the bills. When, however, Congress finally produced a bill that did meet the basic goals, the President signed it into law on August 22, 1996 as the Personal Responsibility and Work Opportunity Reconciliation Act.

During the many months that Congress worked to devise a good bill, the President acted on his own. He helped States advance the goals of welfare reform by letting them test innovative ways to move people from welfare to work and to protect children. The Administration's actions, combined with the falling unemployment rate that a strong economy has generated, are having an impact. Since the President took office, welfare caseloads have fallen by 2.1 million persons—the biggest such drop in history (see Chart 7–1).

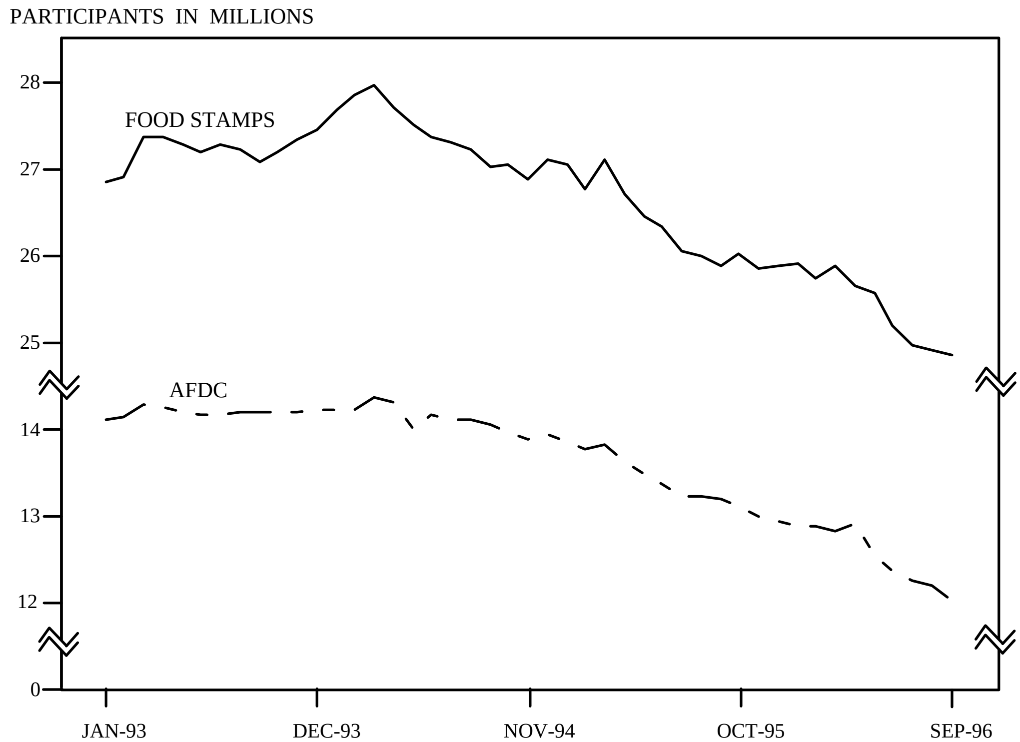
The Administration is determined to help States make the most of this historic welfare reform revolution, and to hold them accountable for results. The new law gives States and individuals unprecedented opportunities to build a new system that rewards work, invests in people, and demands responsibility. Unfortunately, the law also included overly deep budget cuts—primarily affecting nutrition programs, legal immigrants, and children—that are unrelated to reforming welfare. With this budget, the President provides $18 billion over five years to address these problems. In the meantime, the essential long-term task of building the new work-based system is underway in every State.

The new welfare law has laid the groundwork for moving those who can work to independence by focusing on tough, but realistic, work requirements. The law repealed Aid to Families with Dependent Children (AFDC), a 60-year-old, joint Federal-State program, and created the time-limited, work-oriented Temporary Assistance for Needy Families (TANF) program. States must now implement the new law by tailoring a reform plan that works for their communities. The plans must require and reward work, impose time limits, increase child care payments, and demand personal responsibility. By mid-December 1996, the Federal Government already had certified 21 State plans as complete.

To better enable welfare recipients to move off, and stay off, welfare, the new law provides additional resources for child care and Medicaid—the health insurance program for low-income Americans. It ensures that low-income people do not lose Medicaid as a result of changes to AFDC and extends the transitional Medicaid program that provides health insurance coverage for those leaving welfare for work.

Finally, the law gives States vast flexibility to design welfare programs suitable to their own needs and circumstances, but it also holds States accountable for making welfare reform a success. The law requires a sustained State financial contribution, but also recog-

Chart 7-1. WELFARE ROLLS DECLINED AS THE ECONOMY IMPROVED AND AS STATES EXPERIMENTED WITH WELFARE INNOVATIONS



nizes that State welfare systems need an incentive to focus on the central goal of moving people from welfare to work. Consequently, the law provides $800 million in performance bonuses by the year 2002 to reward States that best achieve that goal.

Moving From Welfare to Work

To help welfare recipients move from welfare to work, and to help communities help them do so, the President proposes two new initiatives:

- a performance-based Welfare-To-Work Jobs Challenge to help States and cities create job opportunities for the hardest-to-employ welfare recipients; and
- a greatly-enhanced and targeted Work Opportunity Tax Credit (WOTC) to provide powerful new, private-sector financial incentives to create jobs for long-term welfare recipients.

Welfare-to-Work Jobs Challenge: The Jobs Challenge is designed to help States and cities move a million of the hardest-to-employ welfare recipients into lasting jobs by the year 2000. It provides $3 billion in mandatory funding for job placement and job creation. States and cities can use these funds to provide subsidies and other incentives to private business. The Federal Government also will encourage States and cities to use voucher-like arrangements to empower individuals with the tools and choices to help them get jobs and keep them.

Work Opportunity Tax Credit: For States and cities, TANF and the Jobs Challenge provide new resources to create jobs and prepare individuals for them. For employers, the budget proposes incentives to create new job opportunities for long-term welfare recipients. The budget would first create a much-enhanced credit that focuses on those who most need help—long-term welfare recipients. The new credit would let employers claim a 50-percent credit on the first $10,000 a year of wages, for up to two years, for workers they hire who were long-term welfare recipients. In addition, the budget expands the existing WOTC tax credit by including able-bodied childless adults aged 18 to 50 who, under the Administration's Food Stamp proposal, would face a more rigorous work requirement in order to continue receiving Food Stamps. These changes to the credit would cost $552 million from 1998 to 2002.

Additional Support: The budget also proposes additional support to help move people from welfare to work.

- *Transportation:* The budget proposes to expand programs that will transport thousands of welfare recipients to jobs and training. It provides $100 million for a new Access to Jobs and Training initiative in the Transportation Department. The Administration also will propose legislation to offer grants to States and local entities for new or modified transportation services that ensure access to work for low-income individuals, especially current welfare recipients.

- *Housing:* The budget proposes $10 million to expand the Department of Housing and Urban Development's (HUD) Bridges-to-Work demonstration project, which links low-income people in central cities to job opportunities in surrounding suburbs. In addition, HUD will award new portable rental assistance to localities that link their housing assistance with their efforts to move welfare recipients to work.

- *Adult Education:* The budget proposes to increase funding by more than 50 percent over the 1996 level for basic skill, high school equivalency, and English classes for disadvantaged adults—helping to meet demands for literacy training stimulated by last year's welfare and immigration reforms.

- *Community Development:* The budget also proposes to expand the Community Development Financial Institutions Fund, thereby expanding the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. (For more information about the Fund, see Chapter 6.)

Helping To Make Work Pay

Earned Income Tax Credit (EITC): As an important component of helping people move from welfare to work, the Federal Government can help ensure that those who work can support their children. The EITC, a 20-year-old Federal program, supplements earnings to meet this goal. In 1993, the President proposed, and Congress enacted, legislation to substantially expand the EITC, helping 40 million Americans in 15 million lower-income working families (see Chart 7–2). The welfare law maintains these gains for hard-working, low-income families.

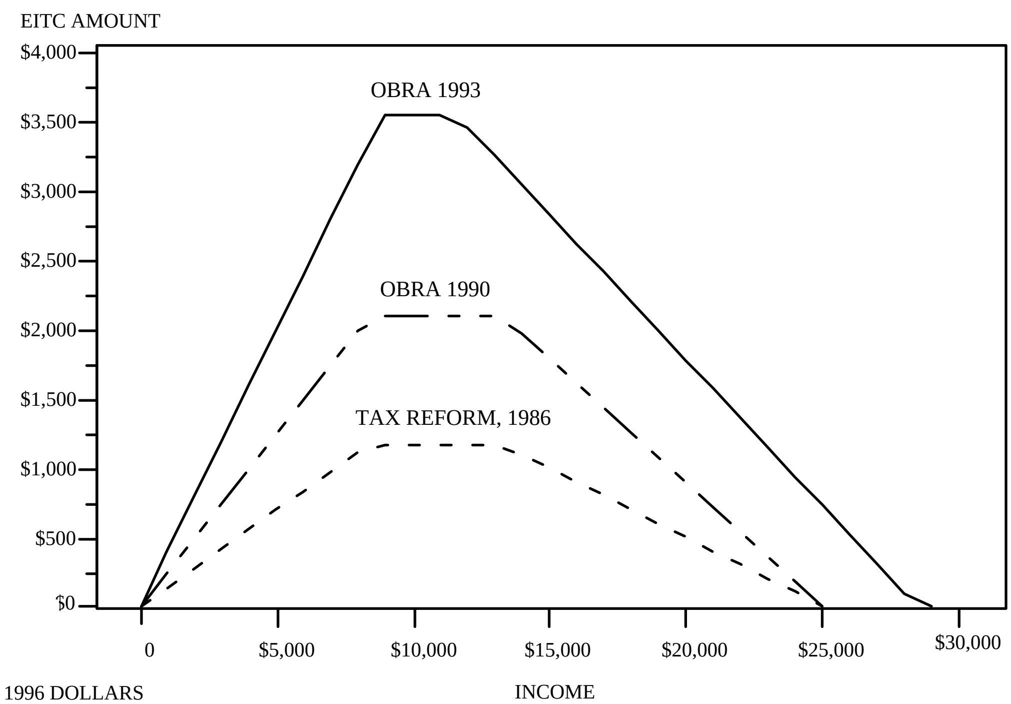
Minimum Wage: President Clinton consistently supported an increase in the minimum wage for all low-wage earners. Before he took office, the last increase came in 1991. Due to inflation, the minimum wage shrank in value by 13 percent from 1991 to 1996. As a result, Congress responded to the President's request last year by raising the minimum wage from $4.25 to $5.15 an hour over two years—in two steps. The first step of 50 cents went into effect in October 1996; the second step of 40 cents will occur in October 1997.

This 90-cent rise means over $1,800 a year in higher earnings for full-time, full-year minimum wage workers, who previously earned less than $9,000 a year. By October 1997, nearly 10 million working Americans will have received an immediate pay raise. Millions of other low-wage workers making slightly more than the new minimum also may benefit if employers raise their paychecks in step with the minimum wage increase—as employers have done in the past.

Protecting the Most Vulnerable

Several provisions in last year's Personal Responsibility and Work Opportunity Act have nothing to do with the goals of welfare reform—moving people from welfare to work. Rather, they were misguided cuts in Federal support to vulnerable populations, including the elderly, children, and people with disabilities. To address them, the President proposes to better protect children, people with disabil-

CHART 7-2. 1993 EXPANSION OF THE EITC HELPS 15 MILLION LOWER-INCOME WORKING FAMILIES



ities, legal immigrants, and those who try to find work but cannot.

Nutrition Safety Net: Throughout its negotiations with Congress over welfare reform, the Administration insisted on maintaining the nutritional safety net because it provides an essential tool to enable lower-income families and individuals to buy food and obtain nutritious meals for their school-age children. Due to the Administration's efforts, Food Stamps remains the most extensive Federal safety net program for low-income individuals and families.

Throughout their history, the Agriculture Department's Food Stamp and Child Nutrition programs have produced significant, measurable benefits in the nutrition of children and families. Food Stamps reach almost one in 10 Americans every month—including over 12 million children and two million elderly. In addition, about 26 million children receive subsidized nutritious lunches each school day. Another 2.5 million children a day receive nutritious subsidized meals in child care settings.

As the President stated clearly last summer, Congress cut Food Stamps too deeply. Many of these cuts have nothing to do with moving people from welfare to work—they affect working families with children, the elderly, and people with disabilities.

The deep cuts disproportionately affect those with high housing costs, especially families with children. With these cuts, families will see their real benefits erode over time as living costs rise, forcing them to choose between paying the rent and eating. The President proposes to ameliorate these cuts by restoring the link between benefits for such families and housing costs. He also proposes to raise the vehicle asset limit for Food Stamp program participants so that benefits do not fall when working families and others secure a means to get to work.

To achieve savings, the new law also limited Food Stamps for able-bodied childless adults to three months of assistance in a 36-month period. This time limit does not reflect the reality that most Food Stamp recipients face—that *finding work takes time.* Nearly 60 percent of all new participants in the Food Stamp program leave within six months. Only 13 percent of the childless adults entering the program still receive benefits after 18 months. Once they leave, most childless adults do not return. The President proposes to limit Food Stamps to six months out of 12, a policy that would encourage work while giving those out of work the transitory help they need to get back on their feet.

The time limit also punishes those who want to work, *but who cannot find a job at all.* The budget proposes to restore Food Stamps for those who are looking for work but cannot find it and for whom the State does not provide workfare or a training opportunity. The President proposes to make Food Stamp work requirements real by giving States new funding to support nearly 400,000 more work slots from 1998 to 2002, and by adding tough new sanctions for those who are offered jobs by the State but refuse to accept them. In addition, the budget would allow States, at their option, to provide funds with which employers would supplement the wages of childless adult recipients.

Equity in Benefits for Legal Immigrants: By specifically cutting benefits to low-income legal immigrants as a source of savings, the new law affected legal immigrants—many of them children, elderly, and people with disabilities—more adversely than any other group. The law denies most legal immigrants access to fundamental safety net programs unless they become citizens—even though they are in the United States legally and are making every effort to become productive members of society. Many legal immigrants may face unforeseen problems before they can naturalize. Nevertheless, the bill punishes those who have worked, but who no longer can through no fault of their own. It makes short-sighted cuts by barring cash and medical assistance to immigrant children with disabilities. Finally, it places significant new administrative burdens on State and local service providers.

The President believes that legal immigrants should have the same opportunity, and bear the same responsibility, as other members of society. Thus, the budget proposes to revise the law so that legal immigrants who become disabled after entering our country can get the basic assistance offered by Supplemental Security Income (SSI)—as well as by Medicaid. The Nation should protect legal immigrants and their families—people admitted as permanent members of the American community—when they suffer accidents or crippling illnesses that prevent them from earning a living. Similarly, the Nation should provide Medicaid to legal immigrant children if their family is impoverished. The Administration also proposes to delay the ban on Food Stamps for legal immigrants until the end of September 1997 in order to give immigrants more time to naturalize.

Finally, the budget would lengthen, from five to seven years, the exemption to the ban against refugees and asylees receiving Federal benefits. The Nation admits refugees and asylees on a humanitarian basis, and we should be sensitive to their special needs. Many refugees and asylees may need more time to naturalize than the law allows.

Supplemental Security Income: The SSI program provides critical financial support to the needy who are elderly, are blind, or who have disabilities. The new law was designed to target disability benefits to needy children with the most severe limitations by changing the general definition of childhood disability. The Administration and Congress agree that most children now receiving disability benefits deserve them. In implementing the law through regulation, the Social Security Administration will closely monitor its impact to ensure that children with the most severe disabilities retain eligibility. In addition, the President will propose legislation to allow disabled children now receiving Medicaid to retain their coverage if they lose their SSI eligibility due to changes in the definition of childhood disability.

The Ongoing Challenge of Improving Welfare: The Administration is committed to working with Congress and the States to implement welfare reform effectively. Implementation will be both challenging and exciting.

If the Administration discovers significant impediments to successful welfare reform, such as inadequate funding for States during recessions, we will work with Congress to address them.

Promoting Security and Stability for Children

The Administration proposes a new initiative to move children more quickly from foster care to safe, permanent homes—with the goal of doubling, by the year 2002, the number of children adopted or permanently placed. It would provide incentives to States for increasing adoption while stressing permanent placement and the safety of children.

8. PROMOTING TAX FAIRNESS

> *We should cut taxes for the family sending a child to college, for the worker returning to college, for the family saving to buy a home or for long-term health care, and [provide] a $500 per-child credit for middle-income families raising their children . . . . That is the right way to cut taxes—pro-family, pro-education, pro-economic growth.*
>
> President Clinton
> August 29, 1996

The President proposes a tax plan that would promote a fairer tax system and encourage activities that contribute to economic growth—in short, a plan focused on fairness and America's future.

The plan calls for tax cuts that would benefit middle-class families with children, encourage investment in higher education, and promote long-term saving. It would benefit millions of homeowners by ensuring that over 99 percent of home sales are exempt from capital gains taxes. It would provide incentives for employers to hire economically disadvantaged Americans, so they would benefit from wages rather than welfare. It would provide targeted relief to promote economic development and environmental cleanup in distressed areas. It would give estate tax relief to small businesses and farmers. And it would make the tax system more equitable for people with disabilities who are seeking refunds.

The proposal is also fiscally responsible. The budget fully offsets the costs of these tax cuts by making cuts in spending and in unnecessary corporate subsidies and other unwarranted tax breaks.

This chapter provides an overview of the President's tax plan. (See Table 8–1 for a summary of the plan.) Chapter 3 of *Analytical Perspectives* provides further details.

The Middle-Class Tax Cut

The President has long considered tax cuts for middle-income Americans and small businesses a top priority. In 1993, he worked with Congress to cut taxes for 15 million working families by expanding the Earned Income Tax Credit (EITC), and to help small business by increasing "expensing"[1] of investment and capital gains incentives. A year later, he proposed his Middle Class Bill of Rights, including child tax credits, deductions for higher education, and expanded Individual Retirement Accounts. Then in 1996, he signed into law a number of other tax benefits for small businesses and their employees—including even more expensing for small-business investments, greater deductibility of health insurance premiums for the self-employed, and expanded and simplified opportunities for retirement savings. Also in 1996, the President signed into law a $5,000 tax credit for adoption expenses ($6,000 for adopting children with special needs) and higher limits for tax-deductible contributions by spouses to Individual Retirement Accounts.

This year, the budget again proposes the President's Middle Class Bill of Rights. It would immediately and significantly benefit families with young children, encourage investment in post-secondary education and training, and promote long-term saving. This year's tax plan also goes further—it includes more tax incentives and relief with regard to education and training, work opportunities, capital gains on home sales, and the legal limits faced by people with disabilities who seek tax refunds.

Tax Credit for Dependent Children: The budget proposes an income tax credit for each dependent child under age 13, as the President first proposed in 1994. The credit would bene-

[1] That is, up-front deductions.

Table 8–1. THE PRESIDENT'S TAX PLAN
(In billions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total, 1998–2002
Provide tax relief:							
Middle Class Bill of Rights:							
Tax credit for dependent children	–0.7	–9.9	–6.8	–8.6	–10.4	–10.4	–46.0
Expand individual retirement accounts	....	–1.5	–0.5	–0.8	–1.2	–1.7	–5.5
Incentives for education and training	–0.1	–4.0	–6.2	–7.8	–8.6	–9.4	–36.1
Subtotal, Middle Class Bill of Rights	**–0.8**	**–15.4**	**–13.5**	**–17.2**	**–20.2**	**–21.4**	**–87.6**
Additional targeted tax relief:							
Capital gains exclusion on sale of principal residence	–0.1	–0.3	–0.3	–0.3	–0.3	–0.2	–1.4
Extend the work opportunity tax credit for one year	....	–0.1	–0.2	–0.1	–*	–*	–0.4
Targeted welfare-to-work tax credit	....	–0.1	–0.1	–0.2	–0.1	–0.1	–0.6
Tax incentives for distressed areas	–*	–0.4	–0.5	–0.5	–0.5	–0.4	–2.3
Tax credit for investment in community development institutions and venture capital funds	....	–*	–*	–*	–*	–*	–*
Extend the R&E tax credit for one year	–0.4	–0.8	–0.5	–0.2	–0.1	–*	–1.7
Extend the orphan drug credit for one year	–*	–*	–*	–*	–*	–*	–*
Extend the income exclusion for employer-provided educational assistance through 2000	–0.1	–0.6	–0.7	–0.8	–0.2	....	–2.3
Extend and modify credit for corporations in U.S. possessions	....	–*	–0.1	–0.1	–0.1	–0.1	–0.4
District of Columbia tax incentive	....	–*	–*	–0.1	–0.1	–0.1	–0.3
Estate tax relief for small business	....	–*	–0.2	–0.2	–0.2	–0.2	–0.7
Equitable tolling	....	....	....	....	–*	–*	–0.1
Tax benefits to Foreign Sales Corporations for software licenses	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–0.6
Extend the deduction for contributions of appreciated stock to private foundations for one year	....	–*	–*	....	....	....	–0.1
Total, Provide tax relief	**–1.4**	**–17.9**	**–16.2**	**–19.6**	**–21.9**	**–22.8**	**–98.4**
Eliminate unwarranted benefits	**0.6**	**4.1**	**6.3**	**7.3**	**7.6**	**8.9**	**34.3**
Other changes affecting receipts	....	**1.0**	**1.1**	**1.1**	**1.2**	**1.1**	**5.5**
Extension of expired excise tax provisions	**2.4**	**5.8**	**7.5**	**7.5**	**7.7**	**7.8**	**36.2**
Total proposals	**1.6**	**–7.0**	**–1.4**	**–3.7**	**–5.5**	**–4.9**	**–22.4**

*Less than $50 million.

fit about 18 million families with 34 million dependent children. It would be phased in, starting at $300 per child in tax years 1997 through 1999, and rising to $500 in 2000 and beyond. It would be phased out for taxpayers with adjusted gross incomes between $60,000 and $75,000. Starting in the year 2001, the credit and the phase-out range would be indexed for inflation. The credit would be nonrefundable, but working families would first deduct the child credit from their income taxes before deducting the refundable EITC—making it easier for them to get the benefit of both credits.

This tax cut would benefit middle-income families; they have not enjoyed large gains in their incomes over the past 25 years. For a two-parent, two-child family with $50,000 of income and $12,500 of itemized deductions, the credit would cut taxes by 25 percent when fully in place in 2000. In total, the credit would lower families' taxes by $46 billion from 1998 to 2002.

HOPE Scholarships and the Education and Job Training Tax Deduction: The President believes that the tax system should better encourage investment in college education and job training. Therefore, the budget proposes:

- HOPE scholarships, which are tuition tax credits of up to $1,500 per year, available for the first two years of post-secondary education. To receive the credit in the second year, the student must maintain at least a B average. The $1,500 amount (for each of two years) is a per student cap.[2] HOPE scholarships are modeled after a successful program in Georgia.
- The education and job training deduction, which would be available to families for tuition and fees for any college, graduate school, or qualified lifelong learning program. The deduction, which the President first proposed in 1994, would phase up from an annual cap of $5,000 per family in 1997 and 1998 to $10,000 in 1999 and beyond. It would cover tuition at any education or training program that is at least half-time or related to a worker's career. Students who use the HOPE scholarships in their first two years of schooling could claim the tax deduction in their remaining years of qualified education or training (although families could not claim both the credit and the deduction for the same student at the same time).

Both the credit and the deduction would be phased out for joint filers with incomes between $80,000 and $100,000. For single filers, the benefits would phase out between $50,000 and $70,000. From 1998 through 2002, these two provisions would save taxpayers $36.1 billion.

Expanded Individual Retirement Accounts (IRAs): The budget also repeats another proposal from 1994—to expand IRAs to provide greater incentives for long-term savings for retirement and other important purposes. Currently, for taxpayers who participate in employer-sponsored retirement plans and file joint returns, the tax code phases out the availability of deductible IRAs between $40,000 and $50,000 of adjusted gross income. The President's plan would double this range over time, to $80,000 and $100,000, and double the range for single taxpayers to between $50,000 and $70,000. The plan also would index for inflation both of these limits and the current maximum contribution of $2,000.

In addition, the budget proposes that eligible taxpayers be able to contribute to a "Special IRA" as an alternative to a deductible IRA. Contributions to Special IRAs would not be tax deductible, but distributions of the contributions would be tax-free. If contributors kept their funds in the account for at least five years, earnings on the contributions would be available tax-free, too. Many taxpayers would be eligible to convert deductible IRAs to Special IRAs. Also, contributors to both types of IRAs could, under this proposal, withdraw funds without penalty at any time to pay for higher education, first-time home purchases, or expenses during a long period of unemployment.

The greater availability of IRAs would enable many two-earner families to cut their taxes by up to $1,120 a year, if they make the maximum allowable IRA contributions. From 1998 to 2002, it would cut taxes by an estimated $5.5 billion.

Additional Targeted Tax Incentives and Relief

Targeted Homeownership Tax Cut: The budget proposes to allow married taxpayers to exclude from capital gains taxes up to $500,000 in gains from selling a home; single taxpayers could exclude up to $250,000. The exclusion would replace both the one-time exclusion of $125,000, now available for taxpayers over age 55, and the deferral of capital gains, now available when purchasing a more expensive home.

This change would exempt over 99 percent of home sales from capital gains taxes, and dramatically simplify taxes and record-keeping for over 60 million homeowners. It would benefit, in particular, older Americans moving to smaller homes and families moving to lower-cost areas. Taxpayers could use the exclusion every two years.

Work Opportunity Tax Credit: The President wants to replace welfare with work, and to promote the hiring of the economically disadvantaged. The President and Congress last year enacted the Work Opportunity Tax Credit

[2] The budget also would increase Pell Grant college scholarships for low-income families who lack the tax liability to benefit from the tax cuts.

(WOTC) to replace the Targeted Jobs Tax Credit. Employers can claim a tax credit of 35 percent of the first $6,000 that they pay to members of target groups during their first year of employment.

In August, the President also unveiled a Welfare-to-Work initiative, with two proposals that would build on the WOTC:

- A new Welfare-to-Work Credit, targeted to long-term welfare recipients. It would let employers claim a 50-percent credit on the first $10,000 of annual wages that they pay to long-term welfare recipients for up to two years. It would treat education and training, health care, and dependent care benefits as wages eligible for the credit.
- An expansion of the WOTC to include able-bodied childless adults aged 18 to 50 who, under the Administration's Food Stamp proposal, would face a more rigorous work requirement in order to continue receiving Food Stamps.

Tax Incentives to Boost Investment in Distressed Areas: The budget proposes a three-part strategy to increase investment in disadvantaged areas:

- *Expanded Empowerment Zones (EZs) and Enterprise Communities (ECs):* The budget proposes a second round of competition to designate additional EZs and ECs and provides over $1 billion in tax incentives to these areas through 2002. Among other things, the plan would create 20 new EZs and 80 new ECs. The plan promises to mobilize communities to promote business development and create jobs. (For more information on EZs and ECs, see Chapter 6.)
- *Brownfields Cleanup:* The budget proposes to allow businesses to deduct, in the year incurred, certain costs associated with cleaning up "brownfields"—contaminated, and often abandoned, industrial sites—in economically distressed urban and rural areas. (For more information on brownfields, see Chapter 3.)
- *Community Development Financial Institution (CDFI) Tax Credits:* The budget proposes non-refundable tax credits for equity investments in qualified CDFIs. (For more information on CDFIs, see Chapter 6.)

Research and Experimentation Tax Credit (R&E): The budget proposes to extend the R&E tax credit for one year, from its current expiration date of May 31, 1997 to May 31, 1998.[3] It provides a credit against 20 percent of a business's qualified research spending above a base level. Research and experimentation contribute greatly to the Nation's growth in productivity, and the private sector may under-invest in this activity in the absence of this Federal incentive.

Employer-Provided Education: The budget proposes to extend, through December 31, 2000, the income exclusion for employer-provided educational assistance that Congress recently extended through mid-1997, and to expand the exclusion to cover graduate education. The exclusion enables employees to get additional forms of training and education benefits without facing income taxes on those benefits. Small businesses also would be able to claim a 10-percent tax credit for providing such benefits to their employees.

Economic Incentives for U.S. Businesses in Puerto Rico: The budget proposes to modify Section 936 of the tax code, which allows U.S. companies to claim a credit against the tax they pay for income that they derive in Puerto Rico—specifically, to extend the availability of the economic activity credit and to allow new firms to claim it.

Estate Tax Benefits for Closely Held Businesses: The budget proposes to ease the burden of estate taxes on farms and other small businesses, allowing their owners to defer taxes on $2.5 million of value, up from $1 million under current law. The deferred taxes could be paid over 14 years, at a favorable interest rate. In addition, the budget would expand the types of businesses eligible for such treatment by making the form of business organization irrelevant. It also would cut the administrative burden on taxpayers who elected deferral.

[3] The credit, which was first enacted in 1981, expired in mid-1995. The Small Business Job Protection Act of 1996, however, reinstated the credit for the period from July 1, 1996 to May 31, 1997.

Equitable Tolling: The budget proposes to extend the period during which taxpayers with serious disabilities can file claims for refunds, helping to ensure that such taxpayers are not unfairly disadvantaged by the tax system.

Unwarranted Benefits and Other Measures

The budget eliminates or shrinks a wide range of tax loopholes and preferences that are no longer warranted. Some involve highly specialized financial and accounting techniques. Restricting them would help balance the budget, increase the equity and efficiency of the tax system, and keep corporations focused on productivity and profits, rather than on tax minimization.

For example, the plan:

- Prevents certain tax-motivated financial manipulations, used to avoid capital gains taxes.
- Clarifies the treatment of new financial instruments that aim to exploit the different tax treatment of equity and debt, by denying or deferring interest deductions on certain instruments that have substantial equity features.
- Limits the ability of some corporations to deduct the cost of interest associated with purchasing tax-exempt debt.
- Increases the penalty for substantial understatement of taxes, to reduce incentives for excessively aggressive tax planning by corporations with tax liabilities of $100 million or more.

Finally, the plan extends the Airport and Airway excise taxes, the Leaking Underground Storage Tank excise tax, and the Hazardous Substance Superfund excise and corporate income taxes, through 2007. The Administration, however, will propose legislation to replace the Airport and Airway excise taxes with fees for services that the Federal Aviation Adminstration provides.

9. SUPPORTING AMERICA'S GLOBAL LEADERSHIP

> *The challenge before us plainly is two-fold—to seize the opportunities for more people to enjoy peace and freedom, security and prosperity, and to move strongly and swiftly against the dangers that change has produced.*
>
> President Clinton
> September 24, 1996

This budget fully supports America's global leadership and advances our national goals—protecting our vital strategic interests and expanding the reach of democratic governance, ensuring our influence in the international community, promoting sustainable development and the expansion of free markets and American exports, and responding to new international problems and humanitarian emergencies that can undermine our security.

Protecting America's key strategic interests remains a timeless goal of our diplomacy. As we move toward the 21st Century, we have a great opportunity to expand the scope of democracy, further ensuring that our interests remain unthreatened. Facing the dilemmas of peacekeeping, regional crises, and economic change, the international community needs the United States as a leader and a full partner, meeting its international commitments. Advancing U.S. interests in a global economy brings expanded missions to our diplomacy and trade strategy. A less-orderly world also creates new challenges to our security—from regional and ethnic conflicts, the proliferation of weapons of mass

Table 9–1. INTERNATIONAL DISCRETIONARY PROGRAMS

(Budget authority, dollar amounts in millions)

	1993 Actual	1997 Estimate [1]	1998 Proposed	2002 Proposed	Percent Change: 1993 to 1997	Percent Change: 1997 to 2002
International development and humanitarian assistance	8,900	6,644	7,712	6,978	–25%	+5%
International security assistance	6,148	5,928	5,959	6,041	–4%	+2%
Conduct of foreign affairs	4,300	3,890	4,164	4,026	–10%	+3%
Foreign information and exchange activities	1,247	1,098	1,087	1,070	–12%	–3%
International financial programs	12,662	549	4,052	647	–96%	+18%
IMF programs	(12,063)	....	(3,521)	....	NA	NA
Total, International discretionary programs	**33,257**	**18,109**	**22,974**	**18,762**	**–46%**	**+4%**
Total, excluding IMF programs	**21,194**	**18,109**	**19,453**	**18,762**	**–15%**	**+4%**

NA = Not applicable.

[1] Consistent with changes in the 1996 Farm Bill, the P.L. 480 Title I direct credit program has been reclassified from International Affairs programs to Agriculture programs starting in 1996.

destruction, international terrorism and crime, narcotics, and environmental degradation.

With such a broad agenda for leadership, America must not withdraw into isolationism and protectionism or fail to provide the resources required to carry out this mission. The budget proposes $19.5 billion for ongoing international affairs programs. While this request is seven percent above the 1997 level, it constitutes only slightly over one percent of the budget and 0.25 percent of Gross Domestic Product.

Protecting American Security and Promoting Democracy

The first goal of America's international strategy must be to promote and protect our interests in regions that historically have been critical to our security. The Administration's record is encouraging. Through skilled diplomacy, the judicious use of military force, and carefully targeted bilateral and multilateral economic assistance, the United States has advanced the peace process in Europe and the Middle East, reducing threats to our interests in these key regions. Through diplomatic leadership, economic assistance, and trade negotiations, we have maintained our leadership in Asia. Our goals are to secure these achievements, advance the peace process, and deepen regional cooperation in the future.

Perhaps the most serious national security threat facing the Nation today hinges on the course of events over the next few years in the New Independent States (NIS) of the former Soviet Union. We have made substantial progress in helping encourage the emergence of free markets and democracy in the NIS. In particular, our relations with Russia are strong. The United States has provided unwavering support for the emergence of democracy in Russia, leading this past year to the first free presidential reelection in Russian history. Some other NIS countries are progressing more slowly toward democracy and free markets, but overall regional progress has been remarkable.

Nevertheless, the June 1996 Russian elections represent not only a success but a warning—the latter embodied in the large vote for President Yeltsin's opposition, an opposition that derived its strength from Russia's severe economic distress. The Administration believes it is absolutely critical, at this turning point, to demonstrate our continuing support for democratic reform and free markets in Russia and throughout the NIS; the ultimate success of this process is vital to our national security. Moreover, we must begin to shape our assistance program in ways that support the mature trade and investment relationship that is starting to emerge between the United States and the countries in this region. Thus, the budget proposes $900 million for NIS funding, a 44-percent increase over 1997. The increase includes a Partnership for Freedom initiative, designed to initiate a new phase of U.S. engagement with NIS countries focused on trade and investment, long-term cooperative activities, and partnerships.

The region at the heart of the Cold War conflict—Central Europe—has made enormous progress toward institutionalizing free markets and democracy. It is no longer a threat to American and European security; it is starting to be a partner in the transatlantic community. The economies of the Northern tier countries, such as Poland, the Czech Republic, and Hungary, are largely free and privatized; they are moving from direct assistance, which soon they will no longer require, to significant economic integration with the United States and Western Europe. At the same time, countries in this region are reshaping their security relationships with the West as they move toward potential membership in NATO.

Central European countries in the Southern tier also have made great progress. U.S. leadership has been critical in ending the bloody hostilities in Bosnia, establishing new governments through free elections, and beginning economic reconstruction. The pace of reconciliation and recovery remains gradual, and the need for continued American leadership is great. The other countries in the southern part of this region also look to the United States to remain committed to their struggle to create democratic governments and free, open markets.

The budget proposes to increase funding for economic assistance in Central Europe to $492 million—including the final $200 million installment on the U.S. commitment to Bosnian reconstruction. While programs for the Northern tier are phasing down, we must continue to support implementation of the Dayton Peace Accords and to sustain the emergence of free market democracies in the Southern tier. In addition, the budget seeks to increase support for foreign military financing for the countries of Central and Eastern Europe through the President's Partnership for Peace initiative, which will facilitate their efforts to meet the conditions for membership in NATO.

Our strategic interest in peace in the Middle East is as strong as ever. The peace process has achieved much already. The need for reconciliation remains urgent, and America continues to play a leadership role in the effort to craft a durable, comprehensive regional peace. The budget proposes $5.3 billion for military financing grants and economic support to sustain the Middle East peace process. The proposed increase of nearly $100 million includes $52.5 million for an initial U.S. contribution for the Bank for Economic Cooperation and Development in the Middle East and North Africa, which will play a key role in promoting regional economic integration. The budget also provides additional security assistance to Jordan, recognizing that country's needs and its important contribution to the peace process.

The rest of our economic and security assistance programs are designed to support peace and democracy in countries and regions where our leadership has helped those processes emerge: consolidating democratic gains in Haiti; supporting reconciliation and peace in Guatemala and Cambodia; and strengthening the capacity of African governments to provide regional peacekeeping on that troubled continent.

Ensuring America's Leadership in the International Community

Following World War II, the United States assumed a unique leadership role in building international institutions to bring the world's nations together to meet mutual security and economic needs. It took an alliance to win the war, and it clearly would take an alliance to ensure the peace. We sponsored and provided significant funding for the United Nations, the International Monetary Fund, and the World Bank, along with specialized and regional security and financial institutions that became the foundation of international cooperation during the Cold War.

To ensure financial stability for this international community, the members of many of these organizations entered into treaties or similar instruments committing them to pay shares (or "assessments") of the organizations' budgets. Congress ratified these agreements, making them binding on us. For international financial institutions, like the World Bank and its regional partners, the United States has made firm commitments to regular replenishments, subject to the congressional authorization and appropriations processes.

Now, America's leadership in this international institutional network is threatened. In recent years, Congress has not fully appropriated the funds needed to meet the treaty-bound assessments of international organizations or our commitments to the multilateral banks. As a result, U.S. arrears now total over $1 billion to the United Nations and other organizations, much of it for peacekeeping operations, and over $850 million to financial institutions. Congress has raised some legitimate concerns about how these organizations operate, but America's failure to meet its obligations has undercut our efforts to achieve reforms on which the Administration and Congress agree. Today, our ability to lead, especially in the process of institutional reform, is being seriously undermined.

The Administration believes that we must end the stalemate this year—and that we can do so consistent with our goal of institutional reform. With new leadership in the United Nations, we have a unique opportunity. The budget proposes to fully fund the 1998 assessments for the United Nations, affiliated organizations, and peacekeeping, and to pay $100 million of our arrears. It also seeks a one-time, $921 million advance appropriation for the balance of U.N. and related organization arrears, to become available in 1999. The release of these appropriated arrears would depend on the adoption of a series of reforms in the coming year, specific to each organization, that should reduce the annual amount that we must pay these organizations, starting with their next biennial budgets. These reforms would include a reduction in the U.S. share of organizational budgets, management reforms yielding lower organizational budgets, and the elimination of, or U.S. withdrawal from, low-priority programs and organizations.

The Administration wants to work closely with Congress to shape this package, lowering out-year funding requirements while maintaining strong U.S. leadership in organizations and programs important to our national interests. Enacting the advance appropriation is an essential step in achieving these objectives. It would show that we recognize our legal obligations and are determined to maintain the sanctity of our treaty commitments as we press for changes in the organizations. It would give us the leverage to mobilize support from other nations for the reforms we seek and for the lowering of our future assessments. Failure to arrive at an agreed-upon solution this year will put U.S. international leadership at risk in the next century.

We are equally committed to restoring our leadership in, and reforming, the multilateral development banks (MDBs). Our commitments to them represent America's full-faith pledge. Moreover, the MDBs already have undertaken significant reforms in response to Administration and congressional concerns, including cuts in administrative expenses. The budget would eliminate our arrears over the next three years while meeting ongoing commitments that were negotiated down by 40 percent from previous funding agreements. The budget also includes funds to eliminate all arrears to the World Bank's International Development Association affiliate that lends to the world's poorest countries, many of them in Africa. Future budgets would seek to eliminate all of the arrears, while continuing our success in lowering the level of future U.S. commitments.

Our leadership in international institutions also has been critical in preventing international financial crises. As the Mexican peso crisis demonstrated, the increased interdependence of our trading and monetary systems means that a monetary crisis in any major trading nation affects all nations. Consequently, the G-10 nations and a number of other current and emerging economic powers have negotiated the New Arrangements to Borrow (NAB), in order to provide a credit line for the International Monetary Fund (IMF) in cases when a monetary crises in any country could threaten the stability of the international monetary system. The budget proposes a one-time appropriation of $3.5 billion in budget authority for the U.S. share, but it will not count as an outlay or increase the deficit; the United States will receive an increase in its international reserve assets that corresponds to any transfer to the IMF under the NAB.

Promoting an Open Trading System

The Administration remains committed to opening global markets and integrating the global economic system, which has become a key element of continuing economic prosperity here at home. Achieving this goal is increasingly central to our global diplomatic activities.

We are helping to lay the groundwork for sustained, non-inflationary growth into the next century by implementing the North American Free Trade Agreement and the multilateral trade agreements concluded during the Uruguay Round. We are conducting a vigorous follow-up to ensure that we receive the full benefit of these agreements. At the December 1996 World Trade Organization ministerial meeting in Singapore, for example, negotiators reached agreement on lowering many of the remaining barriers to trade in information technology, which will significantly benefit U.S. firms and workers. We are finalizing our anti-dumping and countervailing duty regulations, which implement commitments made in the Uruguay Round.

To promote other, mutually-beneficial trade relationships, the Administration will propose legislation for "fast-track" authority to negotiate greater trade liberalization.[1] It also will propose to extend the authorization of the Generalized System of Preferences for developing countries beyond its current expiration date of May 31, 1997 and to give the eligible countries of the Caribbean Basin Initiative expanded trade benefits.

We are more closely integrating the Government's trade promotion activities through the Trade Promotion Coordinating Committee (TPCC), creating a synergy among agency trade programs that will significantly improve American business' ability to win contracts overseas, and creating export-related jobs at home. The budget puts a high priority on programs that help U.S. exporters meet foreign competition, and TPCC agencies are developing rigorous performance measures to help ensure that programs in this area are effective.

As discussed earlier in this chapter, U.S. assistance is important in encouraging the emergence of free market economies in Central Europe and the NIS, where our programs increasingly focus on facilitating a mature trade and investment relationship with the United States.

Over time, our bilateral development assistance, provided through the U.S. Agency for International Development (USAID), likewise promotes the emergence of growing market economies in developing countries by supporting market-friendly policies and key institutions. Economic growth and market-oriented policy reforms in the developing world create growing demand for U.S. goods and services as well as investment opportunities for U.S. businesses. On a larger scale, the multilateral development banks also promote economic growth and increased demand for our exports. The budget proposes that our bilateral development assistance and contributions to the multilateral development banks grow by 25 percent—from $2.6 billion to $3.3 billion.

Three smaller agencies provide U.S. Government financial support for American exports. The Export-Import Bank is a principal source of export assistance, offering loans, loan guarantees, and insurance for exports, primarily of capital goods. To assure that its programs operate as economically as possible, the Bank is considering raising some fees, thereby lowering net spending in 1998 while maintaining a strong overall level of export support. The Overseas Private Investment Corporation (OPIC) provides political risk insurance for, and finances, U.S. investment in developing countries, leading to greater U.S. exports. The budget proposes to maintain 1998 OPIC funding close to the 1997 level. The Trade and Development Agency (TDA) makes grants for feasibility studies of capital projects abroad; subsequent implementation of these projects can generate exports of U.S. goods and services. The budget increases funding for TDA over the 1997 level. With the new emphasis on trade and investment in the NIS, the Export-Import Bank, OPIC, and TDA may well become important channels for further funding directed at this region.

Along with the Government's financial support for U.S. exports, the Commerce Department's International Trade Administration (ITA) promotes U.S. trade through its network of Export Assistance Centers and overseas offices. These centers and offices provide export counseling to the American sector. The budget proposes a slight increase for ITA compared to 1997.

Leading the Response to New International Challenges

Another fundamental goal of our international leadership, and an increasing focus of our diplomacy, is meeting the new transnational threats to U.S. and global security—the proliferation of weapons of mass destruction, drug trafficking and the spread of crime and terrorism on an international scale, unrestrained population growth, and environmental degradation. We also must sustain our leadership in meeting the continuing challenge of refugee flows and natural and human-made disasters.

In 1997, the Administration will seek Senate ratification of the Comprehensive Test Ban Treaty and the Chemical Weapons Convention, both critical to our long-term security and to preventing the spread of weapons of mass destruction. The budget supports the implementation of these agreements. U.S. diplomacy and law enforcement activities are playing

[1] Fast track is a procedure designed to expedite congressional approval of trade agreements between the United States and other nations.

a key role in preventing the spread of such weapons to outlaw states such as Libya, Iraq, Iran, Syria, and North Korea. The Defense Department's Nunn-Lugar program and the State Department's Nonproliferation and Disarmament Fund help support these efforts. (For more information on the Nunn-Lugar program, see Chapter 10.) In addition, U.S. support for such organizations as the International Atomic Energy Agency and the Korean Peninsula Energy Development Organization is critical to meeting our non-proliferation goals.

U.S. bilateral assistance programs are also critical to tackling other important transnational problems. Our international counter-narcotics efforts are making real progress in drug-producing countries. After several years of deeply cutting the Administration's budget requests for counter-narcotics purposes, Congress provided the full requested amount for 1997, permitting the United States to intensify its efforts to curb cocaine production in the Andean countries by offering growers attractive economic alternatives. The budget proposes $230 million for the State Department's narcotics and anti-crime programs, eight percent more than in 1997, with most of the increase focussed on programs in Peru.

In addition, USAID development assistance and U.S. contributions to international efforts, such as the Global Environment Facility, support large and successful programs to improve the environment and reduce population growth. The United States is the recognized world leader in promoting safe and effective family planning projects.

Disasters, humanitarian crises, and refugee flows are certain to remain central challenges to our leadership. The budget continues our historically strong commitment to refugee and disaster relief, proposing $1.7 billion, which sustains these programs at the 1997 level. This assistance, which reflects the humanitarian spirit of all Americans, has long enjoyed bipartisan support.

Conducting Foreign Affairs

An effective American diplomacy is the critical foundation for meeting our foreign policy goals. The budget supports a strong U.S. presence at over 250 embassies and other posts overseas, promoting U.S. interests abroad and protecting and serving Americans by providing consular services. These activities include the basic work of diplomacy—the reporting, analysis, and negotiations that often go unnoticed but that allow us to anticipate and prevent threats to our national security as well as discover new opportunities to promote American interests. The budget proposes $2.7 billion for the State Department to maintain its worldwide operations, modernize its information technology and communications systems, and accommodate security and facility requirements at posts abroad.

The budget also proposes two significant innovations in State Department management.

- One would make about $600 million in immigration, passport, and other fees, which now go to the Treasury Department, available to finance State Department operations directly. Improvements in how these State Department operations perform will, thus, be directly linked to the receipts they generate.
- The other innovation restructures the management of the diplomatic platform to support the overseas activities of other Federal agencies. This reform recognizes the magnitude of the State Department's overseas administrative workload, the need to carry it out efficiently, and the need to allocate the costs of overseas support fairly among agencies. With approval of the President's Management Council, the various agencies represented abroad have designed a new overseas administrative arrangement—the International Cooperative Administrative Support Services program. The Administration will propose to fund this new arrangement in a budget amendment that it will send to Congress shortly after transmitting the budget.

10. SUPPORTING THE WORLD'S STRONGEST MILITARY FORCE

> *I want America to enter the 21st Century as the world's strongest force for peace, freedom and prosperity.*
>
> President Clinton
> October 1996

Our defense capability sustains America's global leadership and provides the backbone of our national security policy, safeguarding America's interests, deterring conflict, and securing the peace, where necessary.

- When America's diplomatic leadership helped achieve the Dayton Peace Accord, our military led the effort that has brought a year of peace in Bosnia. With our NATO, central European, and Russian partners, our military continues to secure the Bosnian accord.
- America's armed forces remain in the Persian Gulf, deterring war in that critical region of the world.
- In Asia and the Pacific region, U.S. military forces provide the critical foundation for peace, security, and stability, in partnership with Japan and other nations.
- In our own region, America's soldiers have supported the return of democracy in Haiti and helped end the exodus of refugees to our shores.

To fulfill such missions, support our allies, and reassure our friends that America is prepared to use force in defense of our common interests, our armed forces must be highly ready and armed with the best equipment that technology can provide. In the 21st Century, we also must be prepared and trained for new post-Cold War threats to American security, such as ethnic and required conflicts that undermine stability. Some of these post-Cold War threats, such as the proliferation of weapons of mass destruction, terrorism, and drug trafficking, know no national borders and can directly threaten our free and open society.

Sustaining a Strong Military Capability

The United States is the only nation with the logistics, mobility, intelligence, and communications capabilities required to conduct large-scale, effective military operations on a global scale. Coupled with our unique position as the security partner of choice in many regions, America's military capability provides a foundation for regional stability through mutually beneficial partnerships.

The budget continues to support the defense policy laid out by the Administration over the past four years—to sustain and modernize the world's strongest and most ready military force, a force capable of prevailing in two nearly simultaneous regional conflicts. It fully funds our commitment to maintain the highest levels of training and readiness for that force, and to equip our uniformed men and women with the most advanced technologies in the world (see Table 10–1). The Quadrennial Defense Review, now underway in the Department of Defense (DOD), will ensure that the armed forces are shaped, trained, and armed for emerging threats and missions, and remain capable of global military operations in the next century.

Table 10–1. MILITARY FORCE TRENDS

	Cold War (1990)	1998	Force Target
Army:			
Divisions (active/National Guard)	18/10	10/8 [1]	10/8 [1]
Air Force:			
Fighter wing (active/reserve)	24/12	13/7	13/7
Navy:			
Aircraft carriers (active/training)	15/1	11/1	11/1
Air wings (active/reserve)	13/2	10/1	10/1
Total battle force ships [2]	546	346	330–346
Marine Corps:			
Divisions (active/reserve)	3/1	3/1	3/1
Wings (active/reserve)	3/1	3/1	3/1
Strategic nuclear forces:			
Intercontinental ballistic missiles/warheads	1,000/2,450	550/2,000	500/500 [3]
Ballistic missile submarines	31	18	14 [3]
Sea-launched ballistic missiles/warheads	568/4,864	432/3,456	336/not over 1,750 [3]
Heavy bombers	324	87 [4]	92 [4]
Military personnel:			
Active	2,069,000	1,431,000	1,422,000
Selected reserve	1,128,000	892,000	889,000

[1] Plus 15 enhanced readiness brigades.

[2] Includes active and reserve ships of the following types: aircraft carriers, surface combatants, submarines, amphibious warfare ships, mine warfare ships and combat logistics force and other support ships.

[3] Upon entry-into-force of START II.

[4] Does not include 95 B-1 bombers dedicated to conventional missions.

Providing the Necessary Funding

For the Defense Department's military functions, the budget proposes discretionary funding of $251.6 billion in budget authority and $248.4 billion in outlays for 1998. Through 2002, the budget continues the Administration's plan of the last four years, completing the careful resizing of our military forces, ensuring full support for military readiness and quality of life programs in the near-term, and providing for the modernization of our forces as new technologies become available later in this decade and after the turn of the century.

DOD funding keeps pace with inflation in 1999, and then increases slightly faster than inflation through 2002. Over this period, the budget reflects the impact of marginally lower estimates of inflation, offset by increases in procurement programs necessary to ensure the continued modernization of our military forces.

The budget also proposes $2 billion in 1997 emergency supplemental appropriations to fund continuing operations in Bosnia and Southwest Asia, and a $4.8 billion rescission of 1997 defense resources to offset the cost of the supplemental and other funding requirements.

Ensuring the Nation's Security

Expanding Arms Control.—The President is strongly committed to reducing the threat of weapons of mass destruction through arms control agreements. Over the past four years, the Administration has worked hard to implement the START I treaty, indefinitely and unconditionally extend the Nuclear Nonproliferation Treaty, obtain the signing of the Comprehensive Test Ban Treaty (CTBT), and achieve a Conventional Forces in Europe (CFE) Flank Agreement and terms of reference for follow-on CFE adaptation. The START II treaty, which the Senate approved 87 to 4 on January 26, 1996, awaits approval by the Russian Republic. Following Russian acceptance, implementing this treaty in combination with START I will reduce the number of warheads deployed on long-range missiles and bombers to a third of the Cold War level and will eliminate all land-based, multiple-warhead ICBMs.

Securing the Senate's support of the Chemical Weapons Convention (CWC) is one of the President's top legislative priorities for this year. It is vital to national security for the United States to be an original party to this landmark agreement, which will become effective on April 29, 1997. The CWC will dramatically reduce the chemical threat to U.S. servicemembers and civilians by requiring parties to eliminate existing stockpiles and restricting the flow of dual-use chemicals that can be used to make chemical weapons. Furthermore, a global ban on the use, production, stockpiling, and transfer of anti-personnel landmines remains a Presidential priority.

Reducing Weapons of Mass Destruction in the Former Soviet Union.—The Cooperative Threat Reduction program (also called the Nunn-Lugar program) has made a major contribution to U.S. security by ensuring a safe and speedy relocation and dismantling of nuclear forces in the former Soviet Union. The budget proposes $382 million to continue this important program in 1998.

Countering Proliferation of Weapons of Mass Destruction.—The budget also proposes almost $600 million to develop capabilities to locate and neutralize weapons of mass destruction before they can be used, and to protect our troops against their effects. High-priority efforts include developing the means to identify and destroy underground storage sites, and methods to detect and track weapons shipments. Key efforts to protect troops against chemical and biological agents include developing advanced detection devices, vaccines, and protective clothing.

Maintaining the Nation's Nuclear Deterrent: The budget proposes $5.1 billion in 1998, and $20.1 billion over the next five years, for the Department of Energy (DOE) to ensure the safety and reliability of our nuclear weapons stockpile. The $20.1 billion reflects the President's commitment to $4 billion a year for five years. The year-to-year stream in the budget reflects full "up-front funding" for major construction projects, which allocates a larger share of the total cost to 1998 and lower costs to later years. DOE will continue building new facilities to ensure safety and reliability without underground testing. The President is committed to the CTBT, which would prohibit all nuclear testing and which he signed in September at the United Nations. The Administration plans to submit the treaty to the Senate for ratification.

Developing and Deploying Defenses Against Tactical Ballistic Missiles.—With over $2 billion in proposed funding for 1998, the Administration's Theater Missile Defense (TMD) program will provide defenses against missiles that directly threaten American and allied ground, naval, and air forces deployed abroad. Funding for TMD supports initial procurement of an advanced version of the Patriot missile, as well as development of advanced systems to meet future threats.

Developing Technologies to Defend Against Strategic Ballistic Missiles.—The budget proposes $0.5 billion in 1998 for a vigorous effort to develop the elements of a national missile defense system to protect the United States. Although we do not need such a system now, the development of a contingency capability will ensure that deployment could proceed rapidly, if a missile threat to the United States should emerge sooner than our intelligence community now estimates. A decision now to force early deployment would not only waste billions of dollars, it would force adoption of immature technologies that are unlikely to provide an effective defense.

Ensuring Successful Contingency Operations.—U.S. forces have provided leadership in contingency operations that support American interests—from monitoring U.N. sanctions on Iraq, to permitting the return of democracy to Haiti, to implementing the Dayton Peace Accord in Bosnia. The budget funds ongoing contingency operations in Southwest Asia and Bosnia. Congressional approval of these funds would allow DOD to avoid redirecting funds from operations and maintenance programs to these operations, thereby maintaining our force's high level of readiness.

Though Congress provided funding for contingency operations in 1997, unfunded 1997 costs (mainly for Bosnia) total about $2 billion. To fund them, the budget proposes a 1997 emergency supplemental appropriation. The budget also proposes $2.2 billion for the cost of contingency operations in 1998. Of the $2.2 billion, $0.7 billion is included in the Services' operation and maintenance accounts for ongoing operations in Southwest Asia, and the remaining $1.5 billion is included in the Overseas Contingency Operations Transfer Account for operations in Bosnia.

Providing Humanitarian and Disaster Assistance.—The unique capabilities and global presence of U.S. forces often dictate that DOD respond to international disasters and human tragedies. Such responses may occur at the direction of U.S. commanders who have the only assets in place to respond quickly to a regional problem, or at the President's direction when he determines that DOD is the appropriate agency to provide U.S. support. The proposed $80 million for the Overseas Humanitarian, Disaster, and Civic Aid account would allow DOD to provide support without diverting readiness-related resources from their intended use.

Establishing Information Dominance.—Our preeminence in information technology has helped us field the world's strongest military force. The Administration seeks to preserve information dominance in order to support our military operations and national security strategy.

Intelligence is critical to information dominance, and it continues to play a large role in both military operations and national security decision-making. This year's intelligence budget is guided by explicit intelligence priorities that the President established for the post-Cold War era.

A new intelligence initiative exemplifies the Administration's efforts. The National Reconnaissance Office will develop a new generation of smaller intelligence satellites that will increase coverage and permit greater operational flexibility. Also, this budget is the first to provide funds for the newly established National Imagery and Mapping Agency (NIMA), which will consolidate disparate imagery processing and mapping activities throughout DOD and the Central Intelligence Agency. NIMA will more efficiently use imagery resources and ensure that imagery products are more responsive to military commanders and civilian decision-makers.

Maintaining Military Readiness

Ensuring Adequate Resources for Readiness.—Maintaining the readiness and sustainability of U.S. military forces remains the Administration's top defense priority. The budget provides full funding for operations and support programs critical to sustaining the military's current high readiness levels. These programs include unit training activities, recruiting and retention programs, joint exercises, and equipment maintenance.

DOD continues to improve its capacity to assess current and future military readiness, particularly through the Senior Readiness Oversight Council and the Joint Monthly Readiness Review process. These efforts enhance DOD's ability to ensure that critical readiness programs receive sufficient resources and that our forces remain prepared to accomplish their missions.

Enhancing Quality of Life of Military Personnel.—The Administration strongly supports quality of life programs that help attract and retain motivated and enthusiastic high-quality personnel. The budget continues this commitment by providing a 2.8 percent military pay raise, effective January 1998, and substantial funding to continue upgrading and improving barracks and family housing.

Protecting our Forces and Combating Terrorism.—The protection of U.S. service members, whether deployed or at home, against the threat of terrorism is a fundamental task of our defense planning. The terrorist attack against U.S. forces at Khobar Towers in Saudi Arabia reminded all Americans of the increasing terrorist threat that we face—at home and abroad. In light of the threat, the Administration amended the 1997 budget to propose $1 billion for anti-terrorism programs across the Federal Government, which Congress approved. The DOD portion, $350 million, consisted of specific Persian Gulf security measures; general overseas facilities and force protection upgrades; and training, awareness, and other programs designed to combat terrorism.

The budget fully funds DOD's anti-terrorism/force protection program at $4.5 billion. The funds are designed to improve our preparedness to respond to a terrorist attack that employs weapons of mass destruction, and they will enable DOD to initiate a sweeping vulnerability assessment program to identify and respond to force protection needs beyond those already identified and funded.

Modernizing Our Military Forces

Modernizing Equipment.—As the armed forces prepare to enter the 21st Century, modernizing U.S. military hardware is a central goal of our defense budget planning. The next generation of military equipment promises to provide greater combat capabilities, and enhance the readiness of our forces. Most important, the marked technological advantage of the next generation will mean fewer casualties and a quicker resolution of conflict.

Providing Adequate Modernization Funding.—The budget proposes that procurement funding grow, in real terms, by over 40 percent from 1998 to 2002. Critical modernization programs that are now in production would continue—including DDG-51 guided-missile destroyers and precision munitions such as the Joint Standoff Weapon. Low-rate production of Marine Corps V-22 aircraft and the Navy's multi-role F/A-18E/F fighter would continue in 1998. Initial procurement of the Navy's New Attack Submarine would begin in 1998, and low-rate production of the Air Force's F-22 Advanced Tactical Fighter would begin in 1999. Full-rate production of the V-22, F/A-18E/F, and the F-22 would start at, or near, the turn of the century. DOD would modernize and improve U.S. mobility forces through continued acquisition of large, medium speed roll-on/roll-off sealift ships and the highly capable C-17 strategic airlift aircraft.

Providing Modernization for the Long-Term.—The budget proposes major investments in research and development for advanced systems that would enter production in the middle of the next decade. The Air Force, Navy, and Marine Corps are developing a Joint Strike Fighter as a cost-effective replacement for today's tactical fighter and attack aircraft. Other major weapons in development include the Army's Comanche helicopter, a new surface ship for the Navy, and an advanced amphibious-assault vehicle for the Marine Corps.

Managing Our Defense Resources More Efficiently

As we shape U.S. defense strategy for managing conflict and ensuring peace in the post-Cold War era, the Nation also must develop new, innovative approaches to managing our defense program. DOD is launching various efforts to meet this challenge, which would help ensure that we can afford our defense program.

Redesigning Military Strategy.—As the 1997 Defense Authorization Act requires, the Quadrennial Defense Review will reassess current defense strategy and the defense program in light of U.S. interests, fiscal constraints, and emerging new technologies. Areas that it will review include force structure, readiness, modernization, and infrastructure. The law requires that DOD report the results of this review by May 15, 1997.

Implementing the Information Technology Management Reform Act (ITMRA).—By implementing ITMRA, DOD will bring modern command, control, communications, and computing systems into operational use. DOD is restructuring work processes and applying modern technology to improve performance and cut costs. In addition, DOD's new Chief Information Officer is establishing information technology investment criteria and performance measures to ensure that DOD's $10 billion investment in information technology and processes produces measurable results and a significant return on investment. For example, DOD's Office of Health Affairs and the Defense Logistics Agency have used information technology to enable them to work with commercial suppliers to significantly reduce supply delivery times and on-hand DOD stocks, thus greatly cutting costs.

Implementing Base Closure and Realignment.—Since 1988, four Base Closure and Realignment Commissions have approved the elimination of about 20 percent of our defense infrastructure (recommending the closure of 97 out of 495 major military installations and over 200 smaller installations). The $5.6 billion in projected annual savings (after all closure activities are completed by 2001) would help fund the modernization of our military forces. To achieve these savings, the budget fully funds the implementation of the final recommendations of the 1995 Base Closure and Realignment Commission.

Improving Financial Management.—The Administration remains committed to reforming DOD's financial management activities and systems. DOD must overcome major impediments to create an effective agency-wide accounting system structure and to produce auditable financial statements. It has, however, taken steps to improve its financial management in such areas as problem disbursements, contractor overpayments, fraud detection and controls, and standardized accounting systems. For example, DOD has cut the category known as problem disbursements from a total of $51.2 billion in June 1993 to $18.1 billion in June 1996.

Streamlining the Civilian Work Force.—DOD will continue to streamline its civilian work force while maintaining its quality. The budget reflects a cut of almost 218,000, or about 25 percent, in DOD civilian positions from 1993 to 1999. Consistent with the principles of the Vice President's National Performance Review, DOD is reducing headquarters, procurement, finance, and administrative staffs.

Implementing the Government Performance and Results Act (GPRA).—DOD continues to incorporate performance evaluation into its decision-making for such broad-based programs as weapons purchases, transportation methods, and inventory control. It has designated seven programs as demonstration projects to provide a blueprint for full GPRA implementation.

Using the Private Sector for Support Functions.—To cut costs and make operations more efficient, the Commission on Roles and Missions of the Armed Forces recommended that DOD increase its use of the private sector to provide support functions. In August 1995, the Deputy Secretary of Defense established an Integrated Product Team for Privatization, which now includes senior representatives from the military departments, defense agencies, OMB, and the Secretary's staff. Also, DOD and OMB are working together to develop competition, outsourcing, and other privatization initiatives by forming an interagency Senior Policy Group for Privatization.

VI. INVESTING IN THE COMMON GOOD: THE MAJOR FUNCTIONS OF THE FEDERAL GOVERNMENT

11. OVERVIEW

The President's determination to balance the budget—a determination that Congress shares—will continue to place a spotlight on every Federal agency and program, forcing each to justify its existence. As part of these efforts, the President will continue his practice of the past four years and work with Congress to eliminate or scale back unnecessary and lower-priority programs.

Balancing the budget goes hand-in-hand with another of the President's major efforts—improving Government's performance. In an era of limited resources, the President wants to make sure that the programs the Government funds do, in fact, accomplish the goals set out for them.

Led by Vice President Gore's National Performance Review (NPR), 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.

These efforts will continue. Federal departments and agencies are implementing the landmark 1993 Government Performance and Results Act, which will hold them more accountable for what their programs achieve. The Administration also will continue to look for ways to provide better service. (For a detailed discussion of the Administration's effort to improve performance, see Section IV.)

All too often, however, the focus of political debate revolves almost exclusively around proposals for incremental change: How much more does the President want to spend on program X? How much less on program Y? How do his proposals compare to what Congress proposes to do?

Such proposals capture only a portion of what the Federal Government does from year to year. The base of Federal activity—from Social Security to defense to interest on the Federal debt—does not change much, if at all. Nor does the base of activity include just the estimated $1.7 trillion that the Federal Government will spend in 1998. The Government provides hundreds of billions of dollars in benefits through the tax code, and it seeks to accomplish other goals through regulation.

If we want to continue improving performance, to ensure that taxpayers get the high-quality Government they deserve, we have to understand the full range of Federal Government activities. This section provides a broad overview, categorizing the activities according to their budget "function."

Table 11–1. FEDERAL RESOURCES BY FUNCTION

(In billions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
NATIONAL DEFENSE:							
Spending:							
Discretionary Budget Authority	265.0	263.1	266.0	269.8	275.5	282.0	289.8
Mandatory Outlays:							
Existing law	–0.2	–0.8	–0.7	–0.7	–0.5	–0.5	–0.5
Proposed legislation	....	....	....	....	....	....	–0.2
Credit Activity:							
Guaranteed loans	0.3	*	0.2	0.5	0.8	0.8	0.8
Tax Expenditures:							
Existing law	2.1	2.1	2.1	2.1	2.1	2.2	2.2
INTERNATIONAL AFFAIRS:							
Spending:							
Discretionary Budget Authority	18.1	18.1	23.0	20.1	19.1	18.8	18.8
Mandatory Outlays:							
Existing law	–4.8	–4.7	–4.4	–4.0	–3.8	–3.7	–3.5
Proposed legislation	....	....	*	....	....	....	....
Credit Activity:							
Direct loan disbursements	1.7	2.2	1.9	2.2	2.2	2.0	2.0
Guaranteed loans	8.4	12.7	12.1	13.1	13.7	13.7	14.0
Tax Expenditures:							
Existing law	6.5	7.0	7.6	8.2	8.8	9.4	10.1
Proposed legislation	....	*	–0.8	–1.4	–1.5	–1.7	–1.8
GENERAL SCIENCE, SPACE, AND TECHNOLOGY:							
Spending:							
Discretionary Budget Authority	16.7	16.6	16.4	16.4	16.2	16.2	16.2
Mandatory Outlays:							
Existing law	*	*	*	*	*	*	*
Tax Expenditures:							
Existing law	0.8	0.9	1.5	0.8	0.8	0.8	0.8
Proposed legislation	....	0.4	0.8	0.5	0.2	0.1	*
ENERGY:							
Spending:							
Discretionary Budget Authority	4.9	4.3	4.7	4.9	4.6	4.5	4.4
Mandatory Outlays:							
Existing law	–3.1	–2.9	–2.8	–3.7	–2.8	–3.0	–3.7
Proposed legislation	....	....	....	–*	–*	–0.1	–1.2
Credit Activity:							
Direct loan disbursements	1.0	2.5	2.1	1.7	2.7	1.8	1.7
Tax Expenditures:							
Existing law	2.2	2.3	2.2	2.4	2.5	2.5	2.5
Proposed legislation	....	–*	–0.1	–0.1	–0.1	–0.1	–0.1
NATURAL RESOURCES AND ENVIRONMENT:							
Spending:							
Discretionary Budget Authority	20.7	21.1	22.4	22.4	21.8	21.7	21.8
Mandatory Outlays:							
Existing law	0.7	1.0	1.0	0.9	0.9	0.9	0.8
Proposed legislation	....	....	0.1	0.1	0.1	0.1	0.1
Credit Activity:							
Direct loan disbursements	*	*	*	*	*	*	*
Tax Expenditures:							
Existing law	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Proposed legislation	....	–*	–0.1	–0.1	–0.1	–0.1	–0.1

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
AGRICULTURE:							
Spending:							
Discretionary Budget Authority	4.2	4.1	4.1	4.0	3.9	3.9	3.9
Mandatory Outlays:							
Existing law	5.0	6.1	8.2	7.6	7.2	6.1	5.9
Proposed legislation	....	....	*	*	*	*	*
Credit Activity:							
Direct loan disbursements	6.2	7.1	8.7	8.6	8.3	7.7	7.2
Guaranteed loans	5.1	7.9	8.1	8.0	8.0	8.0	8.0
Tax Expenditures:							
Existing law	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Proposed legislation	....	–*	–0.1	–0.1	–0.1	–0.1	–0.1
COMMERCE AND HOUSING CREDIT:							
Spending:							
Discretionary Budget Authority	3.7	2.4	3.3	3.8	5.2	3.2	3.2
Mandatory Outlays:							
Existing law	–13.8	–11.4	0.7	2.5	6.9	5.7	6.8
Proposed legislation	....	....	–0.7	0.1	0.3	–1.7	–1.9
Credit Activity:							
Direct loan disbursements	1.6	8.8	5.0	1.7	1.9	2.3	2.4
Guaranteed loans	181.3	169.0	161.6	161.5	163.4	166.2	169.2
Tax Expenditures:							
Existing law	182.4	188.9	195.9	204.8	213.5	222.0	229.7
Proposed legislation	....	0.1	0.2	0.2	0.2	0.2	0.1
TRANSPORTATION:							
Spending:							
Discretionary Budget Authority	13.6	13.8	13.5	14.6	14.7	15.0	15.2
Mandatory Outlays:							
Existing law	2.5	2.4	2.4	2.3	2.2	2.0	2.0
Proposed legislation	....	....	*	*	*	–0.1	–0.7
Credit Activity:							
Direct loan disbursements	*	0.2	0.6	0.8	0.9	0.9	0.9
Guaranteed loans	0.8	1.1	0.5	0.5	0.5	0.5	0.5
Tax Expenditures:							
Existing law	1.3	1.4	1.4	1.5	1.5	1.6	1.6
COMMUNITY AND REGIONAL DEVELOPMENT:							
Spending:							
Discretionary Budget Authority	11.6	9.3	10.9	8.3	7.7	7.8	7.9
Mandatory Outlays:							
Existing law	0.3	0.3	–0.1	0.1	0.1	0.3	0.1
Proposed legislation	....	0.2	*	*	....	–*	–*
Credit Activity:							
Direct loan disbursements	2.0	2.3	2.5	1.9	2.1	2.2	2.1
Guaranteed loans	0.8	1.5	1.9	2.1	2.1	2.2	2.0
Tax Expenditures:							
Existing law	2.6	2.7	2.7	2.7	2.7	2.6	2.4
Proposed legislation	....	*	0.4	0.6	0.6	0.5	0.5
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:							
Spending:							
Discretionary Budget Authority	36.1	42.4	46.4	47.4	48.5	49.5	50.3
Mandatory Outlays:							
Existing law	13.9	10.5	10.8	10.5	10.6	10.8	11.3
Proposed legislation	....	–0.3	2.8	4.6	5.0	4.5	1.9

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Credit Activity:							
Direct loan disbursements	9.1	12.0	14.5	17.6	20.2	21.7	23.1
Guaranteed loans	19.8	21.0	21.3	20.5	20.5	21.5	22.9
Tax Expenditures:							
Existing law	25.2	27.0	27.9	29.2	30.5	31.9	33.3
Proposed legislation		0.2	4.9	7.2	8.9	9.0	9.5
HEALTH:							
Spending:							
Discretionary Budget Authority	23.3	25.0	25.1	25.1	25.1	25.2	25.2
Mandatory Outlays:							
Existing law	96.8	103.5	109.6	116.3	124.8	134.6	145.1
Proposed legislation		*	3.9	3.7	2.1	–0.2	–5.0
Credit Activity:							
Direct loan disbursements	*	*					
Guaranteed loans	0.2	0.3	0.1	*			
Tax Expenditures:							
Existing law	72.7	79.2	85.1	91.2	97.3	103.7	110.4
Proposed legislation		*	*	*	*	*	*
MEDICARE:							
Spending:							
Discretionary Budget Authority	2.9	2.6	2.8	2.8	2.7	2.7	2.7
Mandatory Outlays:							
Existing law	171.3	191.6	208.6	228.2	248.8	271.1	295.1
Proposed legislation			–4.3	–11.4	–22.2	–27.8	–34.6
INCOME SECURITY:							
Spending:							
Discretionary Budget Authority	27.8	26.0	32.6	36.1	38.9	40.4	41.8
Mandatory Outlays:							
Existing law	188.0	197.4	203.6	212.4	222.2	225.6	235.4
Proposed legislation		0.6	2.3	2.2	2.3	1.9	2.6
Credit Activity:							
Direct loan disbursements	0.1	0.1	0.1	*			
Guaranteed loans	*	*	*	*	*	*	*
Tax Expenditures:							
Existing law	83.0	84.8	86.3	87.9	89.5	91.3	93.0
Proposed legislation		0.7	11.3	7.3	9.3	11.5	12.0
SOCIAL SECURITY:							
Spending:							
Discretionary Budget Authority	3.1	3.5	3.3	3.3	3.2	3.2	3.3
Mandatory Outlays:							
Existing law	347.1	364.2	380.9	398.6	417.7	438.0	459.7
Proposed legislation				–*	*	*	*
Tax Expenditures:							
Existing law	22.9	24.2	25.3	26.5	27.8	28.9	29.9
VETERANS BENEFITS AND SERVICES:							
Spending:							
Discretionary Budget Authority [1]	18.4	18.9	18.8	18.7	18.7	18.7	18.7
Mandatory Outlays:							
Existing law	18.8	20.6	21.7	22.8	24.4	21.5	23.2
Proposed legislation			0.6	0.3	0.7	1.1	1.5
Credit Activity:							
Direct loan disbursements	1.4	1.9	2.2	2.2	2.3	2.3	2.3
Guaranteed loans	28.7	30.2	28.9	25.5	25.0	24.6	24.1

Table 11–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Tax Expenditures:							
Existing law	2.8	2.9	3.1	3.3	3.5	3.7	3.9
ADMINISTRATION OF JUSTICE:							
Spending:							
Discretionary Budget Authority	20.7	22.8	24.4	25.2	24.4	24.8	25.5
Mandatory Outlays:							
Existing law	–*	0.8	0.6	0.5	0.4	0.4	0.4
GENERAL GOVERNMENT:							
Spending:							
Discretionary Budget Authority	11.5	11.8	12.8	12.5	12.1	11.8	11.8
Mandatory Outlays:							
Existing law	0.1	0.9	0.8	0.8	0.9	0.7	0.7
Proposed legislation	....	....	–*	0.1	0.2	0.3	0.4
Credit Activity:							
Direct loan disbursements	0.4	0.5	....	....	....	....	....
Tax Expenditures:							
Existing law	46.7	48.1	49.5	50.8	52.1	53.6	55.1
Proposed legislation	....	....	*	*	*	0.1	0.1
NET INTEREST:							
Spending:							
Mandatory Outlays:							
Existing law	241.1	247.5	249.8	251.8	248.1	244.9	238.6
Proposed legislation	....	–0.2	*	0.1	0.1	0.1	0.1
Tax Expenditures:							
Existing law	1.3	1.3	1.3	1.3	1.2	1.2	1.2
UNDISTRIBUTED OFFSETTING RECEIPTS:							
Spending:							
Mandatory Outlays:							
Existing law	–37.6	–46.5	–52.9	–41.1	–41.6	–43.2	–45.3
Proposed legislation	....	....	–2.7	–2.4	–4.4	–6.9	–22.7
FEDERAL GOVERNMENT TOTAL:							
Spending:							
Discretionary Budget Authority	502.5	505.8	530.5	535.4	542.5	549.4	560.6
Mandatory Outlays:							
Existing law	1,026.0	1,080.7	1,137.9	1,205.9	1,266.5	1,312.2	1,372.0
Proposed legislation	....	0.3	2.1	–2.7	–16.0	–28.7	–59.5
Credit Activity:							
Direct loan disbursements	23.6	37.6	37.5	36.8	40.5	40.9	41.7
Guaranteed loans	245.4	243.6	234.7	231.7	234.0	237.5	241.5

Notes:

Revenue estimates for proposed legislation affecting tax expenditures are not directly comparable to estimates for current law tax expenditures, because the current law estimates do not reflect behavioral effects.

* $50 million or less.

[1] Proposed legislation will supplement budget authority with receipts (estimated at $0.5 billion in 1998).

12. NATIONAL DEFENSE

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

Function 050	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	265,007	263,072	265,974	269,834	275,517	281,997	289,760
Mandatory Outlays:							
Existing law	–208	–782	–740	–682	–542	–528	–514
Proposed legislation							–200
Credit Activity:							
Guaranteed loans	276	50	250	500	800	800	800
Tax Expenditures:							
Existing law	2,060	2,080	2,095	2,120	2,140	2,160	2,180

Through its budget, the Federal Government in recent years has provided about $265 billion a year to defend the United States, its citizens, and its allies, and to protect and advance American interests around the world. National defense programs and activities are designed to ensure that the United States maintains strong, ready, and modern military forces that will promote U.S. objectives in peacetime, deter and prevent war, and successfully defend our Nation and its interests in wartime, in conjunction with our allies, when necessary.

Over the past half-century, our defense program has deterred both conventional and nuclear attack upon 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 unique 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 serves as the foundation upon which to promote peace, freedom, and prosperity around the globe.

Again and again in the past three years, U.S. troops have demonstrated the continued readiness and strength required to achieve these objectives:

- Our forces maintain a continuous presence in the Persian Gulf, providing security for a volatile region of the world; in 1994, rapid deployment of additional U.S. forces to the Persian Gulf turned back a potential Iraqi threat to Kuwait;
- With the 82nd Airborne division en route to Haiti, we forced the Cedras regime to relinquish power, and the peaceful introduction of U.S. forces to the island established a secure environment for the Haitian people to find freedom and re-create a democratic government;
- Hundreds of thousands of lives in Rwanda and Somalia were saved through U.S. humanitarian missions; and,
- By helping to enforce United Nations mandates in the former Yugoslavia and by subsequently deploying a substantial U.S. force under NATO command, the United States is helping to successfully implement the Dayton Peace Agreement.

Department of Defense

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

- Assure that the U.S. military remains the world's most ready and capable force;
- Sustain U.S. defense forces at levels sufficient to meet post-Cold War challenges;
- Give U.S. forces the military hardware that employs the best available technologies; and
- Assure the Nation's security by seeking arms control agreements, reducing weapons of mass destruction while preventing their proliferation, and combating terrorism.

To achieve these objectives, DOD supports these capabilities:

Conventional Forces.—The Nation needs conventional forces to deter aggression and, when that fails, to respond to 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. Major acquisitions in the President's budget plan include combat vehicle and aircraft enhancements for the Army, such as the Abrams tank and the Apache helicopter; ships for the Navy, such as DDG–51 destroyers and the New Attack Submarine; aircraft for the Air Force, such as F–15E multi-role fighters and a JSTARS surveillance aircraft; and the V–22 aircraft for the Marine Corps.

Mobility Forces.—Mobility forces provide the airlift and sealift that transport military personnel and materiel throughout the world. They play a critical role in current U.S. defense strategy and are a vital component of America's response to contingencies that range from humanitarian relief efforts to major regional conflicts. 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 of equipment and supplies at sea or on land near the location of a potential crisis. This allows U.S. forces that must respond rapidly to crises overseas to quickly draw upon these prepositioned items. Major acquisitions in this area include the C–17 strategic airlift aircraft and large medium-speed roll on/roll off ships.

Strategic Forces.—Funding for nuclear forces is at its lowest level in over 30 years. Nonetheless, strategic forces are an important component of our capability. 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 the United States. The budget enhances land, air, and sea-based forces by supporting service life extension programs for the Minuteman III intercontinental ballistic missile, continued modifications to B–2 bombers, and procurement of additional Trident II (D–5) submarine launched ballistic missiles.

Supporting Activities.—Supporting defense activities include research and development, communications, intelligence, training and medical services, central supply and maintenance, and other logistics activities. The goal of defense research and development programs is to provide new and better weapons systems that will be superior to the weapons of potential adversaries.

Department of Energy

The unifying mission of the Energy Department's (DOE) defense activities is to reduce the global nuclear danger. DOE works to accomplish this goal by:

- Supporting and maintaining a safe, secure, reliable, and smaller nuclear weapons stockpile without nuclear testing, within the framework of the Comprehensive Test Ban Treaty;
- Dismantling excess nuclear weapons;
- Providing technical leadership for national and global nonproliferation efforts; and
- Reducing the environmental, safety, and health risks from current and former facilities in the nuclear weapons complex.

Defense-Related Activities

Other activities in this function that support national defense include programs of the:

- Coast Guard, which supports the defense mission through training, aids to navigation, international icebreaking, 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; and the
- Selective Service System, which is initiating a Service to America program that will give almost two million young Americans a year the chance to volunteer for Americorps or the Armed Services.

13. INTERNATIONAL AFFAIRS

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

Function 150	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	18,122	18,109	22,974	20,079	19,095	18,811	18,762
Mandatory Outlays:							
Existing law	–4,840	–4,744	–4,433	–3,963	–3,839	–3,655	–3,487
Proposed legislation	....	....	37	....	....	....	....
Credit Activity:							
Direct loan disbursements	1,674	2,150	1,900	2,191	2,162	2,013	2,023
Guaranteed loans	8,418	12,692	12,059	13,093	13,736	13,702	14,000
Tax Expenditures:							
Existing law	6,520	6,980	7,565	8,165	8,790	9,445	10,125
Proposed legislation	....	10	–820	–1,408	–1,484	–1,674	–1,773

The International Affairs function, for which the Administration proposes $23 billion for 1998, encompasses a wide range of activities that advance American interests through diplomacy, foreign assistance, support for American exports, and the activities of international organizations. Certain tax provisions also support American business. The conduct of foreign relations is inherently a governmental function, which explains the need for sustained Government activity and budgetary support.

Diplomacy

The State Department and its overseas operations are at the heart of international affairs activities and programs, and they consume $2.7 billion, or 14 percent, of the resources. These funds finance the salaries and related operating expenses of the Foreign Service and other Department personnel, and the costs of overseas facilities. The Department carries out foreign policy planning and oversight in Washington, conducts diplomacy, and represents the United States at over 250 overseas embassies and other posts. Overseas posts also provide administrative support to about 25 other Federal departments and agencies.

The major achievement of American diplomacy over the past half century was creating and sustaining the alliances, notably NATO, that successfully countered the Soviet bloc's threat to world security. More recently, diplomatic objectives include establishing viable democracies in formerly totalitarian countries such as in Eastern Europe and the former Soviet Union, curbing regional instability in areas of importance to U.S. security such as Bosnia, promoting the American economy through trade negotiations and the support of U.S. businesses, and addressing transnational issues such as the environment through multilateral and bilateral negotiations. American diplomacy also has been critical over the past 20 years in promoting peace and reconciliation in the Middle East. Finally, the Department has the continuing responsibility to protect and assist U.S. citizens abroad.

Foreign Assistance

The largest single part of international affairs spending—$13.7 billion, or 74 percent of the total—goes for a wide variety of overseas assistance programs traditionally categorized as security assistance, development aid, and humanitarian assistance.

Security Assistance: International Security Assistance comes mainly through the Foreign Military Financing program (FMF, which the State Department oversees and the Defense Security Assistance Agency manages) and the Economic Support Fund (ESF, which State oversees and the U.S. Agency for International Development manages). Over the past 50 years, security aid helped support the military establishments of friendly countries, mainly around the perimeter of the Soviet Union, and helped ease the economic strain of their defense forces. On the whole, these countries played a critical role in containing the Soviet Union.

The FMF program finances the transfer of military goods and services to eligible countries, using grant funds and a small loan program. The ESF program provides only grant funding. Currently, these two programs devote an overwhelming share of their resources to supporting the Middle East peace process. For a number of years, over $5 billion a year has gone for this purpose. This funding demonstrates strong U.S. support for the actions that regional leaders are taking to advance the peace process. Most of the remaining funds support the transition of Eastern European countries to NATO membership, the establishment of democracy in countries such as Angola, Cambodia and Haiti, and the training of foreign military personnel, primarily from developing countries.

Development Assistance: Development assistance is carried out through a range of programs:

- The Treasury Department manages contributions to multilateral development banks. A major portion of them support the World Bank group of institutions, which make development loans both at near-market rates and on highly-concessional terms, and which provide financing and investment insurance for private sector activity in the developing world. Contributions also go to four regional development banks for Africa, Asia, Europe (lending to Eastern Europe and the New Independent States of the former Soviet Union), and Latin America. All but the European bank have concessional loan programs. Two special programs also receive U.S. contributions: the Global Environment Facility, which supports environmental activities related to development projects; and the North American Development Bank, which was established in conjunction with the North American Free Trade Agreement and which supports environmental projects along the U.S.-Mexican border.
- The bilateral development assistance programs of the U.S. Agency for International Development (USAID) target five sectors: broad-based economic growth, population (for which the United States is the leading donor worldwide), health, the environment, and democracy building. In recent years, USAID has significantly restructured its program to focus on countries most likely to adopt economic reforms, in order to encourage free markets along with improvements in democratic governance. USAID has developed performance measures to help it allocate resources, and has made major internal management reforms to improve its effectiveness and cut costs.
- State, USAID, and other agencies (the U.S. Information Agency, Export-Import Bank, Peace Corps, and Overseas Private Investment Corporation) also carry out grant and lending programs similar to development assistance to support the transition to free market democracy in Central Europe and the New Independent States.

Encouraging economic development has proven a difficult task, requiring far more time for success than policy makers assumed in the early 1960s when they initiated many of the current programs. Nevertheless, a number of developing countries have shifted from grants and highly concessional loans to near-market rate loans, and a few countries have graduated from the ranks of foreign assistance recipients. Some early recipients of U.S. bilateral assistance in East Asia are now among the world's most dynamic economies, and the major Latin American countries no longer require large-scale grant aid.

Humanitarian Assistance: Humanitarian assistance programs also encompass various activities:

- USAID manages two food aid programs under Public Law 480, first enacted in 1954. The agency makes humanitarian food donations, under Title II of the law, through U.S. voluntary agencies and the United Nations World Food Program, and directly to foreign governments. Depending on the circumstances each year, about half of this program goes to disaster relief—with recent large donations in such areas as central Africa and Bosnia—and half to longer-term development projects. Under Title III, USAID provides food to governments that sell it, then use the proceeds to carry out agricultural reforms.
- State and USAID also manage funds for refugee support and disaster assistance. State manages humanitarian refugee relief funding —mainly grants to international agencies such as the United Nations High Commissioner for Refugees and the International Committee of the Red Cross. USAID manages the Office of Foreign Disaster Assistance, which provides grants to deal with natural and human disasters overseas. In a crisis, these two programs and Title II of Public Law 480 are closely coordinated.

The United States continues to lead the world in responding to humanitarian crises, due to Americans' support for such assistance and U.S. voluntary agencies' unequaled capacity to implement relief programs quickly and effectively. This humane concern and excellent program delivery has, over the years, countered world food shortages, alleviated the impact of major droughts in particular countries, managed surges of refugees, and dealt with man-made disasters such as genocide in Rwanda.

Export Promotion

While U.S. diplomacy and foreign assistance promote open markets and export opportunities for U.S. business, three other international affairs agencies more directly support or finance American exports. The Export-Import Bank provides short- and long-term loans and loan guarantees and insurance to support U.S. exports, primarily exports of capital goods. Bank support is designed to remedy imperfections in private capital markets, and to counter financing by the official export credit agencies of other countries. The Overseas Private Investment Corporation provides loans, guarantees, and insurance for U.S. business investment overseas. The Trade and Development Agency provides grant financing for feasibility studies on major infrastructure and other development projects abroad. These agencies' activities generate considerable payoffs for U.S. exports.

A series of tax preferences also benefit U.S. trade activities. Americans working abroad, for example, often may exclude $70,000 of income and a portion of their housing costs from taxes. In addition, U.S. exporters who work through Foreign Sales Corporations may exempt significant portions of their income from U.S. taxes. U.S. exporters also may allocate more of their earnings abroad (and thereby reduce their tax obligations). Finally, earnings from U.S.-controlled foreign corporations benefit from a tax deferral—they are not subject to U.S. taxes until they are received by U.S. shareholders as dividends or other distributions.

International Organizations

The United States promotes its foreign policy goals through a wide variety of international organizations, to which it makes both assessed and voluntary contributions. While our global leadership is most clear in the United Nations, other organizations are important to U.S. interests.

The International Atomic Energy Agency, for example, strongly supports America's nonproliferation goals, while the World Health Organization pursues our goal of eradicating disease. NATO advances our national security goals in Europe. We support our development assistance goals as a leading contributor to the United Nations Development Program. Finally, our assessed contributions to U.N.-supported peacekeeping operations, and our voluntary contributions to such peacekeeping efforts as the Multilateral Force in the Sinai, support peace-keeping in regions that are important to our interests.

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	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	16,692	16,629	16,439	16,427	16,246	16,235	16,226
Mandatory Outlays:							
Existing law	28	38	38	31	31	31	31
Tax Expenditures:							
Existing law	845	880	1,475	830	790	780	770
Proposed legislation	....	430	787	540	234	111	41

Technology has become a major engine of economic growth, a significant contributor to our national security, a generator of new knowledge, and a critical tool in protecting our health and environment. Not only has technological innovation accounted for at least half of the Nation's productivity growth in the last 50 years, but the development of such new technologies as computers and jet aircraft has created new industries as well as millions of high-skilled, high-wage jobs.

All too often, though, companies will not make the investments that could benefit all of us down the road—either the risk is too great, or the return to the companies is too small. Thus, by making such investments, the Federal Government plays an indispensable role in science and technology. Federal investments must run the gamut from basic research, to applied research, to technology development—because scientific discovery and technological innovation are so profoundly interwoven.

The budget proposes $16.5 billion in 1998 to conduct science, space, and technology activities through the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and the Energy Department's (DOE) general science programs. The Government also seeks to stimulate private investment in these activities through nearly $1 billion to $2 billion a year in tax credits and other preferences for research and development (R&D).

National Aeronautics and Space Administration

The Government created NASA in 1958 as the successor to the National Advisory Committee on Aeronautics, which had supported aeronautical technology since World War I. NASA, for which the budget proposes $12.1 billion in 1998, is the lead Federal agency for R&D in civil space activities, working to expand frontiers in air and space in order to serve America and improve the quality of life on Earth.

NASA pursues this vision through balanced investment in:

Space Science: These programs are designed to enhance our understanding of the creation of the universe, the formation of planets, and the possible existence of life beyond Earth. NASA has enjoyed major successes of late, including its discovery of possible evidence of past life on Mars. Also, NASA's Galileo spacecraft arrived at Jupiter, dropped a probe into Jupiter's atmosphere, and found evidence of ice, possibly liquid waters, and volcanic activities on Jupiter's moons. NASA is shifting away from large, once-a-decade spacecraft missions and is instead focusing on smaller, cheaper missions that can fly frequently.

Environmental Research: These programs focus on examining Earth's natural and human-induced environmental changes through long-term observation, research, and analysis of Earth's land, oceans, and atmospheric processes. NASA will launch the first in a series of environmental monitoring spacecraft in 1998.

Space Transportation Technology: Working with the private sector, these programs explore technologies that could help produce an ambitious experimental launch vehicle—X–33—which should complete its first test flight by March 1999 and dramatically cut the costs of putting payloads in space.

Human Exploration: These programs focus on establishing a permanent human presence in Earth's orbit by developing and operating the International Space Station. What we learn from the Space Station also will support future decisions on whether to conduct further human space exploration. In 1996, this program supported the successful launch of eight Space Shuttle flights, three missions to the Russian Mir space station, and continued construction of the International Space Station.

NASA has about 21,000 employees at its headquarters and Federal research centers, and it conducts about 90 percent of its work through procurements with the private sector, leading to jobs for another 175,000 people. With a constrained budget, NASA has cut redundant operations, privatized some operations, improved its management processes, and reformed its procurement process.

National Science Foundation

The Government created the NSF in 1950 to support research and education in science and engineering. 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.

The budget proposes $3.3 billion in 1998 for NSF, which it would invest in four key program functions:

Research: Support for research projects, comprising 56 percent of NSF's budget, includes individual, small group, and center-based activities.

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 educational levels.

Facilities: Investments in facilities, representing nearly 20 percent of NSF's budget, include support for large, multi-user facilities for cutting-edge research, such as observatories, supercomputing facilities, and oceanographic research vessels.

Administration: Administration, covering four percent of NSF's budget, includes internal salaries and expenses.

NSF, recognized around the world for its high standards of quality and efficiency, relies on a rigorous, competitive process of merit review to choose which among the 30,000 proposals it receives each year to fund. NSF funds about a third (although it views about 70 percent as deserving support). NSF-supported activities leverage over $1.4 billion a year in cooperative investments from outside sources, including $250 million by some 600 private corporations.

NSF funds support over 25,000 senior scientists, and its research funds support over 50,000 other professionals and graduate and undergraduate students. NSF education programs reach over 120,000 teachers in kindergarten through 12th grade. As evidence of the high quality of science that NSF supports, five of the six U.S. Nobel prize winners in 1996 received NSF support early in their careers.

Department of Energy General Science Programs

DOE's general science programs, for which the budget proposes just over $1 billion, fund its high-energy and nuclear physics R&D to expand knowledge about the fundamental nature of matter and energy. DOE is responsible for long-range planning for the Federal Government's program in general science, for maintaining a balanced national program between investing in new facilities and supporting researchers, for assuring U.S. leadership in the world, and for coordinating its efforts with NSF—the other leading Federal supporter of these programs.

DOE provides over 90 percent of total Federal support for high-energy physics and 85 percent for nuclear physics. It also supports the premiere scientific facilities in both fields. DOE-supported research in these fields is conducted by 4,100 scientists and students from over 150 universities, 12 national laboratories, and other nations. About 2,000 U.S. users tap DOE's nuclear physics research facilities, and 2,500 U.S. users tap DOE's high-energy physics research facilities. DOE's high-energy and nuclear physics laboratories host about 500 visiting foreign scientists at any given time, and about 250 students a year earn their Ph.D.'s for research supported by these programs.

Scientists supported by DOE's high-energy and nuclear physics programs, or who conducted their research in DOE's laboratories, have been recognized around the world for their contributions to a variety of important fields. Thirty researchers have won Nobel Prizes since 1939 (most recently in 1995), and 49 researchers have won DOE's own highly-prestigious prizes—the Enrico Fermi Awards and the E.O. Lawrence Awards—demonstrating the excellence of DOE's programs.

Tax Incentives

Along with direct spending on R&D, the Federal Government has sought to stimulate private investment in these activities with nearly $1 billion to $2 billion in tax preferences a year. The law provides a 20–percent tax credit for private research and experimentation expenditures above a certain base amount. The credit, which has expired in the past, is due to expire once again on May 31, 1997, but the President's tax plan would extend it for one year—that is, through May 31, 1998. The law also enables companies to deduct, up front, the costs of certain kinds of research and experimentation.

15. ENERGY

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

Function 270	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	4,900	4,256	4,703	4,891	4,645	4,498	4,391
Mandatory Outlays:							
Existing law	–3,122	–2,913	–2,766	–3,703	–2,823	–3,021	–3,715
Proposed legislation	....	....	....	–24	–35	–65	–1,226
Credit Activity:							
Direct loan disbursements	1,036	2,527	2,093	1,731	2,663	1,814	1,682
Tax Expenditures:[1]							
Existing law	2,200	2,255	2,230	2,425	2,505	2,490	2,520
Proposed legislation	....	–14	–64	–96	–99	–101	–102

[1] Excludes alcohol fuels excise tax.

The Federal Government's energy programs contribute not just to energy security, but to economic prosperity. Funded mainly through the Department of Energy (DOE), they range from protecting against disruptions in petroleum supplies, to conducting research on renewable energy sources, to developing radioisotope power sources for space missions, to restructuring wholesale electricity markets throughout the United States. The Administration proposes $4.7 billion for these programs in 1998. In addition, the Federal Government allocates about $3 billion a year in tax breaks mainly to encourage the development of both traditional and alternative sources of energy.

The Federal Government has a longstanding role in energy, one that has changed over the last half-century and will continue to evolve. Most of the programs and agencies identified below perform functions that have no State or private counterparts, and that clearly involve the national interest. The federally-owned petroleum reserves, for instance, protect against supply disruptions and consumer price shock, while Federal regulators protect the public's heath and environment as they ensure fair, efficient energy rates. DOE's basic research programs focus on the long-term, high-risk problems that lack any obvious short-term payoff and, thus, are programs that industry has no incentives to fund.

Energy Security, and Energy Research and Development

DOE maintains the Strategic Petroleum Reserve (SPR) and operates various research and development (R&D) investments to protect against disruptions in petroleum supplies and reduce the environmental impacts of energy production and use.

Created in 1975, SPR now has 563 million barrels of crude oil in underground salt caverns at four Gulf Coast sites. In an emergency, the oil reserves would meet military needs and cut the economic costs of large, sudden oil price increases caused by a severe interruption of our oil supply. As the United States was entering the Persian Gulf War in early 1991, for instance, the President announced an energy emergency, prompting an SPR drawdown that—along with the allied nations' early and overwhelming military success—caused oil prices to drop by $10 per barrel (or, by about a third of their price).

DOE's R&D energy investments cover a broad array of resources and technologies to make the production and use of all forms of energy—including renewables, fossil, and nuclear—more efficient and less environmentally damaging. Federal R&D support can help develop these technologies, which benefit society by cutting emission rates of greenhouse gases, acid rain precursors, and air pollutants. Investments in these areas are not only laying the foundation for a more sustainable energy future, but also opening major international markets for manufacturers of advanced U.S. technology.

Energy conservation programs, for which the budget proposes $688 million in 1998, 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 and low-income home weatherization. Many of these programs rely on private-sector partners to cut Federal spending and increase the likelihood that these 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 that have been available for at least five years have generated, to date, $11 billion in total consumer and business savings on energy bills.

Solar and renewable energy programs, for which the budget proposes $330 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. The United States is the world's technology leader in wind energy, with a growing export market. In addition, utilities are producing some solar thermal power, photovoltaics are becoming increasingly useful in remote power applications, and DOE is now working with Amoco on producing ethanol from wood and paper wastes.

Fossil fuel energy R&D programs, for which the budget proposes $346 million, help industry to develop advanced technologies to produce and use coal, oil, and gas resources more efficiently and cleanly. The program's successes will affect many consumers. For instance, the federally-funded development of clean, highly-efficient gas-fired generating systems will make electricity production less expensive than other 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.

Basic Energy Research

The Nation receives enormous benefits from investing in DOE's basic research and specialized research facilities, for which the budget proposes $1.5 billion. The programs focus on research related to energy production, conversion, and use, and to identifying and mitigating the health and environmental effects of those activities. One Federally-funded basic research project discovered how to cut energy losses from electric grid transformers by 90 percent, thus paving the way for about $1 billion less in lost power for electric companies and, in turn, lower prices for consumers.

DOE's state-of-the-art scientific facilities also provide the cutting-edge experimental and theoretical techniques that provide insights into dozens of applications—from next-generation semi-conductors to microbiological studies of tumor growth. The facilities are available on a competitive basis for researchers funded by the National Science Foundation, other Federal agencies, and public and private entities. DOE also invests in research to develop the scientific and technological foundation for the next generation of user facilities.

Environmental Management and Stewardship

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. The Department also faces the crucial task of developing a long-term solution to the problem that the Nation's commercial spent nuclear fuel poses.

Environmental Management: The budget proposes $934 million to reduce the 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 clean-up and safe disposal of radioactive and hazardous wastes and materials has progressed substantially. Over 60 percent of private sites contaminated during the research, processing, and production of uranium and thorium will be cleaned up by the end of 1998, allowing these private sites and facilities to return to productive use.

Civilian Radioactive Waste Management Program (RW): RW oversees the management and disposal of spent nuclear fuel from commercial nuclear reactors, and high-level radioactive waste from Federal cleanup sites. In 1998, DOE expects to complete the first stage of evaluating a Nevada site as a possible geologic repository—representing an important step in a 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—hoping to eventually de-Federalize them and their agencies. 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, the Government no longer needs it for that purpose. Congress voted in 1996 to require the sale of Elk Hills, which produced $368 million of oil, gas, and other products in 1995. The Government plans to sell the reserve in 1998 and deposit the proceeds to the Treasury.

The five Federal Power Marketing Administrations (Alaska, Bonneville, Southeastern, Southwestern, and Western) market electricity generated at 129 multi-purpose Federal dams through over 33,000 miles of federally-owned transmission lines, located in 34 States. The Government plans to finish selling the Alaska Power Administration, as Congress authorized, to the State of Alaska and current customers in 1998. The PMAs sell about six percent of the Nation's total electricity, and sell it at preferred rates to such public entities as counties, cities, and publicly-owned utilities and power authorities. The PMAs, however, face growing challenges as the electricity industry moves toward open, competitive markets—and away from regulated monopolies.

In 1998, the PMAs will begin to use their receipts from selling electric power to cover the full costs of Civil Service Retirement System and Post-Retirement Health Benefits for their employees. Curently, the PMAs cover the full costs for employees who work under the Federal Employees Retirement System.

The Tennessee Valley Authority (TVA) is a Federal Government corporation and the Nation's largest electric utility, serving 7.3 million customers in seven States. TVA supplies power through 11 coal-fired plants, 30 hydropower facilities, and three nuclear power plants. It also operates a series of water supply, flood control, recreation, and economic development programs. TVA power sales will grow an estimated 3.7 percent—from $5.8 billion in 1997 to an estimated $6 billion in 1998. For the first time, TVA in 1997 will reduce the debt it owes to the investing public. The planned $50 million debt repayment in 1997 and the planned $225 million debt repayment in 1998 reflect TVA's efforts to ensure the agency's financial health, position itself to succeed as competition increases in the Nation's electricity markets, and serve the interests of TVA's customers and bondholders and the Federal Government. (For information on TVA's non-power activities, see Chapter 20, Community and Regional Development.)

In 1997, the Agriculture Department's Rural Utilities Service (RUS) will make $1.4 billion in direct loans to nonprofit associations, rural electric cooperatives, public bodies, and other utilities in rural areas for generating, transmitting, and distributing electricity. RUS charges interest at or below Treasury rates for debt of comparable maturity, in order to cut the high cost of electric service to rural customers that results from the low customer density in rural areas.

DOE also has large reserves of uranium that the Government no longer needs for their original purpose, including high enriched uranium (HEU) from dismantled nuclear weapons. The Government plans to sell some of that material in a manner that will not disrupt uranium markets—$100 million worth of natural uranium a year through 2001 and $200 million in 2002. If, after an inter-agency review, the President declares that the remaining HEU exceeds national security needs, DOE will sell, in 2002, another $750 million of low enriched uranium, derived from HEU for commercial use through 2007.

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. The Federal Energy Regulatory Commission (FERC), an independent agency within DOE, regulates the transmission and wholesale prices of electric power, including non-Federal hydroelectric 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.

The Nuclear Regulatory Commission (NRC), an independent agency, regulates nuclear facilities—commercial nuclear reactors, the medical and industrial use of nuclear materials, and the transport and disposal of nuclear waste. The NRC seeks to protect public health and the environment from nuclear materials. The companies and other entities that the NRC regulates finance most of its budget through fees.

DOE also 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.

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.

16. NATURAL RESOURCES AND ENVIRONMENT

Table 16–1. FEDERAL RESOURCES IN SUPPORT OF NATURAL RESOURCES AND ENVIRONMENT

(In millions of dollars)

Function 300	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	20,668	21,071	22,393	22,393	21,848	21,741	21,829
Mandatory Outlays:							
Existing law	667	1,045	1,012	863	911	907	843
Proposed legislation	....	....	113	74	62	97	104
Credit Activity:							
Direct loan disbursements	34	45	38	37	37	39	40
Tax Expenditures:							
Existing law	1,650	1,670	1,680	1,690	1,705	1,685	1,655
Proposed legislation	....	–8	–89	–92	–94	–96	–97

The Federal Government spends over $20 billion a year to protect the environment, conserve Federal 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—including 25 million acres managed by the Defense Department (DOD) and 56 million that the Interior Department holds in trust for Indian Tribes and individual Indians. The lands generate about $2.7 billion in receipts a year, mainly from royalties and revenues from the oil and gas, coal, and timber industries. About half of the receipts go to the Federal Treasury, the rest to States and to various Federal land and water resource programs. The Government also allocates nearly $1 billion a year in tax incentives for natural resource industries, especially timber and mining.

Federal lands include the National Park System, with such unique resources as Grand Canyon National Park, Everglades National Park, Yellowstone National Park and Gettysburg National Military Park; the 156 National Forests that the Forest Service manages for various uses, including timber harvesting, wildlife habitat, and recreation; the National Wildlife Refuge System, comprising 510 refuges for the conservation of migratory birds and other important species; and the 264 million acres that the Bureau of Land Management (BLM) manages in 11 Western States for economic, conservation, and recreational purposes. Visitors make about 700 million recreational visits a year on Federally-owned lands.

Federal spending on natural resources and the environment also includes the Environmental Protection Agency (EPA), for which the budget proposes $7.6 billion in 1998. EPA implements most of the Nation's major environmental laws, including the Clean Air, Clean Water, and Safe Drinking Water Acts; administers the Superfund program; and finances water infrastructure projects.

Largely due to Federal efforts, the air and water are cleaner across most of the

[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.

United States, and a much larger share of Americans are served by secondary wastewater treatment. Our natural resources are better conserved—with national forests and public rangelands returned to sustainable levels of productivity, soil erosion substantially reduced, thousands of wetland acres restored, unique ecosystems protected, contaminated areas cleaned up by a record rate, and billions of dollars in flood damages averted. Formerly endangered or threatened species like bald eagles, wolves, and condors again grace the landscape in the lower 48 States. Finally, one of America's best inventions—its national park system—has been improved and preserved for future generations.

Parks and Recreation

The Federal Government invests over $1.4 billion a year to maintain the National Park System, which has 374 parks, covering over 83 million acres in 49 States, the District of Columbia, and various territories. The popularity of national parks has prompted a steady rise in congressional funding (almost five percent a year since 1986) for the National Park Service (NPS), but has generated even faster growth in the number of new parks and other NPS responsibilities. Since 1986, the number of national parks has grown by 10 percent, including the five designated in the 1996 Omnibus Parks Act. NPS also maintains an infrastructure of aging facilities, fragile ruins, and declining historic structures.

So, with demands growing faster than available funding (and with an estimated 280 million park visitors in 1996), NPS is taking new, creative approaches to managing parks, including broader cooperative arrangements with public and private groups. The Government, for instance, is establishing the Tallgrass Prairie National Preserve in Kansas at substantially less cost than a traditional national park unit, due to a partnership with a private group that owns most of the land. At the Presidio of San Francisco, a government corporation will be able to lease and manage hundreds of unused buildings in a manner consistent with park purposes, but that cuts taxpayer costs. More park managers also are accepting the support of individuals and corporate citizens that donate their time and money to help protect national parks. Finally, NPS is seeking additional resources by asking Congress for permanent authority to collect fees and retain all the receipts from new fees, and for reforms in park concessions policies to increase competition for concessions contracts and provide incentives for parks to negotiate higher returns from concessioners.

Conservation and Land Management

How we use the public lands that BLM manages (the 264 million acres in 11 Western States) has evolved over time—and continues to. To meet changing and diverse demands, BLM is promoting both biological diversity and the sustainable development of natural resources. In 1996, BLM provided for nearly 65 million recreational visits while accommodating more traditional users, including 20,000 Western ranchers, the timber industry, and other commercial interests.

BLM and the Forest Service, with combined annual budgets of about $3 billion, manage Federal forests for multiple purposes. Federal forest lands in the Pacific Northwest and northern California were plagued by conflict between environmentalists and industry over logging and, eventually, a court injunction that brought Federal timber sales to a virtual halt in 1991. To end the impasse, the President established his Northwest Forest Plan in 1994. Now, Federal forest management is nearing a fully sustainable level. The Federal Government offered for sale over 1.7 billion board feet from Federal forest lands in Washington, Oregon, and northern California from 1994 to 1996—enough to build 142,000 average homes and employ about 11,700 people. The Forest Plan also supports area communities by distributing grants and loans to help over 100 communities further diversify their economies.

Federal and non-Federal agencies also are implementing long-term restoration plans for the South Florida and Bay-Delta, California ecosystems. The South Florida ecosystem is a national treasure that includes the Everglades, Florida Bay, and other internationally-renowned natural resources. Its long-term viability and sustainability is critical for the tourism and fishing industries, as well as for the water supply, economy, and quality of life for South Florida's population of over six million people. As with South Florida, the lack of enough clean water in the San Francisco Bay-San Joaquin Delta ecosystem has reduced the quality and quantity of wildlife habitat, endangered several species, and reduced the estuary's reliability as a source of high quality water.

The Interior Department's Fish and Wildlife Service (FWS) and Commerce Department's National Marine Fisheries Service (NMFS) protect species under the Endangered Species Act (ESA) while allowing economic development to continue. To protect species on non-Federal lands, these agencies work with States and local governments, private groups, and landowners to develop Habitat Conservation Plans (HCPs), which provide the flexibility and certainty that everyone needs to plan for, and use, their land. From 1983 to 1992, such parties devised only 14 HCPs but, from 1993 to 1997, the number issued or under development soared to 300—covering 8.4 million acres in the Pacific Northwest alone. To protect species on Federal lands, Federal agencies consult with State and local governments, groups, and others before allowing private parties to use the land.

Another important land conservation program is the Land and Water Conservation Fund (LWCF), which uses the royalties of offshore oil and gas leases to help Federal, State, and local governments acquire land for conservation and outdoor recreation. From its inception in 1964, the program has helped Federal, State, and local governments to acquire about seven million acres of parks and other lands. The program, for instance, is funding the acquisition of Sterling Forest in New York and New Jersey, the largest undeveloped tract of forest and open lands within 45 miles of downtown New York City, thus creating vast new recreational opportunities for the whole area.

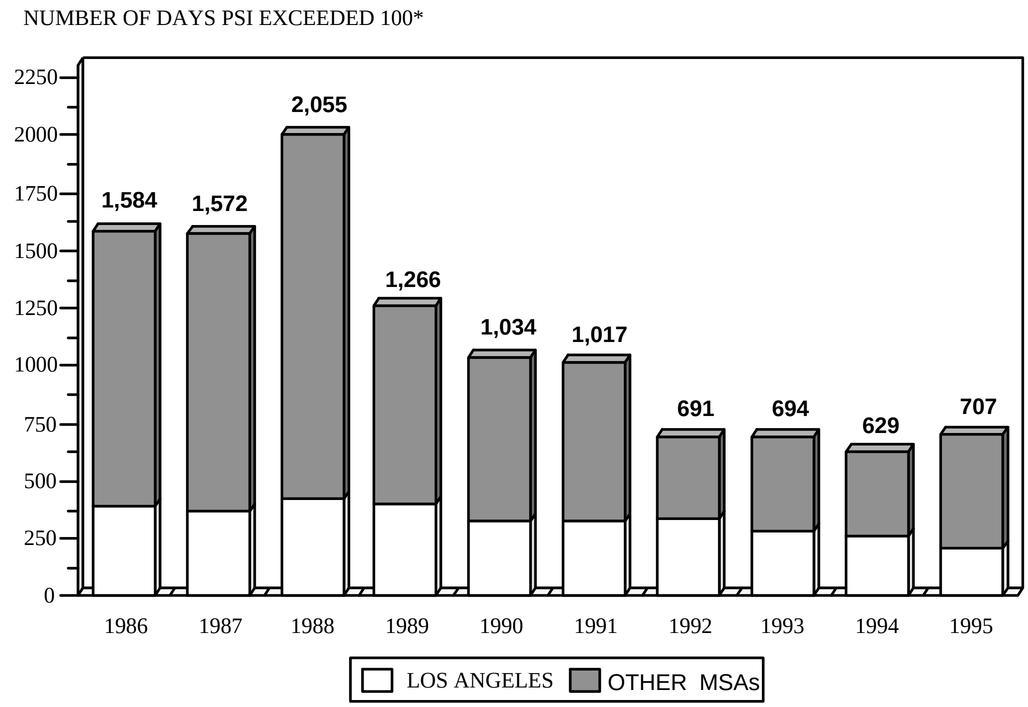
Half of the continental United States is cropland, pastureland, and rangeland owned and managed by two percent of Americans—farmers and ranchers. The Agriculture Department's (USDA) Natural Resources Conservation Service provides these private interests with technical assistance to ensure the health and sound management of this land. Other USDA programs mainly provide financial conservation assistance, the largest of which is the Conservation Reserve Program (CRP) through which USDA can maintain up to 36 million acres under land retirement contracts, reducing soil erosion by over 600 million tons a year. The 1996 Farm Bill should greatly enhance CRP's conservation benefits. Under it, for instance, producers may enroll partial fields into the CRP (e.g., filterstrips, riparian buffer areas, and grassed waterways) to gain the maximum conservation for the least cost.

Pollution Control and Abatement

The Federal Government helps achieve the Nation's pollution control goals in three ways. It (1) takes direct action, (2) funds action by State, local, and Tribal governments, and the private sector, and (3) imposes mandates on these parties. The Environmental Protection Agency's (EPA) $7 billion discretionary budget and the Coast Guard's $100 million Oil Spill Liability Trust Fund (which funds oil spill clean-ups in U.S. waters) finance the first two activities. EPA's discretionary budget, in turn, has three major parts—the operating program, Superfund, and water infrastructure financing.

- EPA's $3 billion operating program is the main Federal funding source to implement most Federal pollution control laws, including the Clean Air, Clean Water, Solid Waste Disposal, Safe Drinking Water, and the Toxic Substance Control Acts. EPA protects public health and the environment by developing national pollution control standards, which States largely implement and enforce under the authority that EPA delegates. These standards have led to major environmental improvements. EPA's pollution abatement efforts since 1970 also have generated major environmental improvements (see Chart 16–1).
- Superfund's $2 billion program pays for cleaning up hazardous substance spills and abandoned hazardous waste sites, and for compelling responsible parties to clean up inactive sites—with a goal of 900 completed cleanups by the year 2000 of the roughly 1,400 sites on EPA's high-priority

Chart 16-1. AIR QUALITY TRENDS IN URBAN AREAS



MSA= Metropolitan Statistical Area PSI=Pollutant Standards Index (Air Quality)
*Note: A PSI level greater than 100 is the level which denotes that residents are breathing unhealthy air.

list. Private parties subject to Superfund's enforcement spend another $2 billion a year, and Federal agencies (largely DOD and the Energy Department) spend about $5 billion a year on hazardous waste cleanup. Superfund also supports the Federal brownfields program, designed to assess, clean up, and re-use former contaminated sites.

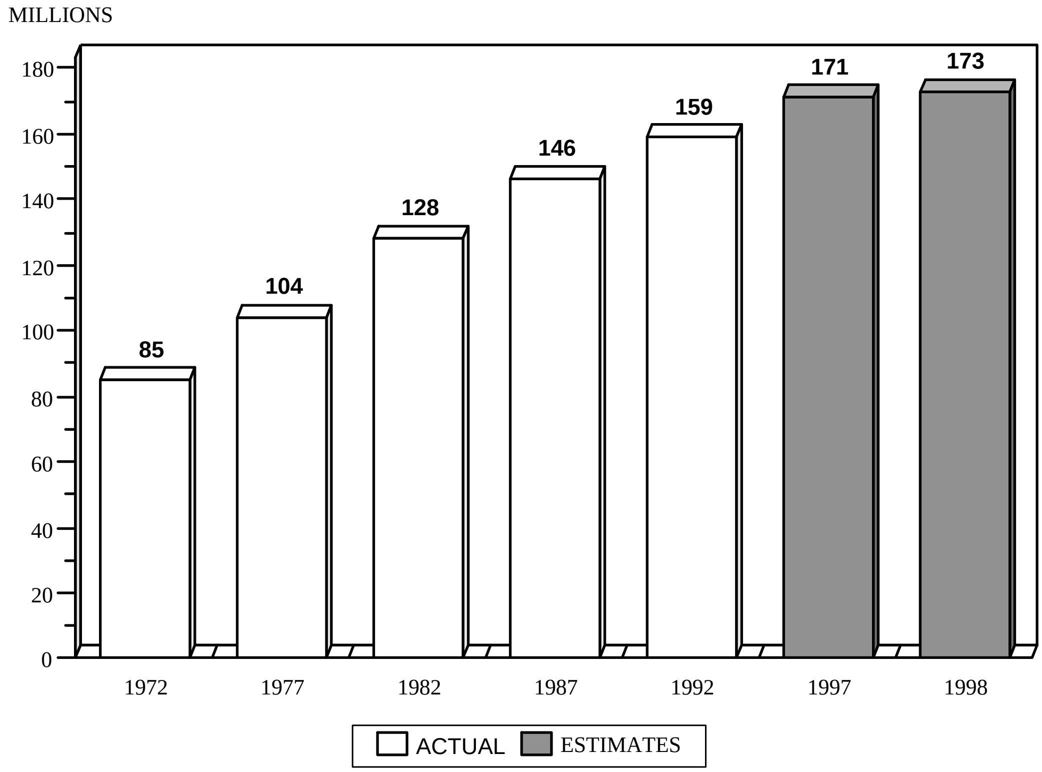
- Federal water infrastructure funds go primarily for capitalization grants to State revolving funds, which make low-interest loans to help municipalities pay for wastewater treatment and drinking water treatment systems, as Federal law requires. The more than $67 billion in Federal assistance since the 1972 Clean Water Act has dramatically increased the percentage of Americans served by secondary treatment (as shown in Chart 16–2) and better water quality. State and local governments (and private companies) also benefit from a tax break (costing $700 million in 1998) allowing State and local governments to issue tax-exempt bonds to construct private waste disposal facilities.

Water Resources

The Army Corps of Engineers and Interior's Bureau of Reclamation are the main Federal agencies that build and operate multi-purpose water projects. The Corps operates Nationwide, while the Bureau operates in the 17 western States. They both seek to develop or manage water resources to meet changing needs. The budget proposes $4.6 billion for the agencies in 1998—$3.7 billion for the Corps, $0.9 billion for the Bureau.

- While navigation and flood damage reduction remain the Corps' major focus, its projects, programs, and regulatory responsibilities increasingly address environmental objectives, including wetlands protection. The Administration will work with Congress to develop a consensus on priorities for the Corps Civil Works program in an era of stable or falling budgets.

Chart 16-2. POPULATION SERVED BY SECONDARY TREATMENT OR BETTER



- The Bureau was designed to support economic development in the West by financing and constructing reliable water supplies for irrigation and hydropower generation. With the West developed, the Bureau has sought since the late 1980s to remake itself into a customer-oriented "water resources management" agency, operating projects more efficiently and providing expertise on the best way to manage water resources, consistent with sound environmental and economic objectives.

Regulation

Millions of Americans have benefited not just from the spending programs discussed above, but from Federal regulations that are designed to protect the environment and public health. In issuing regulations, however, the Administration has sought to carefully protect the public without unduly burdening private interests. In this area and in others, the Administration has worked to eliminate unnecessary regulations while improving the regulations that are clearly necessary.

State, local, and Tribal governments and the private sector devote considerable resources to comply with Federal environmental laws and regulations to make the air and water cleaner and reduce risks from hazardous wastes.

Tax Incentives

The tax code 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 investment, and quickly write-off reforestation costs—all told, costing about $500 million in 1998. 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 $335 million in 1998.

17. AGRICULTURE

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

Function 350	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	4,206	4,140	4,115	4,014	3,944	3,905	3,914
Mandatory Outlays:							
Existing law	5,023	6,132	8,181	7,605	7,156	6,069	5,866
Proposed legislation	....	....	17	43	23	10	13
Credit Activity:							
Direct loan disbursements	6,183	7,074	8,670	8,573	8,294	7,670	7,159
Guaranteed loans	5,082	7,880	8,075	7,988	7,974	7,970	7,969
Tax Expenditures:							
Existing law	320	325	330	345	350	355	360
Proposed legislation	....	–28	–136	–121	–124	–124	–124

Early in our history, the Federal Government helped improve food production. Today, it aims to do much more for agriculture and its related activities, which account for 16 percent of the Gross Domestic Product. The Government helps our bountiful human, natural, and capital resources work together to produce the highest possible benefit at the lowest cost for Americans and others. Federal programs disseminate economic and agronomic information, ensure the integrity of crops and safety of meat and poultry, and help farmers face risks from weather and unfamiliar export conditions. The results are found in the public welfare that Americans enjoy, free of severe dislocations that can occur when commodity markets are left to take their natural time to correct themselves.

The Federal Government spends about $10 billion a year for agriculture, but the Agriculture Department's (USDA) $50 billion a year in other spending includes investments that support farms and farmers' income (noted below and in other chapters). The tax code also offers $500 million a year in incentives for farmers.

Conditions on the Farm

In the 1980s, record-high Federal price supports, global recession, and the strong dollar led to steep declines in farm exports, market prices, and cropland values, creating the most severe financial crisis in the farm sector since the 1930s. The Government responded with the largest-ever Federal acreage idling program, more market-oriented and lower price supports, and export subsidies to counteract unfair foreign trade practices. At the same time, the demand for food increased around the world.

U.S. agriculture has now recovered. In 1995 and 1996, short supplies of corn and wheat lifted the sector's economic indicators, and agricultural exports hit a record $60 billion in 1996. Market prices for major crops such as corn and wheat reached their highest levels in recent history; farmer debt-to-asset ratios are low; farm land prices are high; and net farm income rose to record levels in 1996, despite the cyclical downturn in livestock.

Exports are key to future farm incomes. The Nation now exports 30 percent of U.S. farm production, and agriculture produces the greatest balance of payments surplus, for its share of national income, of any economic sector. The farm sector generally supported the North American Free Trade Agreement and the recent Uruguay Round of the General Agreement on Tariffs and Trade, believing that U.S. agriculture can compete successfully in a world market free of trade barriers and export subsidy distortions.

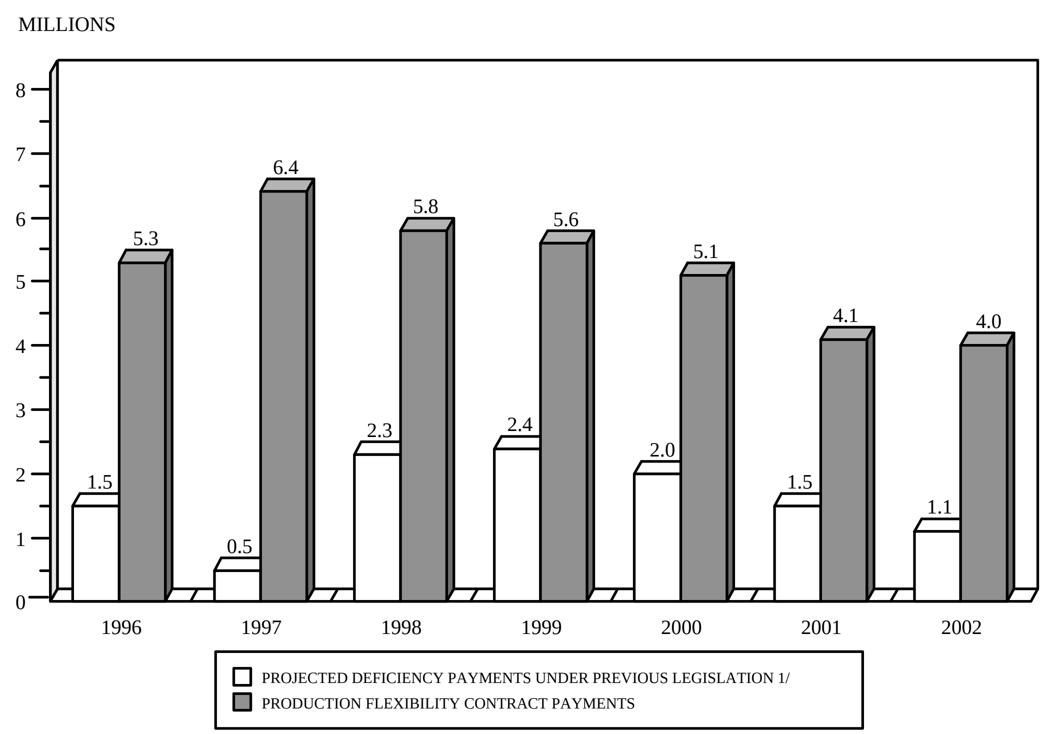
Federal Farm Programs and Markets

The farm sector can grow when markets send signals to plant crops, buy machines, hire workers, and sell food. The historic 1996 Farm Bill will greatly increase the market's influence in U.S. farm policy.

Known officially as the Federal Agriculture Improvement and Reform Act of 1996, the Farm Bill will significantly alter the basis for planting decisions and Federal income support for most farmers. Under previous laws dating to the 1930s, farmers who reduced plantings when prices were low could get income support payments. These "deficiency" payments were tied to the gap between market prices and a legislated "target price" for major commodities, such as wheat, corn, cotton, and rice. The program distorted market signals, as farmers planted "for the program." The Farm Bill eliminated most planting restrictions. Further, the Government will provide fixed, but declining payments to eligible farmers for the next seven years, regardless of market prices or production. Thus, the law "decouples" Federal income support from planting decisions and market prices.

Because commodity prices were high in 1996, the fixed payments provided an estimated $3 billion to $4 billion more in income transfers than farmers would have received under the old law (see Chart 17–1). Payments in 1997 likely will exceed previous law levels by similar amounts, but the excess will decline in later years. In signing the Farm Bill, the President expressed concern that it did not provide an adequate "safety net" for farm income. As a result, the budget

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



1/ Source: USDA Long-term Projections, February 1996.

proposes to strengthen the safety net, largely in partnership with private sector approaches.

The Farm Bill also uses incentives to encourage farmers to protect the natural resource base of U.S. agriculture. For example, the new $200 million-a-year Environmental Quality Incentive Program helps farmers address water quality concerns; the new Flood Risk Reduction Program provides incentives to move farming operations from frequently-flooded land; and the revised Conservation Farm Option gives producers incentives to create comprehensive conservation farm plans.

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 Natural Resources Conservation Service, which provides technical assistance. For more information on conservation, and USDA's investments in forestry and 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.

Risk Management: USDA helps farmers manage their financial risks by providing subsidized crop insurance, delivered mainly through the private sector. On average, farmers pay no premiums for coverage against catastrophic losses, and the Government subsidizes their premiums for additional coverage. USDA pays private companies for all costs associated with administering Federal crop insurance. Over the past three years, an average 80 percent of eligible acres have been insured, with losses averaging $1.10 for every $1 in premiums—down from the historical average of $1.40. Since the Farm Bill ended USDA's traditional price and income support programs, producers now bear the added price risk. In 1996, USDA began to pilot-test to farmers, through the private sector, several products that mitigate revenue risk, along with the traditional coverage for production risk. Initial results indicate that farmers generally want these types of products. Crop insurance costs the Federal Government about $1.7 billion a year.

Inspection and Market Regulation: A half-billion dollars a year in Federal spending helps 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 (as described in Chapter 22, Health.) The Animal and Plant Health Inspection Service 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 and the Grain Inspection, Packers, and Stockyards Administration help to market U.S. farm products in domestic and global markets, ensure fair trading practices, and promote a competitive and efficient marketplace.

Economic Research and Statistics: Annual Federal spending of about $150 million aims 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 develops estimates of production, supply, price, and other aspects of the farm economy. In 1998, it will fund the Census of Agriculture, conducted every five years.

Agricultural Research: The Federal Government plays an important role in supporting agricultural research and the enhanced productivity it can foster, and spends over $1.5 billion a year for that purpose. The Agricultural Research Service 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, and in 1998 it expects to submit 70 new patent applications, participate in 75 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 farm, food, and environmental research. The average annual return to publicly-funded agricultural research exceeds 35 percent, according to recent academic estimates.

Agricultural Credit: USDA provides about $500 million a year in direct loans and over $2.5 billion in guaranteed loans for farm operating and ownership purposes. Direct loans generally go to beginning or socially disadvantaged farmers. Participants must be unable to secure credit, and the loans carry interest rates at or below the rates on Treasury securities, depending on the farmer's expected income. In addition, the Farm Credit System and "Farmer Mac"—which are Government-Sponsored Enterprises—enhance the supply of farm credit through ties with 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 and additional years to attain required capital standards.

Trade: USDA spends over $1 billion 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. Much of USDA's export promotion, however, comes through other avenues. It helps firms overcome technical requirements, trade laws, and customs that often discourage the smaller, less experienced ones from taking advantage of export opportunities. Also, it 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 Market Access Program or USDA-organized trade shows, firms are better placed to export different products to new locations on their own. The programs are working. U.S. firms, especially the smaller ones, are exporting more aggressively, and high-value products now comprise a growing share of export value. Overall, the trade surplus for agriculture in recent decades has grown faster than for any other civilian sector of the economy.

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 1997, USDA will launch three efforts: (1) conduct a study to find ways to operate more efficiently, (2) undertake 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.

Tax Incentives

Farmers can deduct certain costs in the year they incur them, even for inventories or for items that provide future benefits and, thus, normally would be deducted over time. In addition, solvent farmers do not have to recognize the forgiveness of their farm debt as income. And farmers can pay lower, capital gains rates on their gains from selling certain assets, including unharvested crops. Under Federal estate taxes, farmers benefit because their land is valued based on its current use as farmland—not its market potential for development—and they can pay estate taxes in installments. Finally, feedgrain growers receive indirect benefits from the tax subsidy for ethanol production, which boosts the market price for corn.

18. COMMERCE AND HOUSING CREDIT

Table 18–1. FEDERAL RESOURCES IN SUPPORT OF COMMERCE AND HOUSING CREDIT

(In millions of dollars)

Function 370	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	3,721	2,362	3,308	3,770	5,242	3,221	3,230
Mandatory Outlays:							
Existing law	–13,793	–11,418	710	2,512	6,925	5,708	6,778
Proposed legislation	....	....	–714	56	271	–1,683	–1,909
Credit Activity:							
Direct loan disbursements	1,570	8,824	4,973	1,682	1,928	2,258	2,405
Guaranteed loans	181,277	168,959	161,613	161,534	163,350	166,218	169,216
Tax Expenditures:							
Existing law	182,415	188,935	195,875	204,780	213,495	222,030	229,670
Proposed legislation	....	69	243	228	202	174	144

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. All told, the Government provides about $1.5 billion a year in support for housing credit that, in turn, supports over $100 billion in housing loans and loan guarantees. (Another $16 billion in subsidies for low-income housing programs is classified in the Income Security function.)

The Federal Government also dedicates about $2 billion a year to promote business and maintain the safety and soundness of our financial institutions. The Small Business Administration (SBA) provides aid and counsel to small businesses, particularly minority- and women-owned ones. 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.

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 run by 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 1996, helping over 1.3 million households (see Table 18–2).

HUD's Mutual Mortgage Insurance (MMI) Fund, which the Federal Housing Administration (FHA) runs, helps increase access to single-family mortgage credit in metropolitan areas. In 1996, the MMI Fund guaranteed over $59 billion in mortgages for over 739,000 households. Over two-thirds of such mortgages

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

	Dollar volume of loans/guarantees written in 1996 (in millions)	Number of housing units/small businesses financed by loans/guarantees written in 1996	Dollar volume of total outstanding loans/guarantees as of the end of 1996 (in millions)
Mortgage Credit:			
HUD FHA Mutual Mortgage Insurance (MMI) Fund	59,221	739,603	363,994
HUD General Insurance and Special Risk Insurance (GI/SRI) Fund	12,220	301,730	91,176
USDA/RHS Section 502 single-family loans	2,700	48,000	21,054
USDA/RHS multifamily loans	150	1,894	11,410
VA guaranteed loans	28,676	291,635	130,031
Subtotal, Mortgage Credit	102,967	1,382,862	617,665
SBA guaranteed loans	8,205	50,520	28,329
Total Assistance	**111,172**	**1,433,382**	**645,994**

go to first-time homebuyers. Fees and premiums paid to the MMI Fund fully offset program costs—the program receives no annual appropriation from Congress.

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. Its 502 direct loan program provides loans for buying, rehabilitating, or repairing single-family homes. Its 502 guaranteed loan program guarantees up to 90 percent of a private loan for buying new or existing housing. Together, the two 502 programs provided $2.7 billion in loans and loan guarantees in 1996, supporting 48,000 households. RHS's 515 program, which generally lends to private developers, finances both the construction and rehabilitation of rural rental housing for low- to moderate-income, elderly, and handicapped rural residents. It provided $150 million in direct loans in 1996, supporting over 1,800 households.

VA helps veterans and active duty personnel buy and improve homes. Its Loan Guarantee Program (classified in the Veterans Benefits and Services function) provides housing credit assistance to veterans and service members. The Government partially guarantees the loans from private lenders, providing $29 billion in loan guarantees in 1996. VA also provides direct loans to the buyers of acquired properties, including $1.3 billion in loans in 1996.

The Government plays an important role in supporting the secondary mortgage market. Congress created the Government National Mortgage Association (Ginnie Mae) in 1968 to support the secondary mortgage market for FHA, VA, and USDA single- and multifamily mortgages. Under its Mortgage-Backed Securities (MBS) program, Ginnie Mae guarantees the timely payment of principal and interest on securities backed by pools of FHA, VA, and USDA mortgages issued by private mortgage institutions. The program raises liquidity in the secondary mortgage market and attracts new sources of capital for residential loans. To date, Ginnie Mae has originated over $1 trillion in securities, of which over $480 billion remain outstanding. Its MBS single-family program has helped over 19 million low- and moderate-income families buy homes.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan

Mortgage Corporation (Freddie Mac) are congressionally chartered, shareholder-owned corporations known as Government Sponsored Enterprises (or GSEs). Congress chartered them to provide stability in the secondary market for residential mortgages, and promote access to mortgage credit throughout the Nation, including under-served areas. The GSEs issue and guarantee mortgage-backed securities (MBS), and they hold debt-financed portfolios of mortgages, MBS, and other mortgage-related securities. By the end of 1996, Fannie Mae and Freddie Mac had financed $1.51 trillion in mortgages and other assets. As of September 30, 1996, the two GSEs had outstanding $1.4 trillion in mortgages purchased or guaranteed. Because they are classified as private, Fannie Mae and Freddie Mac are not included in the budget.

A third housing GSE, the Federal Home Loan Bank System (FHLBS), is a member-owned cooperative that provides liquidity to mortgage lenders by making collateralized loans, called advances. At the end of 1996, outstanding FHLBS advances totaled $153 billion.

The Government also plays an important role in ensuring that consumers get the information they need to make informed housing decisions. For example, HUD and the Environmental Protection Agency jointly issued a regulation in 1996 to require owners of housing built before 1978 to disclose, to prospective buyers or renters, information about any known lead-based paint hazards. Informed buyers and renters are best-positioned to decide how to protect their families at an affordable cost.

Rental Housing and Homeless Assistance Grants

The Federal Government also provides support for 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 1996—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 $541 million to support 40,050 new and existing rental units in 1996.

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, and the Federal Emergency Management Agency—provide 98 percent of the Federal help targeted to the homeless. For 1996, HUD provided $823 million in homeless assistance grants, representing 73 percent of the $1.13 billion targeted Government-wide funding total.

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 $285 billion in lost revenue from 1998 to 2002) and the deductibility of State and local property tax on owner-occupied homes (costing $95 billion over the same five years).

Other tax provisions also encourage investment in housing: (1) homeowners can avoid capital gains taxes from selling their homes if they use the gains to buy another one (costing $81 billion from 1998 to 2002); (2) taxpayers 55 and older can avoid capital gains taxes on up to $125,000 from selling their homes (costing $27 billion); (3) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers; and (4) 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. The President proposes to expand tax benefits for homeowners, which would ensure that 99 percent of all home sales are exempt from capital gains taxes.

Commerce, Technology, and International Trade

The Commerce Department and SBA promote industrial competitiveness.

Commerce promotes the development of technology and advocates sound technology policies. Commerce's Advanced Technology Program provides cost-shared, competitive grants for industry research and development that are paying off in jobs created, strategic alliances formed, and technology developed. Commerce's Manufacturing Extension Partnership (MEP) provides technological information and expertise to the Nation's 381,000 smaller manufacturers. MEP's clients indicate an 8-to-1 return on Federal investment in firm sales, jobs created or retained, and labor and material savings. 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, now issuing over 100,000 patents a year. Its International Trade Administration (ITA) promotes exports, fights unfair foreign trade barriers, and negotiates multilateral and bilateral trade agreements. In 1995 alone, ITA estimates that it supported $15.5 billion in gross exports and 248,000 jobs.

Commerce's Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy. A key effort is the constitutionally-mandated decennial census—the basis for reapportioning seats in the U.S. House of Representatives, redrawing State legislative districts, and distributing billions of dollars of Federal, State, and local funds. In addition, Commerce's Bureau of Economic Analysis prepares and interprets U.S. economic accounts, including the gross domestic product, wealth accounts, and the U.S. balance of payments.

SBA, which Congress created in 1953 to aid, counsel, assist, and protect small business, expands access to capital by guaranteeing private loans. The loans carry longer terms and lower rates than the small businesses otherwise would have received. SBA guaranteed over $8.2 billion in small business loans in 1996.

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 Resolution Trust Corporation (RTC), a temporary agency created to handle thrift failures from 1989 to 1995, protected 25 million deposit accounts in 747 failed institutions.

The Federal Deposit Insurance Corporation (FDIC) insures the deposits of banks and savings associations (thrifts) through two separate insurance funds, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). The National Credit Union Administration (NCUA) insures the deposits of credit unions. Currently, these varied kinds of deposits are insured for up to $100,000 per account. The FDIC insures deposits at over 9,500 commercial banks and almost 2,000 savings institutions, for a total of $2.7 trillion in insured deposits. The NCUA insures about 11,500 credit unions, with $260 billion in insured deposits.

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 Fed members, the FDIC regulates other State-chartered banks, and the NCUA regulates credit unions.

Other 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, preventing fraud and abuse.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment and savings. Those who inherit capital assets, for instance, do not pay taxes on gains that accrued during the original owner's lifetime—a benefit that will cost the Government an estimated $173 billion from 1998 to 2002. Capital gains also are subject to a maximum 28 percent rate, making them attractive to taxpayers who are paying higher income tax rates. Other capital gains provisions benefit investments in small businesses. Other tax provisions benefit small firms, including the graduated corporate income tax and up-front deductions, or "expensing," for certain investments by small businesses.

19. TRANSPORTATION

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

Function 400	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending: [1]							
Discretionary Budget Authority	13,628	13,782	13,534	14,566	14,722	14,978	15,236
Mandatory Outlays:							
Existing law	2,501	2,450	2,381	2,329	2,151	2,031	1,954
Proposed legislation	....	....	35	22	6	–51	–651
Credit Activity:							
Direct loan disbursements	47	216	591	791	863	879	879
Guaranteed loans	826	1,065	477	477	477	477	477
Tax Expenditures:							
Existing law	1,320	1,365	1,405	1,455	1,505	1,560	1,620

[1] This table excludes spending subject to obligation limitations.

America's transportation network moves people through a combination of public and private systems, financed by Federal, State, and local governments and the private sector. Maintaining and improving these systems requires infrastructure investment, safe operations, and new technology.

Though the Federal Government plays a major role in each of these areas, it does not act alone in any of them. With just a few exceptions, Federal transportation programs are designed to promote transportation access for all citizens, ensure the safe design and movement of privately-owned and operated vehicles, help a struggling segment of the transportation industry, or advance transportation research. In total, Federal transportation spending comes to about $39 billion a year.

Infrastructure Investment

America has four million miles of roads, 580,000 bridges, 123,000 miles of railway, 5,500 public-use airports, 6,000 transit systems, and 25,000 miles of commercially-navigable waterways. This extensive, multi-modal network is essential to the Nation's commerce, and a more efficient system would help the economy.

The Federal Government has helped develop large parts of the system, with much of the help financed by user fees and transportation taxes. Total Federal investment in transportation represents about half of total public investment—that is, $27 billion of the $54 billion of Federal, State, and local spending on transportation infrastructure in 1993.

Highways and Bridges: About 950,000 miles of roads and all bridges are eligible for Federal support, including the Interstate highway system, urban freeways, urban and rural principal and minor arterials, defense highways, and Federal lands roads. In 1998, the Federal Government plans to spend $19.8 billion to maintain and expand these roads, with the Federal funds financed by motor fuels taxes, mainly the gasoline tax. The Federal gas tax is 18.4 cents a gallon, of which 12 cents finances formula grants to States for highway-related repair and improvement.

State and local governments provide 56 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 19.3 cents per gallon in 1995. State and local governments also are accelerating their infrastructure projects by using debt financing, such as bonds and revolving loan funds. Under the new State Infrastructure Banks program, the Federal Government is providing funds to States to help underwrite debt issuance for highway and transit projects. In addition, the new Transportation Infrastructure Credit Program promises to provide similar financing innovations for nationally significant projects.

The Interstate highway system is virtually complete, with 45,481 of the 45,500-mile system open to the public. Its completion marks the end of America's largest-ever public works project, begun during the Eisenhower Administration as a "grand plan" to meet the transportation needs of a rapidly growing Nation.

Transit: As with highways, the Federal Government plays a partnership role with State and local governments on mass transit. Two cents a gallon of the Federal gas tax goes to fund transit grants to municipalities and States. Federal capital grants comprise about half of the total spent 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, including funds to "match" Federal grants.

In 1998, the Federal Government plans to spend $4 billion on transit capital. The Federal role is especially important to finance capital-intensive urban rail systems and low-volume 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.

Passenger Rail: The Federal Government will invest about $424 million in 1998 to support the passenger rail system's infrastructure and equipment needs. The extension of the Northeast Corridor high-speed rail to Boston highlights the partnership between the Federal Government and private sector to improve passenger rail. 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, introducing three-hour service between New York City and Boston.

Airports: The Airport Improvement Program (AIP) provides grants to States, localities, and airport authorities to maintain and enhance airport safety, preserve airport infrastructure, and expand capacity and efficiency throughout the system. The AIP typically funds a fourth to a third of all capital development at public use airports, while airport revenues (e.g., concession revenues, landing fees, passenger facility charges) finance the rest.

Other Transportation: With regard to commercial shipping infrastructure, Federal loan guarantees facilitate the construction of new vessels and the renovation of existing 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. Of America's 541 private freight railroads, the largest 11 moved over one trillion ton-miles of freight in 1994—about a third of the total ton-miles shipped. Freight railroads finance their own infrastructure, spending over $7 billion a year to upgrade and maintain track and structures.

Safe Operations

The Federal Government works with State and local governments and private groups to mitigate the safety risks inherent in the transportation system. It regulates motor vehicle design and operation, inspects commercial vehicles, educates the public about safe behavior, directs air and waterway traffic, and rescues boaters in danger.

A broad range of Federal activities are designed to cut the number of deaths and injuries from highway crashes, which number about 41,000 and five million a year, respectively. Due to Federal, State, local, and private efforts, safety belt usage reached an all-time high of 68 percent in December 1995. Federal programs reach out to State and local partners, including health care professionals, to identify the causes of crashes in each community and develop new strategies to reduce deaths, injuries, and the resulting medical costs. These programs will be increasingly important as the number of young drivers grows. In addition to coordinating national traffic safety campaigns, the National Highway Traffic Safety Administration (NHTSA) regulates the design of automobiles and light trucks, investigates reported safety defects, and distributes traffic safety grants to States. The budget proposes $333 million for NHTSA, a 10-percent increase over 1997.

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 two flights a second, moving 1.5 million passengers to where they want to go each day. The FAA also uses its regulatory and certification power to ensure that every aspect of aviation is safe—from aircraft design and maintenance to the flight crew. In 1996, the FAA performed over 300,000 inspections to ensure compliance with safety regulations. To meet safety needs in 1998, the Administration plans to spend $7.2 billion on FAA operations and capital, five percent more than in 1997.

The Federal Government also plays an operational role on major waterways. The Coast Guard places and maintains waterborne aids-to-navigation, operates radio navigation and distress systems, guides vessels through busy ports, and regulates vessel design and operation. The Coast Guard helps ensure safety on minor waterways and inland lakes by providing boating safety grants to States, and by supporting a 35,000-member voluntary auxiliary that performs complimentary boat safety inspections and educates boaters about safety. In 1998, the Coast Guard will invest $3.1 billion in its operating and capital programs, which are mainly dedicated to safety.

The National Motor Carriers Program, for which the budget proposes $100 million in 1998, 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. Federal grants are designed to help States boost safety.

Research and Technology

The Federal Government has long led efforts to advance transportation technology. Federal transportation research has focused on building stronger roads and bridges, designing safer cars, and reducing human error in operating vehicles of all types. Today, the increasing congestion of roadways and airways is colliding with Federal budget constraints and with environmental and land-use concerns. Consequently, transportation planners believe that better management of the existing infrastructure is a cost-effective alternative to building more highways and airports. In 1998, the Federal Government will spend over $1 billion on transportation research and technology.

The Federal Highway Administration's Intelligent Transportation Systems (ITS) program is developing and deploying technologies that will help States and localities improve traffic flow and safety on their streets and highways. These technologies include intelligent cruise control, passive tolling and inspection, and automated highways. The private sector, which works closely with the ITS program, will initially deploy many of the technologies developed with ITS funding.

The FAA's research, engineering, and development programs help improve safety, security, capacity, and efficiency in the National Airspace System. For instance, the advanced traffic management system and the early introduction of satellite navigation capabilities will improve the aviation industry's competitiveness and the FAA's efficiency. In general, FAA research focuses on the causes of human error; aircraft safety and fire protection methods; aviation weather research; quieter engines and reduced aircraft emissions; and security and explosives detection systems.

The National Aeronautics and Space Administration's Aeronautical Research and Technology program funds partnerships with industry that may revolutionize the next generation of airplanes, making them faster, more efficient, and more compatible with the environment. These activities include programs to advance the capabilities of sub-sonic aircraft, to help develop large, high-speed civilian airplanes, and to enhance the performance of aeronautics-related computing and communications facilities.

Regulation of Transportation

Federal rules greatly influence transportation. Over the past two decades, deregulation of the domestic railroad, airline, and interstate trucking industries has contributed to the Nation's economic growth. More recently, deregulation has continued. In 1993, for example, the Federal Government deregulated intrastate trucking, saving shippers and consumers an estimated $3 billion to $8 billion a year.

The Federal Government also issues regulations to spur safer, cleaner transportation. The regulations improve safety—of cars, trucks, trains, and airplanes—leading to substantial reductions in transportation-related deaths and injuries. In addition, they help reduce the number of oil spills and provide a faster response when spills occur.

The Government has taken other regulatory steps to meet transportation-related environmental and safety goals in a cost-effective manner. For example, between now and 2015, the costs of oil shipments to the United States will fall by hundreds of millions of dollars due to "lightering zone" regulations that permit older, single-hull vessels in the Gulf of Mexico to off-load oil. The Federal Government is also making its regulations parallel with those of other countries. An agreement on aviation safety rules—now under negotiation with the European Community—promises to save airlines at least $100 million, and possibly $1 billion, over 10 years.

Tax Expenditures

Employer-provided parking and transit passes are, for the most part, not subject to income taxes, costing the Government an estimated $6.9 billion from 1998–2002; the estimate does not include the value of employer-owned parking. To finance infrastructure, State and local governments issue tax-exempt bonds whose costs to the Federal Government, in lost revenues, are reflected in the General Government and Community and Regional Development functions.

20. COMMUNITY AND REGIONAL DEVELOPMENT

Table 20–1. FEDERAL RESOURCES IN SUPPORT OF COMMUNITY AND REGIONAL DEVELOPMENT
(In millions of dollars)

Function 450	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	11,645	9,313	10,920	8,333	7,681	7,751	7,870
Mandatory Outlays:							
Existing law	317	343	–112	63	126	255	63
Proposed legislation	....	157	5	20	....	–15	–13
Credit Activity:							
Direct loan disbursements	1,963	2,313	2,460	1,908	2,118	2,210	2,143
Guaranteed loans	839	1,454	1,941	2,055	2,090	2,159	2,022
Tax Expenditures:							
Existing law	2,650	2,700	2,740	2,720	2,700	2,640	2,425
Proposed legislation	....	40	450	551	565	544	489

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 $12 billion a year, and offers about $2.7 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 in this area have proved successful in creating stable and healthy communities that offer greater economic opportunity. The Government helps communities with basic infrastructure needs pay for constructing roads, improving water and sewage systems, and constructing affordable housing. For those affected by layoffs and rising job insecurity, Federal programs promote jobs skills through employment training and education, and promote access to jobs by helping businesses and rehabilitating commercial properties. Communities that are 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.

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. HUD estimates that projects for which it provided economic assistance from 1993 to 1996 created or saved 1.4 million jobs.

Community Development Block Grant (CDBG): The CDBG program, for which the budget proposes $4.6 billion, gives States and localities 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. Every Federal dollar spent for CDBG leverages an estimated $2.31

in private and other investment. Communities spend CDBG funds to improve housing, public works, public services, and economic development, and to acquire or clear land.

Seventy percent of CDBG funds go to over 900 designated central cities and urban counties, the remaining 30 percent to States to award to smaller localities. CDBG's Section 108 Loan Guarantee Program 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. Indian CDBG programs provide services for Native Americans, primarily focusing on public infrastructure, community facilities, and economic development. In 1996, 84 Tribes received a total of $49 million in CDBG grants through competition.

HOME: The budget proposes $1.3 billion in flexible HOME grants to States and communities to address their most severe housing needs. This program (classified in the Income Security function) generates an estimated $1.80 in private and other investment for every Federal dollar spent. Eligible activities include new construction, rehabilitation, acquisition of standard housing, assistance to home buyers, and tenant-based rental assistance. From the program's inception in 1992 to June 1996, recipients have committed or used HOME funds to build or rehabilitate 201,000 housing units and to help 26,500 families pay their rent.

Department of Agriculture

The Agriculture Department (USDA) gives financial assistance to rural communities and businesses to provide safe drinking water and adequate wastewater treatment facilities; boost employment; and further diversify the rural economy. The budget proposes $2.5 billion in such assistance. Grants, loans, and loan guarantees go for constructing rural community facilities, such as health clinics and day care centers; constructing water and wastewater systems; and creating or expanding rural businesses. USDA offers loan assistance for building community facilities and water and wastewater facilities at interest rates tied to the community's income—the lowest-income communities receive significantly subsidized interest rates. These programs are designed to help rural communities with fewer than 10,000 residents. Since 1993, over 4,500 communities have received financial assistance to build or upgrade drinking water or wastewater systems, and the rural business and industry loan guarantee program has created or saved over 110,00 rural jobs.

Department of the Treasury

Treasury's Community Development Financial Institutions (CDFI) Fund, for which the budget proposes $125 million, provides grants, loans, equity investments, and technical assistance to qualified CDFIs—including community development banks, low-income credit unions, microenterprise funds, and many multi-bank community development corporations. The assistance, which must be matched by comparable non-Federal money, is designed to promote economic revitalization and community development. Federal funds may be used for small business, low-income housing, community facilities, the provision of basic financial services, and other community development activities. In 1996, the CDFI Fund approved $37 million for 32 CDFIs, serving 46 states and the District of Columbia. The fund also awarded $13 million to 38 traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs.

Department of the Interior

The Interior Department's Bureau of Indian Affairs (BIA), for which the budget proposes $1.7 billion in 1998, helps Tribes, Native American organizations, and individuals develop resources to improve their economies through financial assistance programs, various loans and grants, assistance in getting financing from other sources, and technical assistance in using agricultural and rangeland resources. BIA's guaranteed business loans in 1996 generated about $40 million in total financing, creating or sustaining over 1,700 jobs.

Each year, BIA helps Tribes manage 16 million acres of forest land and conduct timber sales of $250 million that sustain over 10,000 forest and timber-related jobs, and helps Tribes manage mineral resources and generate mineral income. BIA funds housing improvement and maintains over 4,500 single family housing units for BIA teachers and other reservation-based staff. Finally, BIA (with the Transportation Department) maintains and improves over 40,000 miles of public and BIA roads and 745 bridges, and addresses deficiencies at over 100 high-hazard dams on reservations.

The Tennessee Valley Authority (TVA)

The TVA adds to the prosperity of seven States by: (1) providing reliable supplies of electricity at rates that are among the Nation's lowest, (2) paying over $250 million a year to State and local governments in lieu of taxes, and (3) operating economic and regional development programs that provide flood protection, recreational facilities, navigation, and various other services. The budget proposes $106 million for these purposes, but TVA will develop a plan to eliminate Federal funding for these programs for 1999 and beyond. In 1997 and 1998, TVA will work with Congress, State and local governments, and other interested parties and undertake a major effort to find alternate ways to fund, organize, and manage these programs. The proposal reflects TVA's efforts over several years to decrease its reliance on Federal funds to finance its activities.

The Economic Development Administration (EDA)

The EDA creates jobs and stimulates commercial and industrial growth in economically distressed areas—rural and urban areas with high unemployment, a large share of poor people, or sudden and severe distress. EDA's public works grants help build or expand public facilities to stimulate and foster industrial and commercial growth. Typical projects include industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. From 1992 to 1996, EDA awarded 821 public works grants, totaling $810 million, to help economically distressed communities build these types of infrastructure projects.

EDA's capacity building grants help communities pay for expertise to plan, implement, and coordinate comprehensive economic development projects. The grants also provide technical assistance to communities and firms to find solutions to 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 approved 479 disaster recovery grants, totaling $403 million, to help impacted communities recover from natural disasters that include hurricanes, flooding, earthquakes, and tropical storms.

Disaster Relief

The Federal Government provides financial help to cover a large share of the Nation's losses from natural hazards. Over the past several 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, and private casualty insurers experienced their five most costly natural disasters. Why? Because the natural hurricane cycle seems to be entering a phase in which more hurricanes strike our shores; demographic and economic growth has been great in hurricane- and earthquake-prone areas; and global climate changes or cyclical weather trends seem to be increasing the number and severity of events.

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's unavailable in the commercial market. To mitigate losses and in exchange for flood insurance, communities must adopt and enforce floodplain management measures to protect lives and new construction from future flooding. FEMA also encourages and supports mitigation measures before disasters strike by providing hazard mitigation grants, and sponsoring training, preparedness, and other planning events.

Tax Expenditures

The Federal Government provides several tax incentives to encourage community and regional development activities: (1) A 10 percent investment tax credit for rehabilitating buildings that were built before 1936 for non-residential purposes (costing $340 million from 1998 to 2002); (2) tax-exempt bonds for airports, docks, and wharves, as well as high-speed rail facilities which need not be government-owned (costing $9.3 billion over the same five years); (3) tax-exemptions for qualifying mutual and cooperative telephone and electric companies (costing $325 million over the five years); and, (4) 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 (costing $3.2 billion over the five years). In addition, the law provides tax credits for contributions to certain community development banks.

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	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	36,147	42,387	46,425	47,420	48,455	49,459	50,335
Mandatory Outlays:							
Existing law	13,881	10,487	10,785	10,475	10,625	10,796	11,299
Proposed legislation	....	–340	2,791	4,589	4,986	4,524	1,938
Credit Activity:							
Direct loan disbursements	9,120	11,984	14,536	17,636	20,162	21,736	23,076
Guaranteed loans	19,816	20,958	21,256	20,548	20,540	21,538	22,872
Tax Expenditures:							
Existing law	25,200	27,020	27,865	29,165	30,480	31,880	33,340
Proposed legislation	....	166	4,919	7,201	8,862	9,038	9,506

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 about $60 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 over $30 billion in loans to individuals. It also allocates nearly $33 billion a year in tax incentives for individuals.

Education

Education has long been a national priority, and for good reason. Education has served as the steppingstone for Americans who wanted better lives for themselves and their families. At the same time, Americans view education as mainly the province of State and local governments, and of families and individuals. Education spending reflects these views—of the more than $500 billion a year that the Nation spends on elementary, secondary, and postsecondary education, 91 percent comes from State, local, and private sources. The Federal Government contributes just nine percent.

But, though a small share of the overall investment, Federal spending targets important national needs, such as equal opportunity and high academic standards. For postsecondary education, three-fourths of all student financial aid comes in federally-backed student loans, Pell Grants, and other Federal help—and Federal aid helps half of all students pay for college. To expand access to college, the Administration is proposing a new HOPE scholarship tax credit and a tax deduction, to make two years of postsecondary education universally available and to open the doors to lifelong learning.

At elementary and secondary schools, most disadvantaged students get extra help to succeed through the Federal Title I program, launched as part of the War on Poverty and providing supplementary services, such as special tutoring in math, to low-income children. The return on this Federal investment has been dramatic. 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.

But progress has slowed in recent years, prompting the Federal Government to redirect its strategies. The Goals 2000 program is designed to elevate academic expectations for all students, by encouraging every State to set challenging standards in core subject areas. Recent changes to the Elementary and Secondary Education Act give schools more flexibility in return for greater accountability, creating an environment in which the schools use resources more efficiently. Similarly, Federal support for "charter schools" enables parents, teachers, and communities to create new, innovative public schools, which the States free from most rules and regulations and, at the same time, hold accountable for raising student achievement. Federal progress in helping students with disabilities also has proved significant. High school graduation rates have risen significantly, and 57 percent of youth with disabilities are competitively employed within five years of graduating from high school.

But in the last 30 years, perhaps the Federal Government's most important role in education has been to help Americans afford to attend college. Federal grants, loans, and work study, which went to 7.2 million students in 1996, particularly help low- and middle-income families. From 1964 to 1993, college enrollment nearly tripled, the share of high school graduates that attended college rose by a third, and college enrollment rates for minority high school graduates rose by nearly two-thirds.

While enrollment rates rose for all groups, gaps by race and family income have widened since 1980. One reason seems to be rising tuition, caused mainly by cuts in State support; 76 percent of all students attend State public higher education institutions. Low-income families are particularly sensitive to tuition increases, and minority families have been reluctant to take out loans, which have been the fastest-growing component of Federal aid. The availability of income-contingent loan repayments since 1993, and other flexible repayment options, are designed to help address the appropriate fears of low-income families about assuming loans. In addition, the proposed 21 percent increase in the maximum Pell grant scholarship between 1996 and 1998 is designed to help these families.

The economic returns to a college education are large. In 1993, full-time male workers over 25 years old with at least a bachelor's degree earned 89 percent more than comparable workers with only a high school degree. But not only do the college graduates themselves benefit. The higher socioeconomic status of parents also leads to greater educational achievement by their children.

Skill Training

The elementary, secondary, and postsecondary avenues cited above lay the groundwork for Americans to get the skills they need to acquire good jobs in an increasingly competitive global economy. Most workers also acquire additional skills on the job or through the billions of dollars that employers spend to improve worker skills and productivity. These efforts help the vast majority of working-age Americans.

Nevertheless, others need additional kinds of assistance. Consequently, the Federal Government spends nearly $7 billion a year through Labor Department programs to help dislocated workers train for, and find, new jobs, and to help economically-disadvantaged Americans learn skills with which they can move into the labor force. This aid includes a labor exchange—the State Employment Service—for anyone who wants to learn about job openings.

The Federal Government helps dislocated workers move from one job to the next. Nearly 70 percent of participants in the

Job Training Partnership Act's (JTPA) Dislocated Worker program have jobs when they leave, with average earnings of 92 percent of their previous wages. In addition, JTPA's Title II help disadvantaged adults, including welfare recipients, to get jobs. Over half of the welfare recipients who received help under Title II started jobs, with wages that averaged nearly $7 an hour.

Other programs help youth move from high school to more schooling or work by helping States and localities build School-to-Work systems, support vocational training in secondary and postsecondary institutions, and provide a "second chance" to low-income youth who have not fared well in school or the labor market. States began to implement School-to-Work systems in 1994.

For youth who need it, the Job Corps provides intensive skill training, academic and social education, and support services in a structured, residential setting. Other programs provide summer work experience or more job training.

Workplace Safety and Law Enforcement

The Federal Government spends about $500 million a year to promote safe and healthy workplaces for 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. Regulations that help business create and maintain safe and healthy workplaces have significantly reduced illness, injury, and death from exposure to hazardous substances and dangerous equipment. The regulations clearly produce results that far exceed what Federal funds could achieve. OSHA also helps employers institute effective safety and health programs, while maintaining its strong enforcement capability.

The Government also regulates compliance with various laws that grant workers other protections—a minimum wage for virtually all workers, prevailing wages for workers on government contracts, overtime pay, restrictions on child labor, and time off for family illness or childbirth. In these cases, as with worker health and safety, the Federal Government works with the private sector to achieve important social goals that the Government could never achieve through Federal financing alone.

National Service

The Corporation for National and Community Service, which the Government established in 1993 at the President's urging, encourages Americans of all ages to engage in community-based service. The budget proposes about $800 million to support these programs in 1998.

AmeriCorps, the Corporation's signature initiative, each year enables thousands of young Americans of all backgrounds to serve their local communities full- or part-time. In return, they receive a minimum living allowance and an education award to help pay for post-secondary education. About 70,000 individuals have participated in AmeriCorps in its first three years, with another 35,000 expected to serve under the budget proposals. About a third of new participants in 1998 would participate in America Reads—an effort through which volunteers will help children read by themselves, and well, by the third grade.

Along with AmeriCorps, the Corporation supports the National Senior Volunteer Corps through which older Americans volunteer their time and energy to help their communities, children with disabilities, and the infirm elderly. Nearly 600,000 older Americans would participate in 1998.

Public Broadcasting

The budget proposes $325 million for the Corporation for Public Broadcasting (CPB) to help the 352 public television stations and the 692 radio stations provide quality educational programming through such avenues as National Public Radio and the Public Broadcasting Service. Stations use CPB funds to produce original children's and educational programs, and to acquire historical and cultural programs. CPB also helps finance several system-wide activities, including national satellite interconnection services and payments of music royalty fees.

Social Services

Along with helping youth and adults gain basic and higher education and advanced workplace skills, the Federal Government provides about $xx billion a year in grants to States and local public and private institutions to help defray the cost of social services. Those who receive these services include low-income individuals, the elderly, people with disabilities, children, and youth.

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 preferences, totaling $32.8 billion in 1998. The budget proposes new HOPE scholarship tax credits of up to $1,500 a year for two years of postsecondary education, and again proposes tax deductions of up to $10,000 for tuition and fees for college, graduate school, or job training.

The tax code already provides other avenues for saving, and paying, for education and training. State and local governments can issue tax-exempt debt to finance student loans or the construction of facilities used by non-profit educational institutions. Interest from certain U.S. Savings Bonds also is tax-free if the bonds are used solely to finance educational costs. Also under the tax code, many employers can, and do, provide employee benefits that are not counted as income.

The law offers employers a Work Opportunity Tax Credit, enabling them to claim a tax credit for a portion of wages they pay to certain hard-to-employ individuals who work for the employer for a minimum period. The budget proposes: (1) to enhance the credit with regard to long-term welfare recipients, and (2) to extend the existing credit to able-bodied childless adults aged 18 to 50 who, under the Administration's Food Stamp proposal, would face a more rigorous work requirement in order to continue receiving Food Stamps.

22. HEALTH

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

Function 550	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	23,303	25,045	25,070	25,123	25,139	25,154	25,170
Mandatory Outlays:							
Existing law	96,806	103,541	109,601	116,321	124,764	134,621	145,107
Proposed legislation	....	39	3,940	3,669	2,059	–175	–4,998
Credit Activity:							
Direct loan disbursements	25	20	....	....	....	....	....
Guaranteed loans	210	274	105	6	....	....	....
Tax Expenditures:							
Existing law	72,745	79,245	85,095	91,185	97,255	103,675	110,445
Proposed legislation	....	8	19	12	3	3	1

The Federal Government helps meet America's health care needs by directly providing health care services, by promoting disease prevention and consumer and occupational safety, by conducting and supporting research, and by training and helping to train the Nation's health care work force. All together, the Federal Government will spend about $138 billion in 1998, and allocate $85 billion in tax incentives.

President Johnson and Congress created Medicaid in 1965 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 addition, the Federal Government helps to expand health care coverage to those with which it has a special obligation (including veterans, uniformed military personnel, and American Indians and Alaska Natives), and conducts and sponsors vital biomedical research that would not otherwise take place. Together, all of these Federal activities have helped to extend life expectancy, cut the infant mortality rate to historic lows, level the death rate among those with HIV/AIDS, and make other progress.

Health Care Services

Of the estimated $138 billion in Federal health care outlays in 1998[1], 89 percent finances or supports direct heath care services to individuals.

Medicaid: This Federal-State health care program served about 37 million low-income Americans in 1996—with the Federal Government spending $92 billion (57 percent of the total), while States spent $70 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

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

grow an average of 7.2 percent a year from 1997 to 2002.

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 only 30 percent of Medicaid beneficiaries in 1995, but accounted for 61 percent of spending on benefits. Adults and children made up 70 percent of recipients, but accounted for only 25 percent 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 payor 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 11.6 million (about a third of all recipients) in 1995.

Other Health Care Services: The Department of Health and Human Services (HHS) supplements Medicare (discussed in Chapter 23) 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; and the Substance Abuse block grant. In addition, the Indian Health Service (IHS) provides direct care to 1.4 million American Indians and Alaskan Natives as part of the Federal Government's trust obligations. The IHS system, located primarily on or near reservations, includes 49 hospitals, 190 health centers, and almost 300 other clinics.

Prevention Services: Prevention can go a long way to improve American's 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 HHS' Centers for Disease Control and Prevention—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 its efforts on preventing a host of diseases, including breast cancer, prostate cancer, lead poisoning among children, and HIV/AIDS.

National Institutes of Health (NIH): NIH is among the world's foremost biomedical research centers and the Federal focal point for biomedical research in the United States. 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.

At any one time, NIH supports 35,000 grants to universities, medical schools, and other research and research training institutions. It also conducts over 2,000 projects in its own laboratories and clinical facilities. NIH research has helped to achieve many of the Nation's most important public health advances, such as reducing mortality from heart disease, the Nation's number one killer, by four percent from 1971 to 1991; reducing death rates from stroke by 59 percent over the same period; and increasing the five-year survival rate for people with cancer to 52 percent. Recent NIH-sponsored research has generated significant advances in treatments for individuals infected with HIV, medications for Alzheimer's disease, and revolutionary innovations in molecular genetics and genomics research.

Food and Drug Administration: The Food and Drug Administration (FDA) spends about $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.

Food Safety and Inspection Service (FSIS): FSIS inspects the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. With annual funding of almost $600 million, agency staff inspect all domestic livestock and poultry in slaughter plants, and conduct at least daily inspections of meat, poultry, and egg product processing plants. In 1996, FSIS issued a major regulation that will begin to shift 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.

Federal Employees Health Benefits Program (FEHBP): Established in 1960, the FEHBP is America's largest employer-sponsored multiple-choice health program, providing $17 billion in comprehensive hospital and major medical benefits a year to about 9.6 million Federal workers, annuitants, and their dependents. About 86 percent of all eligible Federal employees participate in the FEHBP, and they select from nearly 400 health insurance carriers that offer a broad choice of delivery systems. The FEHBP offers full coverage upon enrollment—without medical examinations or restrictions based on age, current health, or pre-existing condition.

Veterans' Health Care

With a proposed 1998 health budget of $17.5 billion (including receipts), the Department of Veterans Affairs (VA) provides health care services to 2.9 million veterans through its national system of 22 integrated health networks, consisting of 173 hospitals, 491 outpatient clinics, 135 nursing homes, and 40 domiciliaries[2]. VA is an important part of the Nation's social safety net because almost 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 illnesses.

[2] Domiciliaries serve homeless veterans and veterans who require short-term rehabilitation.

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. But, VA may provide care to lower-priority veterans if resources allow and if the needs of higher-priority veterans have been met.

In recent years, VA has reorganized its field facilities from 173 largely independent medical centers into 22 Veterans Integrated Service Networks charged with giving veterans the full continuum of care. VA also has won legislation easing restrictions on its ability to contract for care and share resources with Defense Department hospitals, state facilities, and local health care providers.

Health Research: VA's research program, for which the budget proposes $234 million in 1998, conducts basic, clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. The program seeks to improve the medical care and health of veterans, and enhance the Nation's knowledge of disease and disability.

Health Care Education and Training: The Veterans Health Administration is the Nation's largest trainer of health care professionals. About 108,000 students a year get some or all of their training in VA facilities through affiliations with over 1,000 educational institutions. The program provides training to medical, dental, nursing, and associated health professions students to support VA and national work force needs.

Defense Department Health Care

The Defense Department (DOD) has two basic, related medical missions: (a) provide, and be ready to provide, medical services and support to the armed forces during military operations, and (b) provide peacetime medical services to members of the armed forces, their dependents, and other beneficiaries entitled to DOD health care.

The Defense Health Program (DHP) utilizes over 100,000 military members and 43,000 civilians in 115 hospitals and 471 clinics world-wide to provide medical and dental services. DOD beneficiaries also receive medical care from private health professionals under the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) medical insurance program, and its managed care component, TRICARE.

About 8.2 million people across the world are eligible for benefits from DOD's health system. DHP's annual direct costs, including operations and procurement, are about $10.2 billion; personnel costs add another $5.2 billion.

DOD's medical research and development (R&D) program funds activities ranging from basic and applied research through development on health issues unique to deployed military forces. The program works to develop vaccines against diseases endemic to countries outside of the U.S.; field-deployable blood products, blood substitutes, and resuscitation fluids; technologies for assessing and treating massive hemorrhage and severe trauma; and methods to prevent injury during military operations. The budget also proposes $25 million in 1998 for HIV R&D.

Regulatory and Administrative Issues

The sheer size and market share of Medicare and Medicaid significantly affects the private health care market. Medicare and Medicaid's coverage, reimbursement, quality of care, and information policies frequently become the accepted standards for the private sector over time. In addition, the Federal Government monitors Medicare and Medicaid's regulation of quality of care and reporting and record-keeping requirements for health facilities in order to evaluate possible additional costs on privately-insured individuals, private health care providers, and State and local governments.

Tax Incentives

Federal tax laws help finance health insurance. First, employer contributions for workers' health insurance premiums are excluded from workers' taxable income. Second, self-employed people may deduct a certain percent (30 percent in 1996, rising to 80 percent in 2006 and beyond) of what they pay for health insurance for themselves, their spouses, and their dependents. Third, individuals who itemize may deduct certain expenses for health care—such as insurance premiums that employers do not pay; expenses to diagnosis, treat, or prevent disease; and expenses for certain long-term care services and insurance policies—to the extent that these expenses exceed 7.5 percent of the individuals' adjusted gross income. Total health-related tax incentives (including other minor provisions) will reach an estimated $85 billion in 1998, and $487.7 billion from 1998 to 2002.

23. MEDICARE

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

Function 570	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Mandatory Outlays:							
Existing law	171,272	191,556	208,641	228,211	248,760	271,089	295,065
Proposed legislation	....	....	–4,310	–11,390	–22,150	–27,820	–34,550

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 $211 billion in 1998 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. Through Medicare, the Federal Government created one insurance pool for all of the elderly while subsidizing some of the costs, thus making insurance much more affordable for almost all elderly Americans.

Medicare has very successfully expanded access to quality care for the elderly. Its trust funds, however, face financing challenges as the Nation approaches the 21st Century. Along with legislative proposals discussed elsewhere in the budget, the Health Care Financing Administration (HCFA) is working to improve Medicare through its regulatory authority and demonstration programs.

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, 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 65 years of age 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); and physical and occupational therapy, speech pathology services, and outpatient mental health services. Part B also covers kidney dialysis and transplants 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 either an established fee schedule or reasonable costs. About 90 percent of Medicare beneficiaries now opt for fee-for-service coverage.

Alternatively, beneficiaries can enroll in a Medicare managed care plan, and the 10 percent who do are concentrated in a few geographic areas. Generally, enrollees receive care from a network of providers, although Medicare managed care plans are starting to 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.

Successes

Medicare dramatically increased access to health care for the elderly—from slightly over half when the program began in 1966 to almost 100 percent today.

Ninety-six percent of Medicare beneficiaries reported no trouble obtaining care in 1994.[1] Further, less than one 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 a choice of managed care plans. Today, managed care is a major, and growing, part of Medicare. As of December 1, 1996, over 4.7 million beneficiaries have enrolled in 336 Medicare managed care plans. In 1995, enrollment in the capitated managed care plans called "risk contracts" grew by 36 percent, and by an annualized rate of 30 percent in the first six months of 1996. Managed care plans can potentially 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 and nursing homes, Medicare is increasing its efforts to root out fraud and abuse. Recent legislation provided more Federal funds and 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

With no changes in law, net Medicare outlays will rise by an estimated 54 percent from 1997 to 2002—from $191.6 billion to $295.1 billion.[2] Net Medicare outlays will grow by an average of nine percent a year over this period. Part A outlays are larger than Part B outlays, and grow more slowly. Nevertheless, Part A outlays will grow by an estimated 46 percent over the period—from $135.1 billion to $197.7 billion—or an average of 7.9 percent a year. Part B outlays will grow by an estimated 72 percent—from $55.9 billion to $96.4 billion—or an average of 11.5 percent a year.

Medicare has consumed a growing share of the budget, and it will continue to under current law. 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 2002, assuming no changes in current law, Federal spending on Medicare benefits will total an estimated

[1] Physician Payment Review Commission, 1996 Annual Report to Congress.

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

$295.1 billion, or almost 16 percent of all Federal outlays.

Medicare enrollment will grow slowly until 2010, then take off as the baby boom generation begins to reach age 65. From 1995 to 2010, enrollment will grow at an estimated average annual rate of 1.4 percent, from 37.6 million enrollees in 1995 to 46.4 million in 2010. But after 2010, average annual growth will almost double, with enrollment reaching an estimated 78 million in 2030—one in five Americans.

The Two Trust Funds

HI Trust Fund: As discussed above, 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 is drawing down the Trust Fund's accounts to partially finance Part A spending. The Government's career actuaries predict that the HI Trust Fund would become insolvent in 2001 in current law, but the President's proposals to strengthen the Trust Fund would push back the date into 2007. (For a detailed discussion of the proposals, see Chapter 1.)

Beyond the impending insolvency, Medicare also faces a longer-term financing challenge. The baby boomers' retirement, starting in 2010, will cause Medicare spending to grow significantly. From 2010 to 2030, enrollment is expected to double while the workforce shrinks. As a result, only 2.2 workers will be available to support each beneficiary in 2030—compared to the current four workers per beneficiary. The President proposes to work with Congress on a bipartisan basis to develop a long-term solution to this financing challenge.

SMI Trust Fund: The SMI Trust Fund receives 75 percent of its income from general Federal revenues, 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. Nonetheless, the trustees of the SMI Trust Fund noted in 1996 "that program costs have been growing faster than the GDP and that this trend is expected to continue under present law."

Demonstrations

HCFA also conducts demonstration programs to determine the efficacy of new service delivery or payment approaches. For instance, it is launching a Choices demonstration project to allow provider-sponsored organizations in certain areas to enroll Medicare beneficiaries. The plans will offer new benefit structures to beneficiaries. Another demonstration project, Centers of Excellence, has experimented with bundled payments for hospital and physician costs, for selected procedures performed at certain high-quality facilities.

Regulations

Through its regulatory authority, HCFA continually improves Medicare. In the last year, HCFA issued regulations to address concerns about the payment incentives that managed care plans offer to physicians that, in turn, may encourage physicians to deny services. Specifically, it barred health plans that contract with Medicare from limiting physicians' ability to discuss all appropriate treatment options with Medicare enrollees. In addition, the Administration is focusing more on patient health outcomes and giving information to consumers that should boost competition among health plans, generating higher-quality care and a more cost-effective Medicare program.

24. INCOME SECURITY

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

(In millions of dollars)

Function 600	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	27,752	26,015	32,592	36,113	38,892	40,402	41,811
Mandatory Outlays:							
Existing law	187,994	197,391	203,649	212,394	222,232	225,644	235,394
Proposed legislation	....	586	2,282	2,246	2,258	1,869	2,569
Credit Activity:							
Direct loan disbursements	93	95	73	8	....	....	....
Guaranteed loans	5	5	17	34	40	40	37
Tax Expenditures:							
Existing law	83,027	84,768	86,279	87,922	89,509	91,266	93,019
Proposed legislation	....	718	11,343	7,283	9,305	11,544	12,043

The Federal Government provides about $220 billion a year in cash or in-kind benefits to individuals through "income security" programs, including about $120 billion for programs that are part 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 $100 billion for income security supports general retirement and disability insurance programs (excluding Social Security), Federal employee retirement and disability programs, and housing assistance.

Major Programs

The largest means-tested income security programs are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and various kinds of low-income housing assistance (discussed in other chapters)—and the Earned Income Tax Credit (EITC). 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 helps 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 1996, 25.5 million people, or 10.6 million households, received benefits and that year, the program provided total benefits of $23 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 $73 in 1996.

Supplemental Security Income: SSI provides benefits to the needy aged, blind, and disabled adults and children. In 1996, 6.5 million individuals received $24 billion in benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $256 for aged adults to $448 for blind and disabled children. Most States supplement the SSI benefit.

Temporary Assistance for Needy Families: In last year's 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 billion in 1998, is designed to meet the President's goal of dramatically changing the focus of welfare—from a system focused on benefits to one that moves recipients 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.

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 1996, the EITC provided $24.3 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 1996, the EITC provided an average credit of nearly $1,400 to over 20 million workers and their families. A two-parent family of four with one full-time worker who works at minimum wage levels and receives Food Stamps would rise above the poverty level in 1998 because of the EITC.

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 1996, about 8.5 million persons claimed unemployment benefits that totaled $23 billion.

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 1996, 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 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); school lunch, school breakfast, and other child nutrition programs; child care assistance; refugee assistance; and low-income home energy assistance.

Effects of Income Security Programs

Last year's welfare reform debate focused on means-tested income security programs. The resulting law not only replaced the program at the heart of the debate, AFDC, but also made big cuts and changes in other programs, including Food Stamps and SSI. But the basic question remains—what effect do these 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 below, "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 those covered. Consequently, we did not include these benefits 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 1996 Current Population Survey, 57.6 million people were poor in 1995 before accounting for the effect of Government programs. Of the 57.6 million, 27 percent were elderly (age 65 and above), 30 percent were children below age 18, and 43 percent were non-elderly adults (age 18–64). Census data show that after accounting for the effects of Government programs:

- The number of people in poverty fell to 30.3 million, a drop of 47 percent.
- The programs lifted 82 percent of the elderly poor out of poverty.
- The programs lifted about a third of poor children and poor non-elderly adults out of poverty.
- Social insurance programs accounted for two-thirds of individuals who were removed from poverty, including 93 percent of the elderly, 55 percent of the non-elderly adults, and 25 percent of the children.
- Means-tested benefits were responsible for 28 percent of the individuals who were removed from poverty, including close to 60 percent of poor children and over 40 percent of non-elderly adults.
- Federal tax policies, including the EITC, accounted for five percent of those removed from poverty, including close to 20 percent of the children.
- The number of people removed from poverty in 1995 reached an all-time high.

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. So, for example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A would be 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 their funding (the $43 billion, above) helped cut the poverty gap.[1]

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 covers 1.9 million Federal employees and 750,000 United States Postal Service employees, and provides retirement benefits to 1.7 million retirees and 600,000 survivors. The Civil Service Retirement System (CSRS) covers employees hired before 1984. The Federal Employees Retirement System (FERS) covers employees hired since January 1, 1984. Along with the FERS defined benefit, FERS employees also participate in Social Security and the Thrift Savings Plan—a defined contribution plan to which the Government makes contributions on their behalf. The average Federal retiree receives an annual benefit of about $20,000. (Military retirement programs are discussed in Chapter 26, Veterans Benefits and Services.)

The budget proposes several changes to CSRS and FERS. First, it would delay the cost-of-living adjustment (COLA) for three months each year for 1998–2002. Second,

[1] Budget data may differ from Census data.

it would increase employee contributions by 0.25 percent of base pay on January 1, 1999, another 0.15 percent in 2000, and a final 0.10 percent in 2001, with the higher rates remaining in effect through December 31, 2002. Third, it would increase agency contributions on behalf of CSRS employees by 1.51 percent of base pay beginning on October 1, 1997, and continuing through September 30, 2002.

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3 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.

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 $69 billion a year—one of the three largest sets of preferences in the income-tax system.

25. SOCIAL SECURITY

Table 25–1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY
(In millions of dollars)

Function 650	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Mandatory Outlays:							
Existing law	347,051	364,232	380,935	398,622	417,735	437,963	459,686
Proposed legislation	....	....	....	–5	1	7	13
Tax Expenditures:							
Existing law	22,890	24,170	25,285	26,465	27,765	28,875	29,935

The Old-Age, Survivors, and Disability Insurance (OASDI) program, popularly known as Social Security, will spend about $380 billion in 1998 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

OASDI provides monthly benefits as a matter of earned right to retired and disabled workers who gain insured status, and to their eligible spouses, children, and survivors (see Chart 25–1). 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

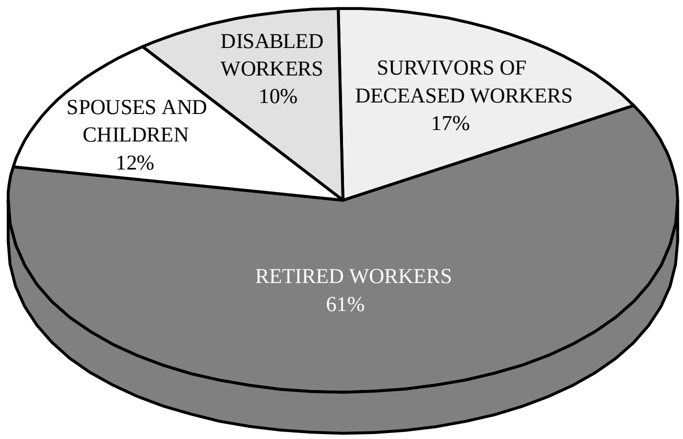
Social Security helps alleviate poverty, provide income security, and maintain the lifestyles of beneficiaries.

Alleviating Poverty: Before the 1960s, when an economist at the Social Security Administration developed a measure to assess poverty, experts believed that a large share of the elderly were poor, although it was not clear exactly how many. In 1970, an estimated 25 percent of the elderly were living in poverty. Now, only about 11 percent of them do.[1]

Social Security is largely responsible for the progress (see Chart 25–2). In 1995, 17 percent of elderly, unmarried beneficiaries had family incomes below the poverty line. Without Social Security retirement benefits, 60 percent of them would have fallen into poverty. For elderly couples, Social Security had a similar effect. In 1995, three percent of the elderly who were married had incomes below the poverty line. Without Social Security retirement benefits, 42 percent of them would have.

[1] These estimates as well as those that follow are based on a definition of poverty that uses pre-tax cash income—the Census Bureau's definition of income for official income and poverty statistics. In the Income Security function discussion of how cash and non-cash means-tested benefits affect poverty, a more comprehensive definition of income is used. The estimated impacts on poverty are not directly comparable across chapters.

Chart 25-1. COMPOSITION OF SOCIAL SECURITY RECIPIENTS



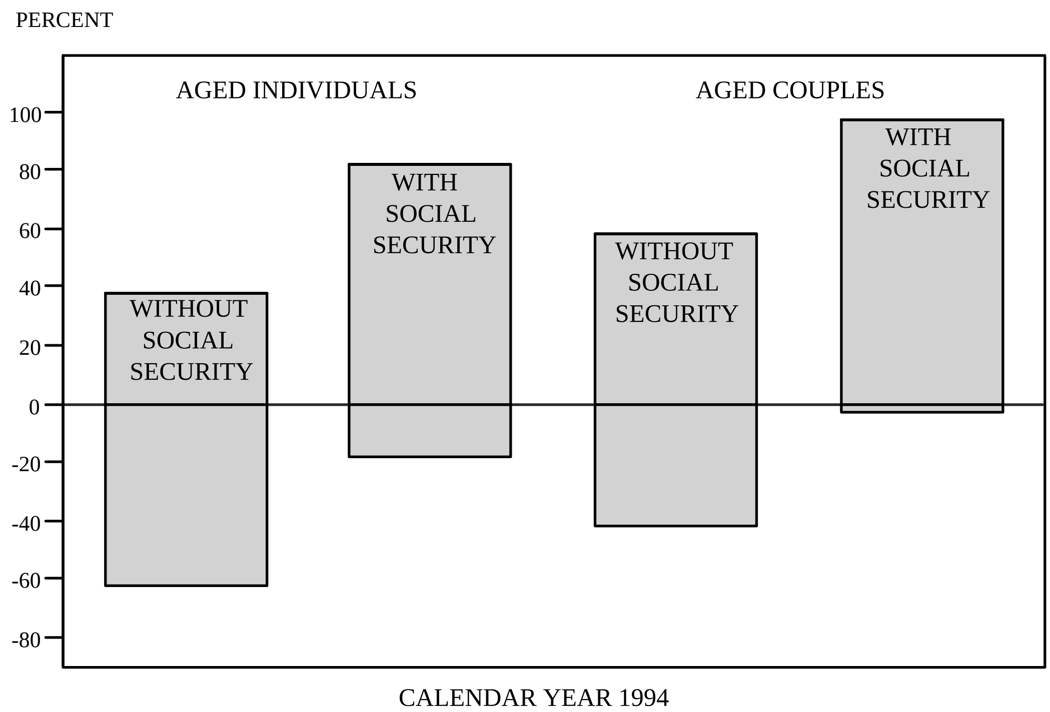
Income Security: Social Security was originally designed to provide a continuing income base for eligible workers so they could maintain a reasonable income when they retired. In 1935, personal savings, family support, and Federal welfare programs were the main sources of income for those 65 and older who did not work. Today, two-thirds of those over 65 get the major portion of their income from Social Security (see Chart 25–3). The average retiree receives a Social Security benefit equal to 43.1 percent of pre-retirement income. In 1996, Social Security paid about $300 billion in retirement, survivor, and family benefits to about 38 million beneficiaries.

Along with retirement benefits, Social Security also provides income security for survivors and dependents. In 1996, Social Security paid about $69 billion in benefits to over seven million survivors and deceased workers.

The Disability Insurance (DI) program 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 protection against income loss due to disability. To be sure, employees disabled on the job may have benefited from State workmen's compensation laws. But in 1956, only about five percent of all permanent and total disability cases were work-related. Congress enacted DI to protect the resources, self-reliance, dignity, and self-respect of disabled workers, according to congressional committee reports. DI protection can be extremely valuable, especially for young families that have not been able to sufficiently protect themselves against the risk of the worker's disability.

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

Chart 25-2. BENEFICIARY POPULATION WITH FAMILY INCOME ABOVE AND BELOW THE POVERTY LINE



independent lives. Moreover, their families no longer carry the sole responsibility of providing their financial support.

Growth in Retirement Benefits

The retirement part of Social Security is facing financial stress, due to changing demographics and the program's financing. The retirement program is largely a "pay as you go" program—current retirement benefits are financed by current payroll contributions. Such financing has worked well in the past, when five workers were paying for every retiree. But, when the baby boom generation retires, eventually only two workers will be paying for every retiree.

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 2.03 today. Males born in 1935 had an average life expectancy of 60 years, and females of 63 years. By contrast, baby boom males have an average life expectancy of about 67 years, and females of about 73. 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.

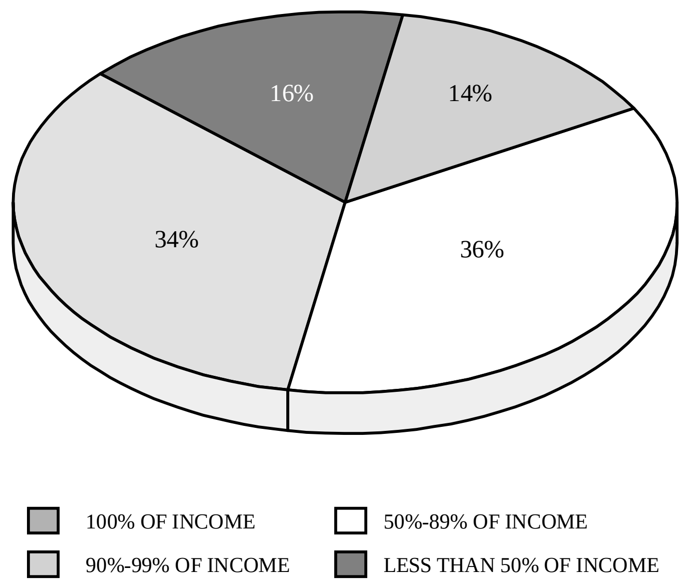
Growth in Disability Benefits

DI has grown rapidly. The program provided about $43 billion to about six million disabled beneficiaries and their families in 1996, 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.

Why? Because growing numbers of baby boomers are reaching the age at which they are increasingly prone to disabilities; more women are insured; and laws, regulations, and court decisions have expanded eligibility for benefits. In addition, the annual share

Chart 25-3. PORTION OF BENEFICIARIES THAT RELY HEAVILY ON SOCIAL SECURITY

(Calendar year 1994)



of beneficiaries leaving the rolls has fallen steadily, raising questions about whether 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 pilot program to encourage DI beneficiaries (and recipients of Supplemental Security Income, or SSI) to re-enter the workforce. Currently, the Social Security Administration refers DI or SSI beneficiaries to State Vocational Rehabilitation agencies. Under the Administration's 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 measure Social Security's well-being. The President wants to work with Congress on a bipartisan basis to develop a long-term solution to the financing challenge, but it does not constitute an imminent crisis.

In their 1996 report, the Trustees estimated that the combined OASDI trust funds would have a cash imbalance in 2012 and be insolvent in 2029. The OASI Trust Fund would have a cash imbalance in 2014 and be insolvent in 2031. The DI Trust Fund would face a cash imbalance in 2003 and be insolvent in 2015.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits when their combined income (including Social Security) exceeds certain income thresholds. These exclusions reduce Social Security beneficiary taxes by $25 billion in 1998 and $138 billion from 1998 to 2002.

26. VETERANS BENEFITS AND SERVICES

Table 26–1. FEDERAL RESOURCES IN SUPPORT OF VETERANS BENEFITS AND SERVICES
(In millions of dollars)

Function 700	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority [1]	18,359	18,910	18,750	18,719	18,715	18,702	18,706
Mandatory Outlays:							
Existing law	18,820	20,579	21,735	22,850	24,443	21,463	23,151
Proposed legislation	....	....	593	294	690	1,057	1,547
Credit Activity:							
Direct loan disbursements	1,442	1,933	2,189	2,249	2,273	2,287	2,269
Guaranteed loans	28,676	30,230	28,948	25,458	25,032	24,566	24,059
Tax Expenditures:							
Existing law	2,775	2,940	3,105	3,285	3,480	3,680	3,895

[1] Proposed legislation will supplement the budget authority with receipts (estimated at $0.5 billion in 1998).

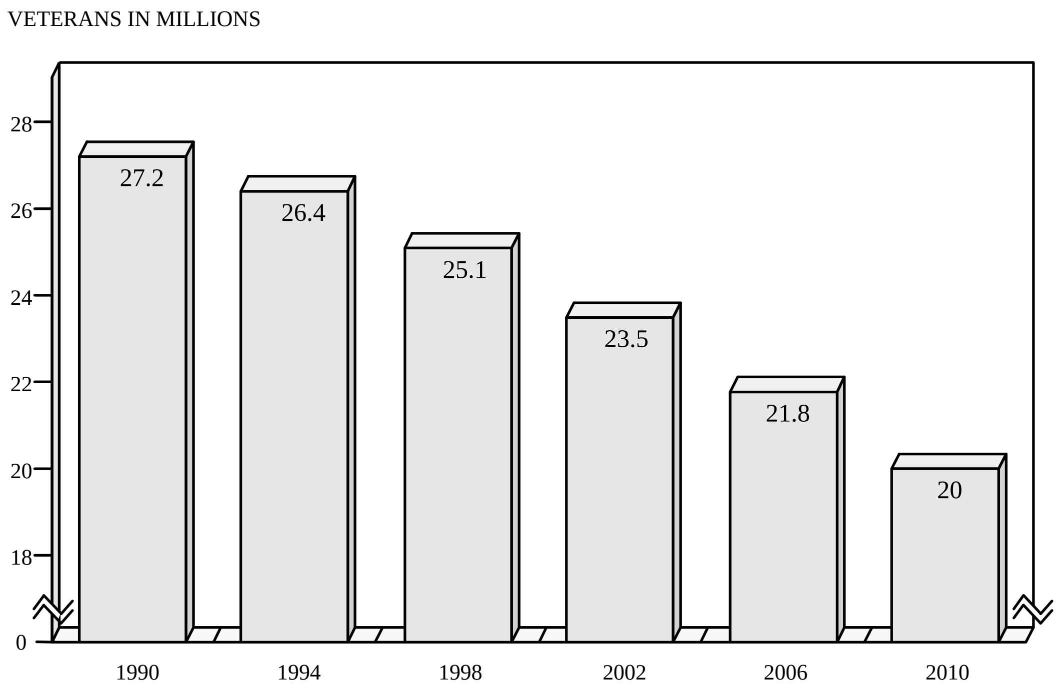
The Federal Government provides a broad range of benefits and services, to veterans (and their survivors) who served in conflicts as long ago as the Spanish-American War and as recent as the Persian Gulf War. In providing these benefits and services, the Government recognizes the sacrifices that wartime and peacetime veterans made during their service in the military. The $40 billion a year in veterans benefits and services, and $4.7 billion in tax benefits, compensate for service-related disabilities, provide medical care to low-income and disabled veterans, and help returning veterans prepare for re-entry 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. This group of veterans can receive both military retirement from the Defense Department (DOD) and veterans benefits from the Department of Veterans Affairs (VA). Active duty military personnel are eligible for veterans housing benefits, and they can make contributions to the Montgomery GI Bill program for education benefits that are paid later. To deliver these services to veterans, VA employs about 20 percent of the non-Defense workforce of the Federal Government—almost 250,000 people. About 220,000 of these employees deliver medical services to veterans (as described in Chapter 22, Health).

The veteran population is declining, with much of the decline among draft-era veterans, meaning that a rising share of veterans is coming from the All-Volunteer Force (see Chart 26–1). Thus, the types of needed benefits and services likely will change. Further, as the veteran population shrinks and technology improves, access to, and the quality of, service should continue to improve.

The Veterans Benefits Administration (VBA) processes veterans claims for benefits in 58 regional offices across the country. Several factors, including the introduction of judicial review to the claims adjudication process in 1988 and DOD downsizing from 1992 to 1994, significantly increased the claims and appeals workload. Workload peaked in 1993 and 1994, with 500,000 backlogged claims and 214 days needed to process a claim.

Chart 26-1. ESTIMATED VETERAN POPULATION



But, as the veteran population declines, the number of new claims and appeals will decline with it. At the end of 1996, the backlog shrunk to 346,000 claims, and the number of days needed to process a new claim averaged 150. To further the progress to date, VBA is developing a comprehensive strategic plan that will reengineer the way it processes claims, including the post-decision review process, and integrate information technology into program administration.

The following discussion describes the major components of benefits and services (other than health care) to which veterans are entitled.

Income Security

Along with Federal income security programs for the general population, such as Social Security and unemployment insurance, several VA programs help certain veterans and their survivors maintain their income when the veteran is disabled or deceased. Spending for this purpose will total an estimated $19.8 billion in 1998, including the funds that Congress approves each year to subsidize life insurance for certain veterans who are too disabled to get affordable coverage from private insurance.

Service-Connected Compensation: Veterans with disabilities resulting from, or coincident with, military service receive monthly compensation payments scaled to 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. The amount depends on the average fall in earnings capacity that the Government presumes for individuals 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 2.7 percent for 1998.

The number of veterans and survivors of deceased veterans receiving compensation benefits will total an estimated 2.6 million in 1998, remaining at that level through 2002. While the overall veteran population will decline, the compensation caseload is expected to remain relatively constant due to changes in eligibility and enhanced outreach efforts. At the same time, mainly due to anticipated COLAs, spending for compensation benefits will rise from an estimated $16.8 billion in 1998 to $18.8 billion in 2002.

Non-Service-Connected Pensions: The Government provides pensions to lower-income, wartime-service veterans, or veterans who have become 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 an estimated $3.2 billion in 1998. The number of pension recipients will continue to fall from an estimated 714,000 in 1998 to 650,000 in 2002, as the population of wartime veterans drops.

Burial and Other Benefits: Families of deceased veterans who received pension or compensation benefits and who are buried in private cemeteries may receive burial benefits to help defray funeral costs. For veterans buried in VA's National Cemeteries, the Government reimburses additional amounts to the National Cemetery System for headstones, markers, and graveliners. Over 90,000 veterans' survivors received a burial allowance in 1996. Spending for these benefits will total an estimated $119 million in 1988.

Insurance Programs: Because most private insurance excludes coverage of war-time service, the VA administers life insurance programs. Veterans pay the total cost for this insurance through premiums, calculated by assuming that the veteran will see no combat. If insurance claims in any year exceed expectations due to combat, DOD pays the extra cost of coverage. These programs will continue to provide over $480 billion of coverage to nearly 5.5 million veterans and active duty personnel in 1998.

Veterans Eeducation, Training, and Rehabilitation

Several Federal programs support job training and finance education for veterans and others. The Labor Department runs several programs exclusively for veterans. In addition, several VA programs provide education, training, and rehabilitation benefits to veterans and military personnel who meet specific criteria. The programs include the Montgomery GI bill (the largest of them), 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 $1.4 billion in 1998.

The Montgomery GI Bill (MGIB): The Government 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 their recruitment. The President and Congress made the program permanent in 1987. Service members electing to enter the program have their pay reduced by $100 a month during their first year of military service. The VA administers the program and pays the costs of basic benefits once the service-member leaves the military. Basic benefits now total about $15,000 (about 12 times the original reduction in the service members' pay).

MGIB beneficiaries receive a monthly check based on whether they are enrolled in school on a full- or part-time basis. They are entitled to 36 months worth of payment, but they must certify monthly that they are in school. DOD may provide additional benefits to help recruit certain specialties and critical skills. Nearly 350,000 veterans and service members will use these benefits in 1998. The MGIB also provides education benefits to reservists while they are in service. DOD pays these benefits, and the VA administers the program. In 1998, over 80,000 reservists are expected to use this program. Over 90 percent of MGIB beneficiaries use their benefits to attend a college or university.

Veterans Housing

Along with the mortgage assistance available to veterans through the Federal Housing Administration (FHA) insurance program, VA-guaranteed and direct loan programs will help an estimated 280,000 veterans get mortgages in 1998. Guaranteed commitments for mortgage loans in 1998 are expected to reach almost $29 million. The $192 million in estimated spending in 1998 reflects the estimated Federal subsidies that are implicit in the veterans' home loans issued during the year. Slightly over 40 percent of veterans who have owned homes have used the VA loan guaranty program. In 1996, 56 percent of all guaranteed loans went to first-time home buyers.

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 over 100 national cemeteries across the country. Spending for VA cemetery operations, excluding reimbursements from other accounts, will total an estimated $84 million in 1998. Over 70,000 veterans and their family members were buried in National Cemeteries in 1996.

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. A number of these programs have components specifically designed to assist veterans. Some veterans also receive preference for Federal jobs. In addition, starting in 1998, 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.

Military Retirement

About 1.6 million military retirees and survivors will receive an estimated $28 billion in retirement benefits in 1988. Normal retirement eligibility occurs after 20 years of service. The initial annuity base for most current retirees is 2.5 percent of final pay for each year of service—50 percent at 20 years—up to a maximum 75 percent of final pay at 30 years. For those entering between September 1980 and July 1986, the Government will use the average of the highest three years of basic pay to calculate the annuity base, instead of final basic pay. Benefits for both groups are fully indexed to the Consumer Price Index (CPI).

Members entering military service after August 1, 1986 face a cut in their initial retirement benefit if they retire before age 62 with less than 30 years of service. The initial formula for their annuity remains at 2.5 percent per year of service, but this multiplier is cut by one percent for each year of service below 30. The cut ends when the member reaches age 62. Also, benefits for these retirees rise at the rate of the CPI minus one percent, with a one-time catch-up at age 62 to restore the full purchasing power of the annuity. After age 62, the benefit is again adjusted by CPI minus one percent. In addition, to help shrink the size of the military forces, the Government has provided temporary authority for certain military members to retire with as little as 15 years of service.

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 1998. 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 1998, this provision will cost the Government an estimated $35 million.

27. ADMINISTRATION OF JUSTICE

Table 27–1. FEDERAL RESOURCES IN SUPPORT OF ADMINISTRATION OF JUSTICE
(In millions of dollars)

Function 750	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	20,684	22,819	24,415	25,186	24,382	24,806	25,518
Mandatory Outlays:							
Existing law	–36	767	566	539	400	404	400

Federal, State, and local governments share the responsibility for fighting crime. Most of the effort occurs at the State and local level. The Federal Government primarily addresses criminal acts that require a national response, and supports State and local law enforcement and criminal justice activities.

Federal, State, and local resources devoted to the administration of justice—including law enforcement, litigation, judicial, and correctional—have grown from $68.3 billion in 1988 to an estimated $139.4 billion in 1997—by 104 percent or, as Chart 27–1 illustrates, by 53 percent in constant 1988 dollars. During this same period, the Federal law enforcement component, including transfer payments to State and local law enforcement activities, grew by 151 percent, from $9.5 billion in 1988 to $23.9 billion in 1997. Despite this growth, Federal resources account for only about 17 percent of total governmental spending for administration of justice.

Nevertheless, Federal resources devoted to law enforcement and crime prevention are consuming a larger slice of total Federal discretionary spending. In 1988, administration of justice expenditures were about two percent of Federal discretionary spending. In 1997, they will consume nearly five percent.

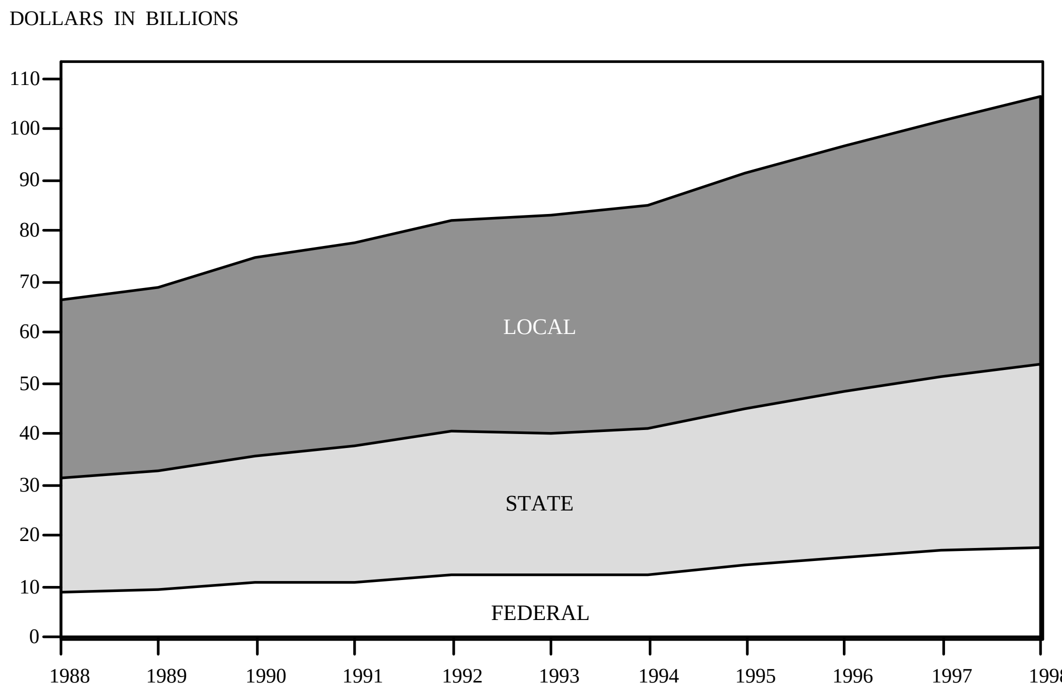
Federal Activities

Federal funding for the Administration of Justice function includes: (1) Federal law enforcement activities; (2) litigation and judicial activities; (3) correctional activities; and (4) financial assistance to State and local entities. Most of these funds go to the Departments of Justice and the Treasury, and to the Judiciary (see Chart 27–2).

Law Enforcement: The budget proposes $24.9 billion in 1998 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. The Justice Department's Federal Bureau of Investigation (FBI), Drug Enforcement Administration (DEA), and Immigration and Naturalization Service (INS) enforce diverse Federal laws dealing with terrorism, white collar crime, border control, drug smuggling, and many other criminal acts. The Treasury Department enforces laws related to smuggling drugs and contraband across our borders, and to regulating trade, telecommunications, financial institutions, and the alcohol, tobacco, and firearms industries. Treasury also trains Federal law enforcement agency personnel and protects the President, the Vice President, and foreign dignitaries. These Federal 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, as well as civil rights laws.

The Federal responsibility to enforce civil rights laws in the areas of employment

CHART 27-1. ADMINISTRATION OF JUSTICE EXPENDITURES
(In constant 1988 dollars)

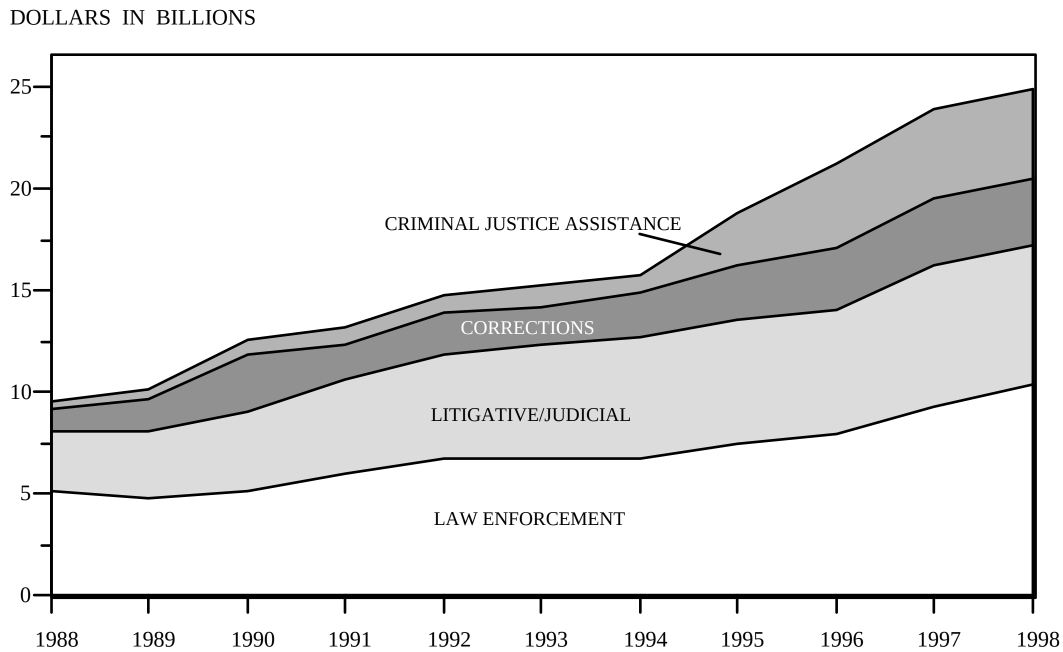


and housing arises from Title VII and Title VIII of the Civil Rights Act of 1964, as amended, and is further augmented by more recent civil rights legislation, including the Age Discrimination in Employment Act and the Americans with Disabilities Act. The Department of Housing and Urban Development's (HUD) Office of Fair Housing and Equal Opportunity 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.

Litigation and Judicial Activities: Of course, after such law enforcement agencies as the FBI, DEA, and Treasury's Bureau of Alcohol, Tobacco and Firearms have investigated and apprehended perpetrators of Federal crimes, the United States must prosecute them—and the budget proposes $6.7 billion for this purpose. This task falls to the 93 United States Attorneys and the 4,450 Assistant United States Attorneys. Along with prosecuting cases referred by Federal law enforcement 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.

In addition, the Justice Department 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 a myriad assortment of Federal laws are brought to justice. Individuals and corporations who would knowingly and illegally pollute a local river, evade Federal income taxes, or conspire to fix consumer prices are all targets of Federal prosecutors. The

Chart 27-2. FEDERAL JUSTICE EXPENDITURES



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.

As for the Federal Judiciary, its rapid growth is a result of increased Federal law enforcement efforts over the recent past. Accounting for 14 percent of total law enforcement spending, the Judiciary comprises the Supreme Court and 196 courts of appeals, bankruptcy courts, and district courts, and is overseen by 2,102 Federal and Supreme Court judges.

Corrections Activities: The budget proposes $3.2 billion for corrections activities. Due to higher spending on law enforcement and other factors, the number of criminals incarcerated also has risen. The U.S. inmate population has doubled since 1988, with the total number of sentenced inmates exceeding a million during 1996. The Federal inmate population—slightly less than a tenth of the State 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 stringent sentencing requirements tied to Federal prison grant funds. In the Federal system, about 61 percent of the inmates serving time have been convicted on drug-related charges.

Criminal Justice Assistance: The 1994 Crime Act fueled the rapid post-1994 growth in Federal criminal justice assistance to State and local governments, which has increased from $800 million in 1994 to a proposed $4.4 billion in 1998. The Act authorized such programs as the Community Oriented Policing Services (COPS) program, prison grants, and the State Criminal Alien Assistance Program. Most funding authorized under the Act supports grants to States and localities—designed to help States and local criminal justice systems perform their roles as the primary agents of law enforcement.

The Results—and Long-term Trends

The Justice Department's national crime statistics show that criminal offenses reported by law enforcement agencies fell by three percent from 1995 to 1996—marking the fifth straight year the crime rate has dropped. The decrease in crime, when compared with increases in anti-crime spending during the same period, appears to suggest a general relationship. Many factors unrelated to Federal spending, however, also probably played an important role in the drop in crime.

28. GENERAL GOVERNMENT

Table 28–1. FEDERAL RESOURCES IN SUPPORT OF GENERAL GOVERNMENT
(In millions of dollars)

Function 800	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	11,539	11,807	12,809	12,514	12,052	11,796	11,828
Mandatory Outlays:							
Existing law	129	934	787	761	942	726	731
Proposed legislation	....	....	–15	57	162	281	419
Credit Activity:							
Direct loan disbursements	379	461	....	....	....	....	....
Tax Expenditures:							
Existing law	46,745	48,130	49,500	50,770	52,130	53,560	55,140
Proposed legislation	....	....	11	37	46	53	57

The General Government function encompasses the central management activities of the executive and legislative branches. Its major activities include Federal finances, tax collection, personnel management, and general administrative and property management.

Four central management agencies, for which the budget proposes a combined $12.2 billion for 1998, establish policies and provide administrative and other services—the Treasury Department ($11.8 billion); the General Services Administration (GSA, $226 million); the Office of Personnel Management (OPM, $188 million); and the Office of Management and Budget, in the Executive Office of the President (OMB, $56 million). The Federal Government also provides tens of billions of dollars in tax incentives to help State and local governments and those who are subject to their taxes.

Department of the Treasury

Treasury is the Federal Government's chief financial agent—producing and protecting U.S. currency; helping to set the Nation's fiscal, tax, and economic policies; regulating financial institutions and the alcohol, tobacco, and firearms industries; protecting citizens against criminals who launder money and threaten our borders; and helping agencies to strengthen their financial systems. In 1996, Treasury collected $1.4 trillion in revenues and issued nearly 850 million payments (99 percent on time and 50 percent electronically). Treasury plans to further improve its performance by issuing Government-wide Audited Financial Statements and modernizing the Nation's tax administration systems.

The Internal Revenue Service (IRS), a part of Treasury, administers the Federal tax system with the goal of collecting the proper revenue at the least cost. In 1996, the IRS collected $1.36 trillion in net revenue, including $38 billion in direct enforcement collections, at a cost of $7.3 billion. The IRS estimates that compliance with Federal tax laws is now 86 percent—calculated by adding together the income and employment taxes that come in through voluntary compliance (83 percent), with those that come in through direct enforcement (three percent).

The IRS processed over 195 million individual tax returns (including over 20 million which were transmitted electronically) and one billion information returns in 1996, and it issued 90.5 million individual refunds.

It provides customer service through telephone assistance (answering close to 45 million TeleTax calls and 54 million live assisted calls in 1995) and maintains information for taxpayers on the Internet.

The IRS is improving the administration of Federal tax laws by investing in changes in work practices and information technology. Of the over 20 million taxpayers filing electronically in 1996, 2.8 million used the Telefile option, which allows taxpayers to file a simple tax return over the telephone in under 10 minutes. Forms and other information are readily available on the Internet. Ongoing investments in modern technology will allow the IRS to improve taxpayer compliance by improving access to data and allowing the Federal Government to target resources to cases of deliberate noncompliance.

The complexity of our tax laws, and of the systems designed to administer them, imposes a significant burden on individuals and businesses—by some estimates, a burden of over $70 billion a year. The IRS is taking steps to reduce the burden by providing alternative ways to file and pay taxes, easing reporting requirements, expanding access to needed information, making it easier for taxpayers to contact the IRS, and reducing the need for the IRS to contact taxpayers.

General Services Administration

GSA provides administrative services to other agencies, including housing, supplies, transportation, and telecommunications. GSA also works with the agencies to establish and oversee the implementing of policies and standards for administrative services—except for personnel and financial management—that affect work environments.

In the last two years, GSA has aggressively responded to the changing needs of its customer agencies by working to transform itself into a market-driven, customer-oriented agency. Two recent initiatives, Can't Beat GSA Space Alterations and Can't Beat GSA Leasing, focus on revising the way it delivers services to meet or beat private sector performance standards.

Since GSA provides services on a reimbursable basis, the budgets of the individual agencies themselves provide most of the funding for GSA's activities. In 1997, for example, GSA's budget authority was $550 million, but projected obligations through its revolving funds exceeded $11 billion.

GSA also is working to develop a new Federal management model, focusing on performance measurement, accountability for agencies and employees, and the effective use of technology in changing work environments.

Office of Personnel Management

Working with agencies and employees, OPM provides human resource management leadership and services, based on merit principles. It provides policy guidance, advice, and direct personnel services. OPM also operates a Nation-wide job information and application system every hour of every day, available to the public through multiple electronic (including the Internet) and traditional sources at convenient and accessible locations. It also develops and administers compensation systems for both blue-collar and white-collar employees.

But perhaps OPM's most important function is administering the Federal civil service merit systems, which includes recruiting, examining, and promoting people on the basis of their knowledge and skills—regardless of race, religion, sex, political influence, or other non-merit 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. It encourages maximum employment and advancement opportunities in the Federal service for disabled veterans and others qualified for veteran's preference.

Likewise, OPM helps to implement the President's directive for helping dislocated and surplus employees by assisting agencies with career transition planning and, when vacancies arise, protecting hiring preferences for dislocated and surplus employees. Working with the National Partnership Council, OPM supports and promotes labor-management partnerships throughout the executive branch—partnerships that help transform agencies into organizations that can deliver the highest-quality services to the American people.

OPM helps Federal program managers in their personnel responsibilities through a range of programs, such as training and performance management, designed to develop the most effective Federal employee. OPM also provides fast, friendly, accurate, and cost effective retirement, health benefit, and life insurance services to employees, annuitants, and agencies.

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 provides direction and management to Federal agencies, helping the President discharge his responsibilities for budget, management, policy development, and other executive matters.

OMB's most dominant function each year is preparing the President's budget, working with the departments and agencies across the Government. In helping to formulate the President's spending plans, OMB evaluates the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and sets funding priorities according to the President's direction. OMB also ensures that agency reports, rules, testimony, and proposed legislation are consistent with the President's budget and with Administration policies.

OMB oversees and coordinates the Administration's procurement, financial management, information technology, and regulatory polices. In each area, OMB helps improve administrative management, develop better performance measures and coordinating mechanisms, and reduce unnecessary burdens on the public.

Due to OMB's predominantly cross-cutting approach to budget and management matters, it is continuously and actively involved in agency efforts to develop strategic plans (under the 1993 Government Performance and Results Act), streamline organizations and work processes, downsize, and improve human resource management.

Tax Incentives

The Federal Government provides significant tax breaks for State and local governments. State and local tax-exempt borrowing for public purposes, for instance, will cut Federal revenues by an estimated $77 billion from 1998 to 2002[1]. Taxpayers also can deduct their State and local income taxes against their Federal income tax, and State death taxes are creditable against Federal estate taxes up to certain limits. Finally, corporations that conduct business in Puerto Rico also receive a special tax credit.

[1] The budget describes various forms of tax-exempt borrowing for non-public purposes in other functions.

29. NET INTEREST

Table 29–1. NET INTEREST
(In millions of dollars)

Function 900	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Mandatory Outlays:							
Existing law	241,090	247,539	249,840	251,792	248,126	244,857	238,623
Proposed legislation	....	–157	19	51	77	106	139
Tax Expenditures:							
Existing law	1,300	1,290	1,285	1,270	1,215	1,170	1,155

The Federal Government pays large amounts of interest to the public, mainly on the securities it sells to finance the budget deficit.

The Government also pays interest from one account to another, mainly due to the Government's investing of trust fund balances in Treasury securities. These payments move money from one budget account to another. Thus, net interest—which does not include these payments—closely measures Federal interest transactions with the public. In 1998, Federal outlays for net interest will total an estimated $249.9 billion.

The Interest Burden

As noted above, net interest directly relates to debt held by the public. It also relates to the interest rates on the Treasury securities that comprise that debt. In essence, debt held by the public is the total of all deficits that have accumulated in the past—minus the amount offset by budget surpluses. Recent large deficits sharply increased the ratio of debt held by the public as a percentage of Gross Domestic Product (GDP)—from 26.8 percent in 1980 to 51.9 percent in 1993. Partly due to the huge rise in debt, interest rates on Treasury securities also rose sharply. The combination of much more debt and higher interest rates caused Federal net interest costs to mushroom—from 2.0 to 3.4 percent of GDP between 1980 and 1993 (see Chart 29–1).

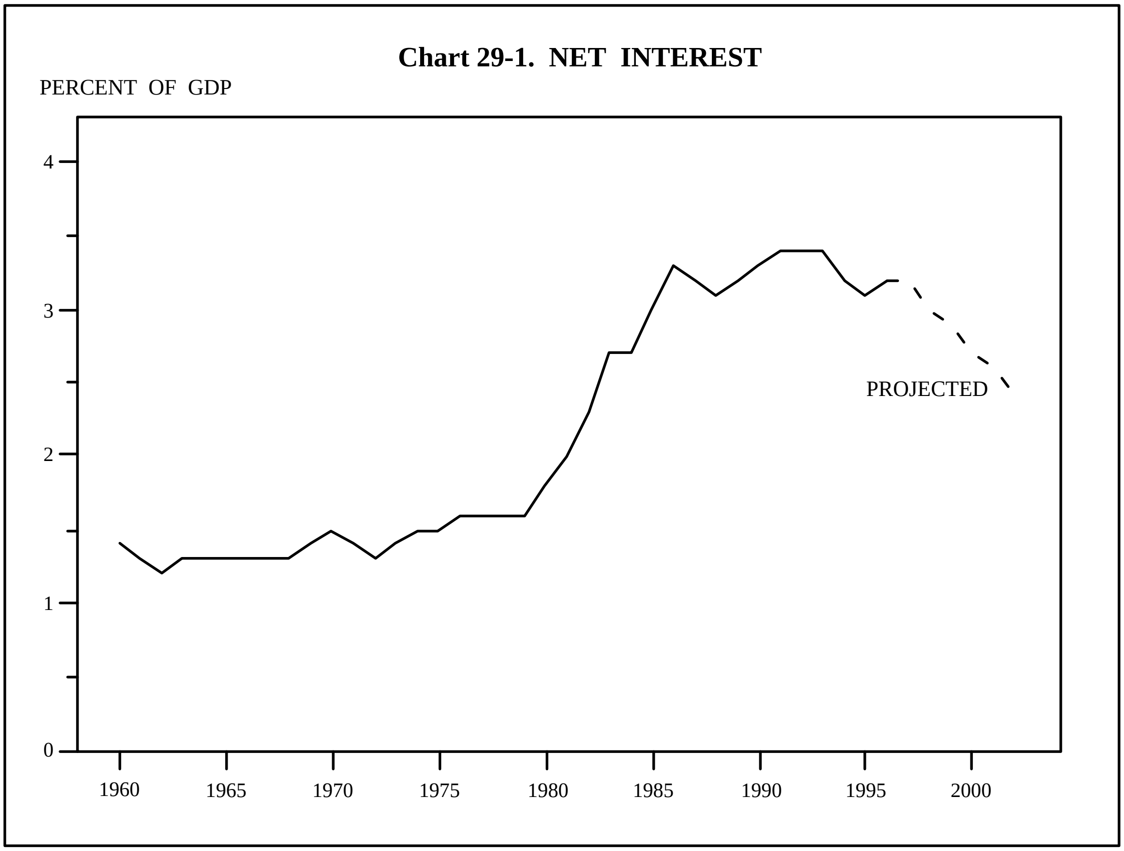
Now that the budget deficits have fallen, the ratio of net interest to GDP has begun to fall as well, from 3.4 percent in 1990 to 3.2 percent in 1996. The President's plan to balance the budget by 2002 would further reduce the ratio, to 2.4 percent by 2002, reflecting not just the gradually falling deficits but also lower interest rates on Treasury securities—both in the recent past and projected for the future.

Components of Net Interest

Net interest is gross interest on the public debt minus interest received by on-budget and off-budget trust funds and minus all of the activities that fall in the category of "other interest" (discussed later in this chapter).

Gross Interest on the Public Debt: Gross interest on the public debt will total an estimated $366.1 billion in 1998 and $376.8 billion in 2002. At the end of 1996, the gross debt totaled $5.147 trillion, of which $3.698 trillion was held by the public. The debt held by the public accounted for about a quarter of the total credit market debt owed by the non-financial sector.

The Treasury Department's management of the debt, including its decisions about how much to invest in securities with different



maturities, may substantially influence Federal interest payments. Since 1993, the average maturity of marketable, privately held public debt shrunk from five years and ten months to five years and two months, cutting total interest outlays by an estimated $9.6 billion in 1994–1998. In 1997, Treasury plans to issue 10-year notes indexed to the Consumer Price Index. The principal, paid at maturity, is adjusted each month for inflation while interest, paid semiannually, is computed on the inflation-adjusted principal. Indexed bonds may have a lower yield than fixed-rate securities of similar maturity because the holder faces less risk from inflation.

Interest Received by On-Budget Trust Funds: On-budget trust funds will earn, in interest, an estimated $63.7 billion in 1998 and $67.4 billion in 2002. The civil service retirement and disability fund will receive almost half of it, while the military retirement fund will receive a fifth. The Medicare Hospital Insurance (HI) trust fund will receive over $10 billion in 1998. Without changes in policy, the interest receipts of that fund will approach zero as it sells its Treasury securities to offset a growing deficit.

Interest Received by Off-Budget Trust Funds: Under current law, the receipts and disbursements of Social Security's old-age and survivors insurance (OASI) trust fund and disability insurance (DI) trust fund are excluded from the budget. Social Security, however, is a Federal program. Thus, net interest includes the off-budget interest earnings. Because Social Security will accumulate large surpluses over the next several years, interest earnings of the off-budget trust funds will rise from an estimated $45.2 billion in 1998 to $61.6 billion in 2002.

Other Interest: Other interest includes both interest payments and interest collections—much of it consisting of intra-governmental payments and collections that arise from Federal revolving funds. These funds borrow from the Treasury to carry out lending or other business-type activities.

Budgetary Effect, including the Federal Reserve

The Federal Reserve System trades Treasury securities in the open market to implement monetary policy. The interest that Treasury then pays on the securities falls within net interest, but virtually all of it comes back to the Treasury as "deposits of earnings of the Federal Reserve System." These budget receipts will total an estimated $23.0 billion in 1998 and $24.2 billion in 2002.

30. UNDISTRIBUTED OFFSETTING RECEIPTS

Table 30–1. UNDISTRIBUTED OFFSETTING RECEIPTS
(In millions of dollars)

Function 950	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Mandatory Outlays:							
Existing law	–37,620	–46,487	–52,869	–41,127	–41,610	–43,174	–45,283
Proposed legislation	....	....	–2,721	–2,404	–4,388	–6,877	–22,667

Offsetting receipts, totaling $52.9 billion in 1998, fall into two categories: (1) the Government's receipts from performing business-like activities, such as proceeds from the sale of postage stamps or a Federal asset, and (2) the amounts that the Government shifts from one account to another, such as agency payments to retirement funds.

Rents and Royalties on the Outer Continental Shelf (OCS)

The Interior Department's Outer Continental Shelf Lands leasing program, which began in 1954, generates 15 percent and 24 percent of U.S. domestic oil and natural gas production, respectively. Since the program began, it has held 120 lease sales, covering areas three to 200 miles offshore and generating over $110 billion in rents, bonuses, and royalties—mainly for the Treasury.

OCS revenues help to reduce the deficit, but they also provide most funding for the Land and Water Conservation Fund and Historic Preservation Fund programs. The OCS program will generate about $4 billion in receipts in 1997. In 1998, the Administration will continue the leasing moratoria for the environmentally sensitive areas—offshore California, Oregon, and Washington; the Eastern Seaboard; the southwestern coastline of Florida, including the Everglades; and certain parts of Alaska.

Asset Sales

The United States Enrichment Corporation (USEC): USEC, which began operations in July 1993, sells enriched uranium globally to utilities as fuel for nuclear power plants. Congress created USEC as a wholly-owned government corporation—the first step in a series of actions designed to lead to privatization. USEC's sale, now planned for 1998, will raise an estimated $1.8 billion.

Elk Hills: The Defense Authorization Act of 1996 requires the sale of Naval Petroleum Reserve 1 in California (commonly known as Elk Hills) by February 10, 1998. As a result, the budget assumes that the Government will receive $2.4 billion in sale proceeds in 1998. The Government is privatizing Elk Hills because the private, rather than public, sector should perform commercial oil and gas operations.

Alaska Power Administration: The Administration plans to focus on completing the sale of the power plants at Anchorage and Juneau to current customers, as authorized under a 1995 law. The sale, which will raise an estimated $85 million for the Federal Government, is scheduled for completion by August 1998.

Employee Retirement

Federal agencies will pay an estimated $35.5 billion on behalf of their employees in 1998 to the Federal retirement funds,[1] the Medicare health insurance trust fund, and the Social Security trust funds. As the Federal Government raises the pay of civilian employees, agencies must make commensurate increases in their payments to recognize the increased cost of retirement.

[1] The major funds are the Military Retirement Funds, the Civil Service Retirement System, and the Federal Employee Retirement System.

Other Undistributed Offsetting Receipts

The President and Congress gave the Federal Communications Commission authority in 1993 to auction spectrum licenses, rather than give them away. These auctions have been extraordinarily successful, raising $23 billion to date and cutting the time to award a license by 90 percent in some cases.

31. DETAILED FUNCTIONAL TABLES

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
050 National defense:							
Discretionary:							
Department of Defense—Military:							
Military personnel	69,776	69,919	69,474	70,098	71,410	73,256	75,257
Operation and maintenance	93,640	92,906	93,667	91,521	92,166	93,924	91,947
Procurement	42,417	44,156	42,606	50,716	56,997	60,662	68,336
Research, development, test and evaluation	34,971	36,589	35,934	35,044	33,403	32,897	34,249
Military construction	6,891	5,862	4,715	4,245	4,267	4,211	3,370
Family housing	4,259	4,122	3,668	3,876	3,941	3,985	3,913
Revolving, management and trust funds	1,761	2,275	1,615	1,668	1,328	1,362	1,370
DOD-wide savings proposals	....	–4,800	....	....	....	....	....
Proposed legislation (non-PAYGO)	....	....	....	85	85	85	85
Discretionary offsetting receipts	–100	–102	–102	–92	–92	–92	–92
Total, Department of Defense—Military	253,615	250,927	251,577	257,161	263,505	270,290	278,435
Atomic energy defense activities:							
Weapons activities	3,455	3,911	3,576	3,497	3,400	3,362	3,321
Defense environmental restoration and waste management	5,545	5,619	5,052	4,647	4,778	4,674	4,533
Defense nuclear waste disposal	248	200	190	190	190	190	190
Other atomic energy defense activities	1,447	1,622	4,797	3,489	2,795	2,636	2,484
Total, Atomic energy defense activities	10,695	11,352	13,615	11,823	11,163	10,862	10,528
Defense-related activities:							
Discretionary programs	697	793	782	850	849	845	797
Total, Discretionary	265,007	263,072	265,974	269,834	275,517	281,997	289,760
Mandatory:							
Department of Defense—Military:							
Revolving, trust and other DoD mandatory	1,374	132	187	183	163	162	162
Proceeds from sales from National Defense Stockpile (Proposed PAYGO legislation)	....	....	....	....	....	....	–200
Offsetting receipts	–583	–1,069	–1,067	–1,029	–901	–901	–901
Total, Department of Defense—Military	791	–937	–880	–846	–738	–739	–939

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Atomic energy defense activities:							
Proceeds from sales of excess DOE assets	–5	–25	–15	–15	–15	–15	–15
Defense-related activities:							
Mandatory programs	214	196	197	210	223	237	251
Total, Mandatory	1,000	–766	–698	–651	–530	–517	–703
Total, National defense	266,007	262,306	265,276	269,183	274,987	281,480	289,057
150 International affairs:							
Discretionary:							
International development, humanitarian assistance:							
Development assistance and operating expenses	2,141	2,149	2,200	2,244	2,290	2,336	2,384
Multilateral development banks (MDB's)	1,163	1,014	1,604	1,490	1,476	1,192	1,149
Assistance for the New Independent States	518	576	900	850	800	750	675
Food aid	836	877	877	900	923	946	971
Refugee programs	721	700	700	718	737	756	775
Assistance for Central and Eastern Europe	463	475	492	300	175	100	50
Voluntary contributions to international organizations	285	272	365	365	365	365	365
Peace Corps	218	220	222	228	234	240	246
Other development and humanitarian assistance	303	361	352	351	351	350	363
Total, International development, humanitarian assistance	6,648	6,644	7,712	7,446	7,351	7,035	6,978
International security assistance:							
Foreign military financing grants and loans	3,351	3,308	3,340	3,340	3,340	3,340	3,340
Economic support fund	2,341	2,363	2,445	2,503	2,511	2,519	2,527
Other security assistance	236	257	174	174	174	174	174
Total, International security assistance	5,928	5,928	5,959	6,017	6,025	6,033	6,041
Conduct of foreign affairs:							
State Department operations	2,097	2,102	1,721	1,721	1,721	1,721	1,721
Proposed Legislation (PAYGO)	....	....	595	595	595	595	595
Subtotal, State Department operations	2,097	2,102	2,316	2,316	2,316	2,316	2,316
Foreign buildings	321	389	373	373	373	373	373

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Assessed contributions to international organizations	892	882	1,023	900	900	925	925
Assessed contributions for international peacekeeping	359	352	286	240	240	240	240
Arrearage payment for international organizations and peacekeeping	....	....	....	921	....	....	....
Other conduct of foreign affairs	156	165	166	168	169	171	172
Total, Conduct of foreign affairs	3,825	3,890	4,164	4,918	3,998	4,025	4,026
Foreign information and exchange activities:							
U.S. Information Agency	1,124	1,090	1,079	1,075	1,071	1,070	1,070
Other information and exchange activities	6	8	8	6	3	1	....
Total, Foreign information and exchange activities	1,130	1,098	1,087	1,081	1,074	1,071	1,070
International financial programs:							
Export-Import Bank	764	715	630	630	630	630	630
Special defense acquisition fund	–173	–166	–106	–30	....	....	....
IMF new arrangements to borrow	....	....	3,521	....	....	....	....
Other IMF	....	....	7	17	17	17	17
Total, International financial programs	591	549	4,052	617	647	647	647
Total, Discretionary	18,122	18,109	22,974	20,079	19,095	18,811	18,762
Mandatory:							
International development, humanitarian assistance:							
Credit liquidating accounts	–564	–521	–457	–452	–472	–468	–458
Other development and humanitarian assistance	....	–13	–13	–13	–13	–13	–13
Total, International development, humanitarian assistance	–564	–534	–470	–465	–485	–481	–471
International security assistance:							
Repayment of foreign military financing loans	–661	–637	–535	–364	–268	–183	–133
Foreign military loan liquidating account	–229	–203	–191	–189	–201	–228	–227
Total, International security assistance	–890	–840	–726	–553	–469	–411	–360

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Foreign affairs and information:							
Conduct of foreign affairs	8	3	3	3	3	3	3
U.S. Information Agency trust funds	1	1	1	1	1	1	1
Japan-U.S. Friendship Commission	....	1	1	1	1	1	1
Proposed Legislation (PAYGO)	....	....	46	....	....	....	....
Subtotal, Japan-U.S. Friendship Commission	....	1	47	1	1	1	1
Total, Foreign affairs and information	9	5	51	5	5	5	5
International financial programs:							
Foreign military sales trust fund (net)	552	760	90	–820	–580	–150	–10
Exchange stabilization fund	–778	....	....	....	....	....	....
Other international financial programs	–55	–108	–110	–112	–190	–142	–50
Total, International financial programs	–281	652	–20	–932	–770	–292	–60
Total, Mandatory	–1,726	–717	–1,165	–1,945	–1,719	–1,179	–886
Total, International affairs	16,396	17,392	21,809	18,134	17,376	17,632	17,876
250 General science, space, and technology:							
Discretionary:							
General science and basic research:							
National Science Foundation programs	3,156	3,207	3,305	3,311	3,318	3,325	3,332
Department of Energy general science programs	966	996	1,003	996	996	996	996
Total, General science and basic research	4,122	4,203	4,308	4,307	4,314	4,321	4,328
Space flight, research, and supporting activities:							
Science, aeronautics and technology	5,032	4,746	4,722	4,789	4,947	5,135	5,172
Human space flight	5,457	5,540	5,327	5,306	5,077	4,832	4,676
Mission support	2,065	2,123	2,064	2,006	1,889	1,928	2,031

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other NASA programs	16	17	18	19	19	19	19
Total, Space flight, research, and supporting activities	12,570	12,426	12,131	12,120	11,932	11,914	11,898
Total, Discretionary	16,692	16,629	16,439	16,427	16,246	16,235	16,226
Mandatory:							
General science and basic research:							
National Science Foundation donations	24	38	38	31	31	31	31
Total, Mandatory	24	38	38	31	31	31	31
Total, General science, space, and technology	16,716	16,667	16,477	16,458	16,277	16,266	16,257
270 Energy:							
Discretionary:							
Energy supply:							
Research and development	3,323	3,094	3,062	3,400	3,210	3,085	3,011
Naval petroleum reserves operations	148	144	117	48	48	48	48
Uranium enrichment activities	343	201	249	220	190	190	190
Decontamination transfer	–350	–377	–388	–398	–410	–421	–435
Nuclear waste program	151	182	190	190	190	190	190
Federal power marketing	316	233	237	241	231	219	201
Rural electric and telephone discretionary loans	124	66	59	55	55	55	55
Financial management services	–18	–4	87	48	48	48	48
Total, Energy supply	4,037	3,539	3,613	3,804	3,562	3,414	3,308
Energy conservation and preparedness:							
Energy conservation	533	550	688	691	688	690	689
Emergency energy preparedness	....	....	209	209	209	209	209
Total, Energy conservation and preparedness	533	550	897	900	897	899	898
Energy information, policy, and regulation:							
Nuclear Regulatory Commission (NRC)	18	15	19	19	19	19	19
Federal Energy Regulatory Commission fees and recoveries, and other	–52	–31	–22	–22	–23	–24	–24

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Departmental and other administration	364	183	196	190	190	190	190
Total, Energy information, policy, and regulation	330	167	193	187	186	185	185
Total, Discretionary	4,900	4,256	4,703	4,891	4,645	4,498	4,391
Mandatory:							
Energy supply:							
Naval petroleum reserves oil and gas sales	–419	–444	–175	–20	–10	–10	–10
Proposed Legislation (PAYGO)	....	....	....	....	2	2	2
Subtotal, Naval petroleum reserves oil and gas sales	–419	–444	–175	–20	–8	–8	–8
Federal power marketing	–996	–798	–828	–773	–744	–746	–799
Tennessee Valley Authority	55	–182	–285	....	....	....	....
United States Enrichment Corporation	....	–29	–100	–89	–80	–100	–940
Nuclear waste fund program	–634	–649	–655	–657	–659	–660	–660
Rural electric and telephone liquidating accounts	–259	–1,193	–770	–2,166	–1,038	–1,573	–863
Total, Energy supply	–2,253	–3,295	–2,813	–3,705	–2,529	–3,087	–3,270
Emergency energy preparedness:							
Lease excess SPR capacity (Proposed PAYGO Legislation)	....	....	....	–14	–37	–67	–83
Sale of Weeks Island Oil (Proposed PAYGO Legislation)	....	....	....	....	....	....	–1,145
Total, Emergency energy preparedness	....	....	....	–14	–37	–67	–1,228
Total, Mandatory	–2,253	–3,295	–2,813	–3,719	–2,566	–3,154	–4,498
Total, Energy	2,647	961	1,890	1,172	2,079	1,344	–107
300 Natural resources and environment:							
Discretionary:							
Water resources:							
Corps of Engineers	3,340	3,443	3,671	3,305	3,342	3,273	3,306
Bureau of Reclamation	808	774	906	883	874	740	742

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other discretionary water resources programs	261	210	164	164	164	164	169
Proposed Legislation (non-PAYGO)	....	....	–7	–14	–14	–14	–14
Subtotal, Other discretionary water resources programs	261	210	157	150	150	150	155
Total, Water resources	4,409	4,427	4,734	4,338	4,366	4,163	4,203
Conservation and land management:							
Forest Service	2,336	2,556	2,340	2,386	2,431	2,476	2,525
Management of public lands (BLM)	1,017	947	989	1,020	1,041	1,065	1,086
Proposed Legislation (non-PAYGO)	....	....	....	....	42	63	35
Subtotal, Management of public lands (BLM)	1,017	947	989	1,020	1,083	1,128	1,121
Conservation of agricultural lands	740	655	687	687	687	687	687
Other conservation and land management programs	604	580	684	687	687	687	587
Total, Conservation and land management	4,697	4,738	4,700	4,780	4,888	4,978	4,920
Recreational resources:							
Operation of recreational resources	2,167	2,237	2,357	2,375	2,423	2,477	2,534
Other recreational resources activities	39	40	40	40	40	40	40
Total, Recreational resources	2,206	2,277	2,397	2,415	2,463	2,517	2,574
Pollution control and abatement:							
Regulatory, enforcement, and research programs	2,383	2,464	2,725	2,722	2,799	2,842	2,926
State and tribal assistance grants	2,813	2,910	2,793	2,890	2,861	2,885	2,908
Hazardous substance superfund	1,311	1,394	2,094	2,094	1,444	1,394	1,394
Other control and abatement activities	128	132	141	141	141	141	141
Total, Pollution control and abatement	6,635	6,900	7,753	7,847	7,245	7,262	7,369
Other natural resources:							
NOAA	1,933	1,977	2,052	2,256	2,129	2,066	2,008

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other natural resource program activities	788	752	757	757	757	755	755
Total, Other natural resources	2,721	2,729	2,809	3,013	2,886	2,821	2,763
Total, Discretionary	20,668	21,071	22,393	22,393	21,848	21,741	21,829
Mandatory:							
Water resources:							
Mandatory water resource programs	–155	51	–46	–95	–110	–111	–109
Conservation and land management:							
Conservation Reserve Program	1,924	2,121	2,347	2,204	2,311	2,313	2,296
Proposed Legislation (PAYGO)	....	....	–25	–25	–25	–25	–25
Subtotal, Conservation Reserve Program	1,924	2,121	2,322	2,179	2,286	2,288	2,271
Other conservation programs	812	603	564	511	508	506	506
Proposed Legislation (PAYGO)	....	....	35	3	5	4	3
Subtotal, Other conservation programs	812	603	599	514	513	510	509
Offsetting receipts	–1,856	–2,011	–2,079	–2,115	–2,129	–2,156	–2,200
Proposed Legislation (PAYGO)	....	....	–35	–77	–98	–70	–70
Subtotal, Offsetting receipts	–1,856	–2,011	–2,114	–2,192	–2,227	–2,226	–2,270
Total, Conservation and land management	880	713	807	501	572	572	510
Recreational resources:							
Operation of recreational resources	684	780	759	795	748	765	784
Proposed Legislation (PAYGO)	....	....	16	17	75	77	85
Subtotal, Operation of recreational resources	684	780	775	812	823	842	869
Offsetting receipts	–239	–294	–308	–317	–236	–236	–240
Proposed Legislation (PAYGO)	....	....	–1	–1	–78	–80	–88
Subtotal, Offsetting receipts	–239	–294	–309	–318	–314	–316	–328
Total, Recreational resources	445	486	466	494	509	526	541

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Pollution control and abatement:							
Superfund resources and other mandatory	–205	–147	–125	–100	–100	–101	–101
Proposed Legislation (PAYGO)	....	....	200	200	200	200	200
Subtotal, Superfund resources and other mandatory	–205	–147	75	100	100	99	99
Other natural resources:							
Other fees and mandatory programs	–23	–68	–12	–29	–29	–29	–29
Total, Mandatory	942	1,035	1,290	971	1,042	1,057	1,012
Total, Natural resources and environment	21,610	22,106	23,683	23,364	22,890	22,798	22,841
350 Agriculture:							
Discretionary:							
Farm income stabilization:							
Agriculture credit insurance loan subsidies	422	384	318	318	318	318	318
P.L.480 market development activities	238	142	90	90	90	90	90
Administrative expenses	801	817	1,017	943	880	857	860
Proposed Legislation (non-PAYGO)	....	....	–53	–51	–62	–75	–88
Subtotal, Administrative expenses	801	817	964	892	818	782	772
Total, Farm income stabilization	1,461	1,343	1,372	1,300	1,226	1,190	1,180
Agricultural research and services:							
Research programs	1,225	1,275	1,213	1,192	1,204	1,211	1,222
Extension programs	428	426	418	418	418	418	418
Marketing programs	48	40	51	51	51	51	51
Animal and plant inspection programs	459	438	431	431	431	431	431
Proposed Legislation (non-PAYGO)	....	....	–10	–10	–10	–10	–10
Subtotal, Animal and plant inspection programs	459	438	421	421	421	421	421
Economic intelligence	134	153	174	161	156	147	155

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Grain inspection user fees	23	23	26	26	26	26	26
Proposed Legislation (non-PAYGO)	....	....	–16	–19	–19	–19	–19
Subtotal, Grain inspection user fees	23	23	10	7	7	7	7
Other programs and unallocated overhead	428	442	456	464	461	460	460
Total, Agricultural research and services	2,745	2,797	2,743	2,714	2,718	2,715	2,734
Total, Discretionary	4,206	4,140	4,115	4,014	3,944	3,905	3,914
Mandatory:							
Farm income stabilization:							
Commodity Credit Corporation	5,129	6,668	7,483	7,297	6,824	5,621	5,378
Crop insurance and other farm credit activities	1,605	1,791	1,590	1,512	1,578	1,660	1,759
Proposed Legislation (PAYGO)	....	....	26	22	23	25	25
Subtotal, Crop insurance and other farm credit activities	1,605	1,791	1,616	1,534	1,601	1,685	1,784
Credit liquidating accounts (ACIF and FAC)	–1,301	–1,241	–1,190	–1,129	–1,073	–1,016	–1,011
Total, Farm income stabilization	5,433	7,218	7,909	7,702	7,352	6,290	6,151
Agricultural research and services:							
Fund for Rural America (Proposed PAYGO legislation)	....	....	50	....	–50	....	....
Miscellaneous mandatory programs	136	221	182	235	239	194	200
Offsetting receipts	–148	–136	–137	–137	–137	–137	–137
Total, Agricultural research and services	–12	85	95	98	52	57	63
Total, Mandatory	5,421	7,303	8,004	7,800	7,404	6,347	6,214
Total, Agriculture	9,627	11,443	12,119	11,814	11,348	10,252	10,128
370 Commerce and housing credit:							
Discretionary:							
Mortgage credit:							
Federal Housing Administration (FHA) Loan Subsidies	905	–311	181	152	150	146	142
Other Housing and Urban Development	5	3	3	3	3	3	3

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Rural housing insurance fund ...	646	557	580	580	580	580	580
Total, Mortgage credit	1,556	249	764	735	733	729	725
Postal service:							
Payments to the Postal Service fund (On-budget)	85	85	86	85	87	88	88
Deposit insurance:							
FSLIC Resolution Fund (transfer of balances)	....	–26	–34	....	....	....	....
Other discretionary	11	1	....	....	....	....	....
Total, Deposit insurance	11	–25	–34	....	....	....	....
Other advancement of commerce:							
Small and minority business assistance	516	555	556	554	554	554	555
Science and technology	572	598	720	762	778	851	937
Economic and demographic statistics	330	392	713	1,154	2,620	527	452
Regulatory agencies	251	140	155	160	150	152	153
International Trade Administration	267	270	272	272	272	272	272
Other discretionary	133	98	76	48	48	48	48
Total, Other advancement of commerce	2,069	2,053	2,492	2,950	4,422	2,404	2,417
Total, Discretionary	3,721	2,362	3,308	3,770	5,242	3,221	3,230
Mandatory:							
Mortgage credit:							
FHA and GNMA negative subsidies	–1,012	....	–1,315	–1,637	–1,712	–1,793	–1,953
Proposed Legislation (non-PAYGO)	....	....	–52	–97	–137	–180	–228
Proposed Legislation (PAYGO)	....	....	–370	–446	–404	–397	–395
Subtotal, FHA and GNMA negative subsidies	–1,012	....	–1,737	–2,180	–2,253	–2,370	–2,576
FHA Multifamily portfolio re-engineering (Proposed PAYGO Legislation)	....	....	–665	....	....	....	....
FHA Multifamily portfolio re-engineering (Proposed non-PAYGO Legislation)	....	....	523	899	864	....	....
Mortgage credit liquidating accounts	732	–10	–724	401	301	1,131	1,116
Other mortgage credit activities	13	22	....	....	....	....	....
Total, Mortgage credit	–267	12	–2,603	–880	–1,088	–1,239	–1,460

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Postal service:							
Payments to the Postal Service fund for nonfunded liabilities (On-budget)	37	36	35	33	32	30	29
Proposed Legislation (PAYGO)	....	....	–35	–33	–32	–30	–29
Subtotal, Payments to the Postal Service fund for nonfunded liabilities (On-budget)	37	36	....	....	....	....	....
Postal Service (Off-budget)	3,441	8,000	4,932	1,442	1,157	2,411	3,326
Proposed Legislation (non-PAYGO)	....	....	35	8	....	....	....
Subtotal, Postal Service (Off-budget)	3,441	8,000	4,967	1,450	1,157	2,411	3,326
Total, Postal service	3,478	8,036	4,967	1,450	1,157	2,411	3,326
Deposit insurance:							
Total, Deposit insurance	....	....	–79	–82	–86	–89	–93
Other advancement of commerce:							
Universal Service Fund	944	1,400	2,240	6,350	11,325	12,194	12,838
Payments to copyright owners	223	243	245	255	263	271	282
Spectrum auction subsidy	1	838	388	....	....	....	....
Regulatory fees	–41	–38	–38	–38	–38	–38	–38
Patent and trademark fees	–111	–115	–119	....	....	....	....
Proposed Legislation (PAYGO)	....	....	....	–119	–119	–119	–119
Subtotal, Patent and trademark fees	–111	–115	–119	–119	–119	–119	–119
Credit liquidating accounts	22	....	....	....	....	....	....
Other mandatory	370	102	43	44	96	97	99
Proposed Legislation (PAYGO)	....	....	–69	–69	–69	–69	–69
Subtotal, Other mandatory	370	102	–26	–25	27	28	30
Total, Other advancement of commerce	1,408	2,430	2,690	6,423	11,458	12,336	12,993
Total, Mandatory	4,619	10,478	4,975	6,911	11,441	13,419	14,766
Total, Commerce and housing credit	8,340	12,840	8,283	10,681	16,683	16,640	17,996
400 Transportation:							
Discretionary:							
Ground transportation:							
Highways[1]	278	82	100	100	100	100	100
State infrastructure banks	....	150	150	150	150	150	150

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Highway safety [1]	10	111	148	148	148	148	148
Mass transit [1]	1,275	823	339	189	139	139	139
Railroads	868	1,032	897	897	897	897	897
Proposed Legislation (non-PAYGO)	....	....	–60	–60	–60	–60	–60
Subtotal, Railroads	868	1,032	837	837	837	837	837
Regulation	22	12	....	....	....	....	....
Total, Ground transportation	2,453	2,210	1,574	1,424	1,374	1,374	1,374
Air transportation:							
Airports and airways (FAA)	6,695	7,027	7,111	....	....	....	....
Proposed Legislation (non-PAYGO)	....	....	75	2,159	2,215	2,275	2,336
Proposed Legislation (PAYGO)	....	....	225	6,475	6,647	6,824	7,006
Subtotal, Airports and airways (FAA)	6,695	7,027	7,411	8,634	8,862	9,099	9,342
Aeronautical research and technology	1,315	1,283	1,369	1,290	1,268	1,287	1,302
Payments to air carriers	–23	–14	–39	....	....	....	....
Total, Air transportation	7,987	8,296	8,741	9,924	10,130	10,386	10,644
Water transportation:							
Marine safety and transportation	2,708	2,784	2,861	2,861	2,861	2,861	2,861
Ocean shipping	135	130	123	123	123	123	123
Total, Water transportation	2,843	2,914	2,984	2,984	2,984	2,984	2,984
Other transportation:							
Other discretionary programs	345	362	229	228	228	228	228
Proposed Legislation (non-PAYGO)	....	....	1	1	1	1	1
Proposed Legislation (PAYGO)	....	....	5	5	5	5	5
Subtotal, Other discretionary programs	345	362	235	234	234	234	234
Total, Discretionary	13,628	13,782	13,534	14,566	14,722	14,978	15,236
Mandatory:							
Ground transportation:							
Highways [1]	17,871	22,185	22,335	22,333	22,343	22,386	22,413
Proposed Legislation (PAYGO)	....	....	152	21	–85	–156	–192
Subtotal, Highways	17,871	22,185	22,487	22,354	22,258	22,230	22,221

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Highway safety [1]	266	270	331	331	331	331	331
Mass transit [1]	2,775	4,800	4,771	4,921	4,971	4,971	4,971
Offsetting receipts and liquidating accounts	–19	–25	–35	–26	–30	–30	–30
Total, Ground transportation	20,893	27,230	27,554	27,580	27,530	27,502	27,493
Air transportation:							
Airports and airways (FAA)	1,550	2,230	2,397	50	50	50	50
Payments to air carriers	39	39	89	50	50	50	50
Total, Air transportation	1,589	2,269	2,486	100	100	100	100
Water transportation:							
Coast Guard retired pay	579	612	646	676	710	746	782
Other water transportation programs	–43	–31	–21	20	22	25	25
Proposed Legislation (PAYGO)	....	....	31	–30	–29	–29	–29
Subtotal, Other water transportation programs	–43	–31	10	–10	–7	–4	–4
Total, Water transportation	536	581	656	666	703	742	778
Other transportation:							
Sale of Governor's Island and Union Station Air Rights (Proposed PAYGO Legislation)	....	....	....	....	....	....	–540
Other mandatory transportation programs	–33	–32	–32	–32	–32	–32	–32
Total, Other transportation	–33	–32	–32	–32	–32	–32	–572
Total, Mandatory	22,985	30,048	30,664	28,314	28,301	28,312	27,799
Total, Transportation	36,613	43,830	44,198	42,880	43,023	43,290	43,035
450 Community and regional development:							
Discretionary:							
Community development:							
Community development loan guarantees	33	33	30	30	30	30	30
Community development block grant	4,650	4,600	4,600	4,600	4,100	4,100	4,100
Community development financial institutions	45	50	125	130	170	225	350

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Other community development programs	355	250	283	262	252	252	227
Proposed Legislation (non-PAYGO)	....	....	100	100	....	....	....
Subtotal, Other community development programs	355	250	383	362	252	252	227
Total, Community development	5,083	4,933	5,138	5,122	4,552	4,607	4,707
Area and regional development:							
Rural development	777	790	867	878	897	916	936
Economic Development Administration	372	374	343	338	237	233	232
Indian programs	968	935	1,036	1,036	1,036	1,036	1,036
Proposed Legislation (non-PAYGO)	....	....	7	....	....	....	....
Subtotal, Indian programs	968	935	1,043	1,036	1,036	1,036	1,036
Appalachian Regional Commission	170	160	165	70	70	70	70
Tennessee Valley Authority	109	106	106	....	....	....	....
Total, Area and regional development	2,396	2,365	2,524	2,322	2,240	2,255	2,274
Disaster relief and insurance:							
Small Business Administration disaster loans	331	327	173	192	192	192	192
Disaster relief	3,393	1,320	2,708	320	320	320	320
Proposed Legislation (non-PAYGO)	....	....	50	50	50	50	50
Subtotal, Disaster relief	3,393	1,320	2,758	370	370	370	370
Other disaster assistance programs	442	368	327	327	327	327	327
Total, Disaster relief and insurance	4,166	2,015	3,258	889	889	889	889
Total, Discretionary	11,645	9,313	10,920	8,333	7,681	7,751	7,870
Mandatory:							
Community development:							
Proposed Legislation (non-PAYGO)	....	157	....	....	....	....	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Area and regional development:							
Indian programs	490	544	457	461	468	474	476
Proposed Legislation (non-PAYGO)			–7				
Subtotal, Indian programs	490	544	450	461	468	474	476
Rural development programs	137	451	5	55	55	5	5
Proposed Legislation (PAYGO)			50		–50		
Subtotal, Rural development programs	137	451	55	55	5	5	5
Credit liquidating accounts	103	128	188	270	204	219	64
Offsetting receipts	–359	–258	–254	–254	–258	–264	–268
Total, Area and regional development	371	865	439	532	419	434	277
Disaster relief and insurance:							
National flood insurance fund	527	114	–31	–52	–71	–93	–113
Credit liquidating accounts		–1	–1				
Total, Disaster relief and insurance	527	113	–32	–52	–71	–93	–113
Total, Mandatory	898	1,135	407	480	348	341	164
Total, Community and regional development	12,543	10,448	11,327	8,813	8,029	8,092	8,034
500 Education, training, employment, and social services:							
Discretionary:							
Elementary, secondary, and vocational education:							
Education reform	530	691	1,245	1,261	1,208	1,045	687
School improvement programs	1,218	1,426	1,299	1,333	1,368	1,403	1,440
Education for the disadvantaged	5,896	7,690	8,077	8,287	8,502	8,723	8,950
Special education	3,245	4,036	4,210	4,319	4,432	4,547	4,665
Impact aid	693	730	658	680	697	710	718
Vocational and adult education	1,340	1,487	1,566	1,607	1,649	1,692	1,736
Indian education programs	583	610	625	626	628	630	631
Bilingual and immigrant education	178	262	354	363	373	382	392
Other	7	7	7	7	7	7	7
Total, Elementary, secondary, and vocational education	13,690	16,939	18,041	18,483	18,864	19,139	19,226

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Higher education:							
Student financial assistance	6,258	7,560	9,263	8,752	8,972	9,193	9,422
Proposed Legislation (non-PAYGO)	....	....	....	752	780	812	842
Subtotal, Student financial assistance	6,258	7,560	9,263	9,504	9,752	10,005	10,264
Higher education account	837	879	903	926	949	972	995
Proposed Legislation (non-PAYGO)	....	....	132	141	145	148	150
Subtotal, Higher education account	837	879	1,035	1,067	1,094	1,120	1,145
Federal family education loan program	30	46	48	49	50	52	53
Other higher education programs	309	325	327	335	343	353	362
Total, Higher education	7,434	8,810	10,673	10,955	11,239	11,530	11,824
Research and general education aids:							
Library of Congress	254	258	277	278	281	284	290
Public broadcasting	313	296	286	286	364	364	366
Smithsonian institution	459	461	515	457	457	457	457
Education research, statistics, and improvement	351	598	511	519	528	541	527
Other	704	701	784	805	824	848	872
Total, Research and general education aids	2,081	2,314	2,373	2,345	2,454	2,494	2,512
Training and employment:							
Training and employment services	4,140	4,716	5,295	5,349	5,411	5,492	5,631
Older Americans employment	373	463	....	....	....	....	....
Federal-State employment service	1,192	1,249	1,252	1,208	1,180	1,196	1,219
Proposed Legislation (non-PAYGO)	....	....	....	....	–50	–50	–50
Proposed Legislation (PAYGO)	....	....	19	38	38	38	38
Subtotal, Federal-State employment service	1,192	1,249	1,271	1,246	1,168	1,184	1,207
Welfare to work jobs	....	....	6	6	7	3	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Other employment and training	83	81	86	86	86	86	86
Proposed Legislation (PAYGO)	....	....	6	12	12	12	12
Subtotal, Other employment and training	83	81	92	98	98	98	98
Total, Training and employment	5,788	6,509	6,664	6,699	6,684	6,777	6,936
Other labor services:							
Labor law, statistics, and other administration	957	1,003	1,063	1,063	1,063	1,063	1,063
Social services:							
National service initiative	600	616	809	834	858	883	910
Children and families services programs	4,766	5,364	5,499	5,751	6,013	6,301	6,599
Aging services program	829	830	1,278	1,278	1,278	1,278	1,278
Other	2	2	25	12	2	–6	–13
Total, Social services	6,197	6,812	7,611	7,875	8,151	8,456	8,774
Total, Discretionary	36,147	42,387	46,425	47,420	48,455	49,459	50,335
Mandatory:							
Elementary, secondary, and vocational education:							
Vocational and adult education	7	7	7	7	7	7	7
Proposed Legislation (PAYGO)	....	....	–7	–7	–7	–7	–7
Subtotal, Vocational and adult education	7	7	....	....	....	....	....
School construction (Proposed PAYGO legislation)	....	....	5,000	....	....	....	....
America Reads Challenge (Proposed PAYGO legislation)	....	....	260	290	335	380	460
Total, Elementary, secondary, and vocational education	7	7	5,260	290	335	380	460
Higher education:							
Federal family education loan program	3,546	471	2,539	2,343	2,348	2,463	2,605
Proposed Legislation (PAYGO)	....	–340	–1,192	–354	–418	–437	–1,548
Subtotal, Federal family education loan program	3,546	131	1,347	1,989	1,930	2,026	1,057

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Federal direct loan program	680	600	1,395	1,523	1,388	1,285	1,357
Proposed Legislation (PAYGO)	....	....	–112	199	227	244	261
Subtotal, Federal direct loan program	680	600	1,283	1,722	1,615	1,529	1,618
Other higher education programs	–88	–79	–82	–78	–76	–76	–73
Credit liquidating account (Family education loan program)	1,153	....	....	....	....	....	....
Total, Higher education	5,291	652	2,548	3,633	3,469	3,479	2,602
Research and general education aids:							
Mandatory programs	21	17	18	21	22	21	22
Training and employment:							
Trade adjustment assistance	123	114	119	97	97	97	97
Proposed Legislation (PAYGO)	....	....	....	23	23	24	24
Subtotal, Trade adjustment assistance	123	114	119	120	120	121	121
Welfare to work jobs (Proposed PAYGO legislation)	....	....	750	1,000	1,250	....	....
Payments to States for AFDC work programs	1,000	1,000	....	....	....	....	....
Total, Training and employment	1,123	1,114	869	1,120	1,370	121	121
Social services:							
Payments to States for foster care and adoption assistance	4,322	4,445	4,311	4,631	4,986	5,345	5,773
Proposed Legislation (PAYGO)	....	....	....	6	12	20	30
Subtotal, Payments to States for foster care and adoption assistance	4,322	4,445	4,311	4,637	4,998	5,365	5,803
Family support and preservation	225	240	255	255	255	255	255
Social services block grant	2,381	2,500	2,380	2,380	2,380	2,380	2,380
Rehabilitation services	2,456	2,509	2,583	2,653	2,722	2,794	2,870

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other social services	12	16	20	24	27	31	34
Total, Social services	9,396	9,710	9,549	9,949	10,382	10,825	11,342
Total, Mandatory	15,838	11,500	18,244	15,013	15,578	14,826	14,547
Total, Education, training, employment, and social services	51,985	53,887	64,669	62,433	64,033	64,285	64,882
550 Health:							
Discretionary:							
Health care services:							
Substance abuse and mental health services	1,885	2,134	2,156	2,141	2,126	2,111	2,096
Indian health	1,984	2,054	2,122	2,132	2,142	2,152	2,162
Other discretionary health care services programs	5,038	5,473	5,424	5,440	5,414	5,387	5,360
Total, Health care services	8,907	9,661	9,702	9,713	9,682	9,650	9,618
Health research and training:							
National Institutes of Health	11,928	12,741	13,078	13,132	13,186	13,240	13,294
Clinical training	261	295	133	126	123	120	118
Other health research and training	231	307	286	281	277	273	269
Total, Health research and training	12,420	13,343	13,497	13,539	13,586	13,633	13,681
Consumer and occupational health and safety:							
Food safety and inspection	545	574	591	591	591	591	591
Proposed Legislation (non-PAYGO)	....	....	–390	–390	–390	–390	–390
Subtotal, Food safety and inspection	545	574	201	201	201	201	201
Occupational safety and health	514	536	568	568	568	568	568
Other consumer health programs	917	931	865	850	835	820	805
Proposed Legislation (PAYGO)	....	....	237	252	267	282	297
Subtotal, Other consumer health programs	917	931	1,102	1,102	1,102	1,102	1,102
Total, Consumer and occupational health and safety	1,976	2,041	1,871	1,871	1,871	1,871	1,871
Total, Discretionary	23,303	25,045	25,070	25,123	25,139	25,154	25,170

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Health care services:							
Medicaid grants	82,142	101,212	99,591	111,203	119,580	129,105	139,171
Proposed Legislation (PAYGO)	....	....	1,456	412	–1,414	–3,884	–5,783
Subtotal, Medicaid grants	82,142	101,212	101,047	111,615	118,166	125,221	133,388
Federal employees' and retired employees' health benefits	3,727	3,067	4,318	4,432	4,649	5,015	5,414
Coal miners retirees health benefits	351	342	336	328	320	314	307
Health initiatives (Proposed PAYGO legislation)	....	....	2,610	3,294	3,484	3,721	785
Other mandatory health services activities	332	413	356	312	324	336	347
Total, Health care services	86,552	105,034	108,667	119,981	126,943	134,607	140,241
Health research and safety:							
Health research and training	14	38	32	29	28	26	22
Total, Mandatory	86,566	105,072	108,699	120,010	126,971	134,633	140,263
Total, Health	109,869	130,117	133,769	145,133	152,110	159,787	165,433
570 Medicare:							
Discretionary:							
Medicare:							
Hospital insurance (HI) administrative expenses	1,169	1,114	1,209	1,207	1,194	1,193	1,194
Supplementary medical insurance (SMI) administrative expenses	1,770	1,484	1,546	1,544	1,534	1,534	1,534
Total, Medicare	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Total, Discretionary	2,939	2,598	2,755	2,751	2,728	2,727	2,728
Mandatory:							
Medicare:							
Hospital insurance (HI)	130,931	136,141	147,274	159,875	171,833	185,375	200,044
Proposed Legislation (PAYGO)	....	....	–19,410	–25,470	–33,770	–38,450	–44,320
Subtotal, Hospital insurance (HI)	130,931	136,141	127,864	134,405	138,063	146,925	155,724
Supplementary medical insurance (SMI)	67,139	74,931	82,463	91,166	100,039	109,691	120,643
Proposed Legislation (PAYGO)	....	....	14,889	14,578	13,059	13,288	14,047
Subtotal, Supplementary medical insurance (SMI)	67,139	74,931	97,352	105,744	113,098	122,979	134,690

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Medicare premiums and collections	–21,357	–19,600	–21,307	–22,416	–23,286	–24,192	–25,181
Proposed Legislation (PAYGO)	....	....	211	–498	–1,439	–2,658	–4,277
Subtotal, Medicare premiums and collections	–21,357	–19,600	–21,096	–22,914	–24,725	–26,850	–29,458
Total, Medicare	176,713	191,472	204,120	217,235	226,436	243,054	260,956
Total, Mandatory	176,713	191,472	204,120	217,235	226,436	243,054	260,956
Total, Medicare	179,652	194,070	206,875	219,986	229,164	245,781	263,684
600 Income security:							
Discretionary:							
General retirement and disability insurance:							
Railroad retirement	319	300	284	264	248	233	219
Pension Benefit Guaranty Corporation	11	10	11	11	11	11	11
Pension and Welfare Benefits Administration and other	68	78	86	86	86	86	86
Total, General retirement and disability insurance	398	388	381	361	345	330	316
Federal employee retirement and disability:							
Civilian retirement and disability program administrative expenses	82	86	82	82	82	82	82
Armed forces retirement home	56	56	80	73	56	56	56
Total, Federal employee retirement and disability	138	142	162	155	138	138	138
Unemployment compensation:							
Unemployment programs administrative expenses	2,272	2,361	2,650	2,451	2,453	2,456	2,458
Housing assistance:							
Public and Indian housing performance funds	....	....	2,500	2,520	2,555	2,590	2,626
Subsidized, public, homeless and other HUD housing	15,808	14,610	17,804	21,182	23,308	24,541	25,762
Proposed Legislation (non-PAYGO)	....	....	–855	–573	–152	....	....
Subtotal, Subsidized, public, homeless and other HUD housing	15,808	14,610	16,949	20,609	23,156	24,541	25,762
Rural housing assistance	601	579	664	747	841	843	900

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other housing assistance	1	....	....	....	....	....	....
Total, Housing assistance	16,410	15,189	20,113	23,876	26,552	27,974	29,288
Food and nutrition assistance:							
Special supplemental food program for women, infants, and children (WIC)	3,694	3,830	4,108	4,140	4,248	4,358	4,472
Other nutrition programs	525	513	510	496	486	476	476
Total, Food and nutrition assistance	4,219	4,343	4,618	4,636	4,734	4,834	4,948
Other income assistance:							
Refugee assistance	413	427	396	396	396	396	396
Low income home energy assistance	1,080	1,005	1,000	1,000	1,000	1,000	1,000
Child care and development block grant	935	19	1,000	1,000	1,000	1,000	1,000
Supplemental security income (SSI) administrative expenses	1,887	2,141	2,232	2,168	2,194	2,194	2,177
Proposed Legislation (non-PAYGO)	....	....	40	70	80	80	90
Subtotal, Supplemental security income (SSI) administrative expenses	1,887	2,141	2,272	2,238	2,274	2,274	2,267
Total, Other income assistance	4,315	3,592	4,668	4,634	4,670	4,670	4,663
Total, Discretionary	27,752	26,015	32,592	36,113	38,892	40,402	41,811
Mandatory:							
General retirement and disability insurance:							
Railroad retirement	4,459	4,240	4,250	4,247	4,294	4,459	4,400
Proposed Legislation (PAYGO)	....	....	31	46	46	47	47
Subtotal, Railroad retirement	4,459	4,240	4,281	4,293	4,340	4,506	4,447
Special benefits for disabled coal miners	1,210	1,177	1,103	1,068	1,023	976	931
Pension Benefit Guaranty Corporation	–11	–10	–11	–10	–11	–11	–12
Special workers' compensation expenses	129	150	151	158	168	175	183
Total, General retirement and disability insurance	5,787	5,557	5,524	5,509	5,520	5,646	5,549

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Federal employee retirement and disability:							
Federal civilian employee retirement and disability	40,387	42,081	44,117	46,288	48,307	50,369	52,646
Proposed Legislation (PAYGO)	....	....	–278	–285	–293	–301	–309
Subtotal, Federal civilian employee retirement and disability	40,387	42,081	43,839	46,003	48,014	50,068	52,337
Military retirement	28,991	30,195	31,345	32,485	33,577	34,616	35,644
Federal employees workers' compensation (FECA)	218	214	202	201	197	194	191
Federal employees life insurance fund	20	28	31	35	38	41	44
Total, Federal employee retirement and disability	69,616	72,518	75,417	78,724	81,826	84,919	88,216
Unemployment compensation:							
Unemployment insurance programs	22,469	22,567	24,327	25,734	26,999	28,096	29,145
Proposed Legislation (PAYGO)	....	....	....	....	–200	–200	–200
Subtotal, Unemployment insurance programs	22,469	22,567	24,327	25,734	26,799	27,896	28,945
Trade adjustment assistance	223	211	230	226	242	244	246
Proposed Legislation (PAYGO)	....	....	....	17	24	25	26
Subtotal, Trade adjustment assistance	223	211	230	243	266	269	272
Total, Unemployment compensation	22,692	22,778	24,557	25,977	27,065	28,165	29,217
Housing assistance:							
Mandatory housing assistance programs	20	46	46	46	44	44	43
Food and nutrition assistance:							
Food stamps (including Puerto Rico)	27,661	27,624	27,540	28,732	29,518	30,420	31,304
Proposed Legislation (PAYGO)	....	365	845	635	600	405	835
Subtotal, Food stamps (including Puerto Rico)	27,661	27,989	28,385	29,367	30,118	30,825	32,139
State child nutrition programs	7,966	8,659	7,770	8,912	9,367	9,836	10,347

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Funds for strengthening markets, income, and supply (Sec.32)	588	423	461	417	417	417	417
Total, Food and nutrition assistance	36,215	37,071	36,616	38,696	39,902	41,078	42,903
Other income support:							
Supplemental security income (SSI)	23,828	26,711	23,718	26,437	29,717	26,454	29,722
Proposed Legislation (PAYGO)	....	224	1,703	1,820	2,092	1,904	2,181
Subtotal, Supplemental security income (SSI)	23,828	26,935	25,421	28,257	31,809	28,358	31,903
Family support payments	18,014	6,958	607	1,641	2,839	2,901	3,112
Federal share of child support collections	....	–839	–1,032	–1,097	–1,106	–1,110	–1,208
Temporary assistance for needy families and related programs	111	13,703	16,836	17,145	17,191	17,212	16,960
Child care entitlement to states	....	1,967	2,175	2,270	2,463	2,653	2,791
Earned income tax credit (EITC)	19,159	21,163	21,983	22,864	23,818	24,634	25,518
Other assistance	37	32	66	65	68	69	69
SSI recoveries and receipts	–1,187	–1,324	–1,390	–1,452	–1,626	–1,474	–1,648
Total, Other income support	59,962	68,595	64,666	69,693	75,456	73,243	77,497
Total, Mandatory	194,292	206,565	206,826	218,645	229,813	233,095	243,425
Total, Income security	222,044	232,580	239,418	254,758	268,705	273,497	285,236
650 Social security:							
Discretionary:							
Social security:							
Old-age and survivors insurance (OASI)administrative expenses	1,828	2,069	2,131	2,082	2,031	2,031	2,034
Disability insurance (DI) administrative expenses	1,307	1,382	1,162	1,164	1,205	1,205	1,207
Office of the Inspector General—Social Security Adm.	5	6	10	10	10	10	10
Total, Social security	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Total, Discretionary	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Mandatory:							
Social security:							
Old-age and survivors insurance (OASI)(Off-budget)	305,791	317,816	331,803	345,960	360,951	377,392	393,956
Quinquennial OASI and DI adjustments	–332	....	....	....	....	–553	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Disability insurance (DI)(Off-budget)	43,522	45,997	50,715	54,433	58,625	63,048	67,731
Proposed Legislation (non-PAYGO)	....	....	....	–5	1	7	13
Subtotal, Disability insurance (DI)(Off-budget)	43,522	45,997	50,715	54,428	58,626	63,055	67,744
Intragovernmental transactions	15	10	....	....	....	....	....
Total, Social security	348,996	363,823	382,518	400,388	419,577	439,894	461,700
Total, Mandatory	348,996	363,823	382,518	400,388	419,577	439,894	461,700
Total, Social security	352,136	367,280	385,821	403,644	422,823	443,140	464,951
700 Veterans benefits and services:							
Discretionary:							
Veterans education, training, and rehabilitation:							
Loan fund program account	1	1	1	1	1	1	1
Hospital and medical care for veterans:							
Medical care and hospital services	16,871	17,336	17,253	17,253	17,253	17,253	17,253
Proposed Legislation (non-PAYGO)	....	....	591	670	749	825	903
Subtotal, Medical care and hospital services	16,871	17,336	17,844	17,923	18,002	18,078	18,156
Transfer in of collections for medical care (Proposed PAYGO legislation)	....	....	–591	–670	–749	–825	–903
Construction of medical facilities	373	453	319	287	287	287	287
Total, Hospital and medical care for veterans	17,244	17,789	17,572	17,540	17,540	17,540	17,540
Veterans housing:							
Housing program loan subsidies	118	139	160	156	151	149	150
Other veterans benefits and services:							
Other general operating expenses	996	981	1,017	1,022	1,023	1,012	1,015
Total, Discretionary [2]	18,359	18,910	18,750	18,719	18,715	18,702	18,706

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Income security for veterans:							
Compensation	15,415	16,163	16,438	16,577	16,662	16,746	16,830
Proposed Legislation (non-PAYGO)	....	....	331	740	1,162	1,595	2,042
Proposed Legislation (PAYGO)	....	....	–17	–38	–60	–76	–95
Subtotal, Compensation	15,415	16,163	16,752	17,279	17,764	18,265	18,777
Pensions	3,074	3,144	3,178	3,714	3,765	3,823	3,876
Proposed Legislation (PAYGO)	....	....	....	–516	–539	–566	–592
Subtotal, Pensions	3,074	3,144	3,178	3,198	3,226	3,257	3,284
Burial benefits and miscellaneous assistance	114	117	119	121	124	127	130
National service life insurance trust fund	1,288	1,230	1,182	1,113	1,045	987	929
All other insurance programs	50	46	57	56	55	55	54
Insurance program receipts	–238	–258	–218	–207	–193	–178	–163
Total, Income security for veterans	19,703	20,442	21,070	21,560	22,021	22,513	23,011
Veterans education, training, and rehabilitation:							
Readjustment benefits (GI Bill and related programs)	1,155	1,377	1,366	1,465	1,469	1,514	1,530
All-volunteer force educational assistance trust fund	–143	–331	–224	–234	–235	–240	–234
Total, Veterans education, training, and rehabilitation	1,012	1,046	1,142	1,231	1,234	1,274	1,296
Hospital and medical care for veterans:							
Fees, charges and other mandatory medical care	–432	–415	–468	–308	–355	–404	–452
Transfer out of collections for medical care (Proposed PAYGO legislation)	....	....	468	309	356	403	452
Total, Hospital and medical care for veterans	–432	–415	....	1	1	–1	....
Veterans housing:							
Housing loan subsidies	94	–581	192	396	386	377	374
Proposed Legislation (PAYGO)	....	....	–29	–234	–229	–228	–223
Subtotal, Housing loan subsidies	94	–581	163	162	157	149	151

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other veterans programs:							
Other mandatory veterans programs	27	34	41	41	80	65	32
Total, Mandatory	20,404	20,526	22,416	22,995	23,493	24,000	24,490
Total, Veterans benefits and services	38,763	39,436	41,166	41,714	42,208	42,702	43,196
750 Administration of justice:							
Discretionary:							
Federal law enforcement activities:							
Criminal investigations (DEA, FBI, FinCEN, ICDE)	3,634	4,057	4,261	3,861	3,951	4,057	4,150
Alcohol, tobacco, and firearms investigations (ATF)	393	468	552	497	514	525	552
Border enforcement activities (Customs and INS)	3,198	3,785	4,143	3,536	3,636	3,738	3,857
Equal Employment Opportunity Commission	233	240	246	246	246	246	246
Other law enforcement activities	1,121	1,231	1,406	1,351	1,366	1,395	1,429
Total, Federal law enforcement activities [3]	8,579	9,781	10,608	9,491	9,713	9,961	10,234
Federal litigative and judicial activities:							
Civil and criminal prosecution and representation	2,226	2,382	2,600	2,587	2,654	2,722	2,814
Representation of indigents in civil cases	278	283	340	349	359	368	378
Federal judicial and other litigative activities	2,841	3,046	3,410	3,511	3,609	3,708	3,808
Total, Federal litigative and judicial activities [3]	5,345	5,711	6,350	6,447	6,622	6,798	7,000
Correctional activities:							
Discretionary programs	2,883	3,193	3,249	3,257	3,344	3,433	3,555
Criminal justice assistance:							
Discretionary programs	3,877	4,134	4,208	5,991	4,703	4,614	4,729
Total, Discretionary	20,684	22,819	24,415	25,186	24,382	24,806	25,518
Mandatory:							
Federal law enforcement activities:							
Assets forfeiture fund	304	350	367	362	372	381	391
Border enforcement activities (Customs and INS)	1,270	1,599	1,489	1,497	1,550	1,604	1,661
Customs and INS fees	–2,161	–2,261	–2,319	–2,390	–2,476	–2,542	–2,622

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other mandatory law enforcement programs	288	294	309	309	312	315	318
Total, Federal law enforcement activities [3]	–299	–18	–154	–222	–242	–242	–252
Federal litigative and judicial activities:							
Mandatory programs	411	415	403	411	421	430	439
Correctional activities:							
Mandatory programs	–2	–4	–4	–4	–4	–4	–5
Criminal justice assistance:							
Mandatory programs	257	559	208	213	218	225	231
Total, Mandatory	367	952	453	398	393	409	413
Total, Administration of justice	21,051	23,771	24,868	25,584	24,775	25,215	25,931
800 General government:							
Discretionary:							
Legislative functions:							
Legislative branch discretionary programs	1,829	1,878	2,068	2,084	2,101	2,113	2,124
Executive direction and management:							
Drug control programs	89	218	351	351	351	351	351
Executive Office of the President	179	176	195	195	195	195	195
Presidential transition and former Presidents	2	8	2	2	2	8	2
Total, Executive direction and management	270	402	548	548	548	554	548
Central fiscal operations:							
Tax administration	7,335	7,031	7,869	7,776	7,283	7,295	7,308
Other fiscal operations	527	583	700	698	702	705	709
Total, Central fiscal operations	7,862	7,614	8,569	8,474	7,985	8,000	8,017
General property and records management:							
Real property activities	68	393	84	....	....	....	....
Records management	203	214	213	213	213	213	213
Other general and records management	151	152	138	137	137	137	137
Total, General property and records management	422	759	435	350	350	350	350

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Central personnel management:							
Discretionary central personnel management programs	154	150	148	148	148	148	148
General purpose fiscal assistance:							
Payments and loans to the District of Columbia	712	719	712	712	712	712	712
Proposed Legislation (non-PAYGO)	....	....	58	–74	–65	–355	–346
Subtotal, Payments and loans to the District of Columbia	712	719	770	638	647	357	366
Payments to States and counties from Federal land management activities	11	11	10	10	10	10	10
Payments in lieu of taxes	114	114	102	102	102	102	102
Other	1	1	1	1	1	1	1
Total, General purpose fiscal assistance	838	845	883	751	760	470	479
Other general government:							
Discretionary programs	164	159	158	159	160	161	162
Total, Discretionary	11,539	11,807	12,809	12,514	12,052	11,796	11,828
Mandatory:							
Legislative functions:							
Congressional members compensation and other	96	95	102	94	96	96	95
Central fiscal operations:							
Mandatory programs	–184	–142	–162	–164	–167	–169	–170
Proposed Legislation (PAYGO)	....	....	–15	–10	–5	–5	–5
Subtotal, Mandatory programs	–184	–142	–177	–174	–172	–174	–175
General property and records management:							
Mandatory programs	16	18	14	13	11	11	11
Offsetting receipts	–23	–21	–21	–20	–18	–18	–18
Total, General property and records management	–7	–3	–7	–7	–7	–7	–7
General purpose fiscal assistance:							
Payments and loans to the District of Columbia	–12	–12	–12	–12	–12	–15	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Payments to States and counties	747	810	840	778	800	821	844
Payments to territories and Puerto Rico	110	123	127	130	134	138	143
Tax revenues for Puerto Rico (Treasury, BATF)	221	230	230	230	230	230	230
Proposed Legislation (PAYGO)	....	....	....	67	167	286	424
Subtotal, Tax revenues for Puerto Rico (Treasury, BATF)	221	230	230	297	397	516	654
Other general purpose fiscal assistance	90	92	94	96	98	100	102
Total, General purpose fiscal assistance	1,156	1,243	1,279	1,289	1,417	1,560	1,743
Other general government:							
Territories	175	268	167	165	167	169	169
Treasury claims	509	750	635	635	615	615	615
Presidential election campaign fund	66	66	66	66	66	66	66
Other mandatory programs	–63	–48	–60	–60	–60	–60	–60
Total, Other general government	687	1,036	808	806	788	790	790
Deductions for offsetting receipts:							
Offsetting receipts	–1,694	–1,184	–1,184	–1,184	–1,184	–1,184	–1,184
Total, Mandatory	54	1,045	821	824	938	1,081	1,262
Total, General government	11,593	12,852	13,630	13,338	12,990	12,877	13,090
900 Net interest:							
Mandatory:							
Interest on the public debt:							
Interest on the public debt	343,955	356,740	365,344	370,406	369,987	369,816	367,643
Proposed Legislation (non-PAYGO)	....	....	763	2,063	4,300	7,087	9,149
Subtotal, Interest on the public debt	343,955	356,740	366,107	372,469	374,287	376,903	376,792

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Interest received by on-budget trust funds:							
Civil service retirement and disability fund	–28,530	–30,727	–32,012	–32,757	–33,059	–33,493	–34,000
Proposed Legislation (non-PAYGO)	....	....	–40	–110	–190	–277	–369
Subtotal, Civil service retirement and disability fund	–28,530	–30,727	–32,052	–32,867	–33,249	–33,770	–34,369
Military retirement	–11,501	–11,600	–11,800	–12,000	–12,300	–12,500	–12,700
Medicare	–11,777	–11,389	–10,314	–8,654	–6,405	–3,661	–1,562
Proposed Legislation (non-PAYGO)	....	....	–302	–1,886	–4,004	–6,662	–8,584
Subtotal, Medicare	–11,777	–11,389	–10,616	–10,540	–10,409	–10,323	–10,146
Other on-budget trust funds	–9,061	–9,096	–8,876	–9,193	–9,427	–9,800	–10,175
Proposed Legislation (non-PAYGO)	....	....	–402	–16	–29	–42	–57
Subtotal, Other on-budget trust funds	–9,061	–9,096	–9,278	–9,209	–9,456	–9,842	–10,232
Total, Interest received by on-budget trust funds	–60,869	–62,812	–63,746	–64,616	–65,414	–66,435	–67,447
Interest received by off-budget trust funds:							
Interest received by social security trust funds	–36,507	–41,238	–45,199	–49,228	–53,181	–57,272	–61,554
Other interest:							
Interest on loans to Federal Financing Bank	–6,458	–4,351	–3,958	–3,503	–3,121	–2,779	–2,425
Interest on refunds of tax collections	2,172	2,644	2,753	2,855	2,991	3,143	3,295
Payment to the Resolution Funding Corporation	2,328	2,328	2,328	2,328	2,328	2,328	2,328
Interest paid to loan guarantee financing accounts	2,350	2,438	2,452	2,491	2,541	2,601	2,674
Interest received from direct loan financing accounts	–3,031	–4,391	–5,754	–7,045	–8,336	–9,661	–10,976
Interest on deposits in tax and loan accounts	–757	–736	–750	–750	–750	–750	–750
Interest received from Outer Continental Shelf escrow account, Interior	–1	....	–1,142	....	....	....	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
All other interest	–2,091	–3,083	–3,232	–3,158	–3,142	–3,115	–3,175
Proposed Legislation (non-PAYGO)	....	–157	....	....	....	....	....
Subtotal, All other interest	–2,091	–3,240	–3,232	–3,158	–3,142	–3,115	–3,175
Total, Other interest	–5,488	–5,308	–7,303	–6,782	–7,489	–8,233	–9,029
Total, Mandatory	241,091	247,382	249,859	251,843	248,203	244,963	238,762
950 Undistributed offsetting receipts:							
Mandatory:							
Employer share, employee retirement (on-budget):							
Contributions to military retirement fund	–11,174	–11,180	–10,544	–10,566	–10,730	–10,850	–11,078
Postal Service contributions to Civil Service Retirement and Disability Fund	–5,712	–5,916	–6,103	–6,065	–6,280	–6,488	–6,733
Other contributions to civil and foreign service retirement and disability fund	–7,991	–8,303	–8,535	–8,746	–9,153	–9,640	–10,178
Proposed Legislation (non-PAYGO)	....	....	–621	–604	–588	–577	–567
Subtotal, Other contributions to civil and foreign service retirement and disability fund	–7,991	–8,303	–9,156	–9,350	–9,741	–10,217	–10,745
Contributions to HI trust fund	–2,382	–2,470	–2,625	–2,777	–2,942	–3,072	–3,259
Total, Employer share, employee retirement (on-budget)	–27,259	–27,869	–28,428	–28,758	–29,693	–30,627	–31,815
Employer share, employee retirement (off-budget):							
Contributions to social security trust funds	–6,278	–6,505	–7,028	–7,633	–8,356	–8,942	–9,781
Rents and royalties on the Outer Continental Shelf:							
OCS Receipts	–3,741	–4,152	–4,375	–4,036	–3,885	–4,050	–4,254
Sale of major assets:							
Proceeds from Sale of U.S. Enrichment Corporation	....	....	–1,800	....	....	....	....
Privatization of Elk Hills	....	....	–2,415	....	....	....	....

Table 31–1. BUDGET AUTHORITY BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Proceeds from sale of Power Marketing Administrations	....	....	–85	....	....	....	....
Total, Sale of major assets	....	....	–4,300	....	....	....	....
Other undistributed offsetting receipts:							
Spectrum Auction	–342	–7,961	–9,359	–1,304	–264	–132	....
Proposed Legislation (PAYGO)	....	....	–2,100	–1,800	–3,800	–6,300	–22,100
Subtotal, Spectrum Auction	–342	–7,961	–11,459	–3,104	–4,064	–6,432	–22,100
Total, Mandatory	–37,620	–46,487	–55,590	–43,531	–45,998	–50,051	–67,950
Total	1,581,063	1,652,881	1,709,547	1,777,401	1,831,705	1,879,990	1,922,332
On-budget	(1,274,092)	(1,332,287)	(1,378,612)	(1,437,280)	(1,477,932)	(1,509,376)	(1,535,315)
Off-budget	(306,971)	(320,594)	(330,935)	(340,121)	(353,773)	(370,614)	(387,017)

[1] Highway, highway safety, and transit programs are funded through mandatory contract authority and subject to obligation limitations that may be lower than the budget authority shown above.

[2] Proposed legislation will supplement the budget authority with receipts (estimated at $0.5 billion in 1998).

[3] For 1999—2002, Federal law enforcement and Federal litigation and judicial totals do not include Violent Crime Reduction Trust Fund spending. That spending appears under the correctional activities and justice assistance subfunction pending decisions on specific allocation.

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
050 National defense:							
Discretionary:							
Department of Defense—Military:							
Military personnel	66,669	70,053	69,346	69,839	73,865	70,285	74,769
Operation and maintenance	88,754	92,135	92,574	91,636	91,553	93,090	91,912
Procurement	48,913	45,575	43,142	44,647	47,616	51,641	55,399
Research, development, test and evaluation	36,494	36,034	34,645	35,152	33,960	33,158	33,552
Military construction	6,683	6,568	5,593	5,171	4,512	4,258	3,860
Family housing	3,828	4,352	3,928	3,881	3,885	3,922	3,880
Revolving, management and trust funds	2,363	2,612	383	545	778	700	–998
General transfer authority	....	280	220	100	....	....	....
DOD-wide savings proposals	....	–2,282	–1,315	–815	....	....	....
Proposed legislation (non-PAYGO)	....	....	....	81	–168	–39	18
Discretionary offsetting receipts	–100	–102	–102	–92	–92	–92	–92
Total, Department of Defense—Military	253,604	255,225	248,414	250,145	255,909	256,923	262,300
Atomic energy defense activities:							
Weapons activities	3,873	4,020	3,660	3,513	3,419	3,370	3,329
Defense environmental restoration and waste management	6,130	6,074	4,962	4,920	4,762	4,720	4,723
Defense nuclear waste disposal	151	182	195	233	232	190	190
Other atomic energy defense activities	1,490	1,688	2,100	2,450	2,565	2,520	2,544
Total, Atomic energy defense activities	11,644	11,964	10,917	11,116	10,978	10,800	10,786
Defense-related activities:							
Discretionary programs	708	769	797	840	849	846	822
Total, Discretionary	265,956	267,958	260,128	262,101	267,736	268,569	273,908
Mandatory:							
Department of Defense—Military:							
Revolving, trust and other DoD mandatory	166	116	145	152	151	151	151
Proceeds from sales from National Defense Stockpile (Proposed PAYGO legislation)	....	....	....	....	....	....	–200
Offsetting receipts	–583	–1,069	–1,067	–1,029	–901	–901	–901
Total, Department of Defense—Military	–417	–953	–922	–877	–750	–750	–950
Atomic energy defense activities:							
Proceeds from sales of excess DOE assets	–5	–25	–15	–15	–15	–15	–15

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Defense-related activities:							
Mandatory programs	214	196	197	210	223	237	251
Total, Mandatory	–208	–782	–740	–682	–542	–528	–714
Total, National defense	265,748	267,176	259,388	261,419	267,194	268,041	273,194
150 International affairs:							
Discretionary:							
International development, humanitarian assistance:							
Development assistance and operating expenses	2,499	2,308	2,130	2,189	2,232	2,280	2,310
Multilateral development banks (MDB's)	1,751	1,698	1,630	1,318	1,431	1,340	1,418
Assistance for the New Independent States	765	696	697	701	752	767	774
Food aid	798	1,094	880	892	913	936	960
Refugee programs	638	852	734	715	733	753	772
Assistance for Central and Eastern Europe	444	497	491	379	313	257	192
Voluntary contributions to international organizations	302	287	342	365	365	365	365
Peace Corps	213	239	223	226	233	239	245
Other development and humanitarian assistance	225	313	321	322	314	324	330
Total, International development, humanitarian assistance	7,635	7,984	7,448	7,107	7,286	7,261	7,366
International security assistance:							
Foreign military financing grants and loans	3,012	3,252	3,505	3,542	3,486	3,404	3,344
Economic support fund	2,237	2,465	2,423	2,475	2,480	2,441	2,467
Other security assistance	196	203	205	199	191	174	174
Total, International security assistance	5,445	5,920	6,133	6,216	6,157	6,019	5,985
Conduct of foreign affairs:							
State Department operations	2,008	2,113	1,774	1,743	1,725	1,721	1,721
Proposed Legislation (PAYGO)	....	....	506	566	589	595	595
Subtotal, State Department operations	2,008	2,113	2,280	2,309	2,314	2,316	2,316
Foreign buildings	496	435	403	391	368	373	373
Assessed contributions to international organizations	903	886	1,021	902	900	925	925
Assessed contributions for international peacekeeping	190	514	287	241	240	240	240

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Arrearage payment for international organizations and peacekeeping	....	....	....	921	....	....	....
Other conduct of foreign affairs	156	167	166	168	170	171	172
Total, Conduct of foreign affairs	3,753	4,115	4,157	4,932	3,992	4,025	4,026
Foreign information and exchange activities:							
U.S. Information Agency	1,177	1,154	1,091	1,079	1,072	1,070	1,070
Other information and exchange activities	8	9	8	6	3	1	....
Total, Foreign information and exchange activities	1,185	1,163	1,099	1,085	1,075	1,071	1,070
International financial programs:							
Export-Import Bank	436	492	524	526	531	532	528
Special defense acquisition fund	–137	–134	–84	–22	12	4	1
Other IMF	19	26	24	22	19	16	7
Total, International financial programs	318	384	464	526	562	552	536
Total, Discretionary	18,336	19,566	19,301	19,866	19,072	18,928	18,983
Mandatory:							
International development, humanitarian assistance:							
Credit liquidating accounts	–1,476	–1,472	–1,350	–1,253	–1,238	–1,221	–1,192
Other development and humanitarian assistance	1	–14	–12	–19	–12	–12	–12
Total, International development, humanitarian assistance	–1,475	–1,486	–1,362	–1,272	–1,250	–1,233	–1,204
International security assistance:							
Repayment of foreign military financing loans	–661	–637	–535	–364	–268	–183	–133
Foreign military loan liquidating account	–219	–203	–191	–189	–201	–229	–228
Total, International security assistance	–880	–840	–726	–553	–469	–412	–361
Foreign affairs and information:							
Conduct of foreign affairs	8	–55	–4	7	3	3	3
U.S. Information Agency trust funds	1	1	1	1	1	1	1

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Japan-U.S. Friendship Commission	1	1	1	1	....	....	....
Proposed Legislation (PAYGO)	....	....	37	....	....	....	....
Subtotal, Japan-U.S. Friendship Commission	1	1	38	1	....	....	....
Total, Foreign affairs and information	10	–53	35	9	4	4	4
International financial programs:							
Foreign military sales trust fund (net)	–424	–100	–120	30	80	130	120
International monetary fund	675	....	....	....	....	....	....
Exchange stabilization fund	–1,643	–1,660	–1,745	–1,715	–1,749	–1,764	–1,820
Credit liquidating account (Exim)	–1,048	–497	–368	–350	–265	–238	–176
Other international financial programs	–55	–108	–110	–112	–190	–142	–50
Total, International financial programs	–2,495	–2,365	–2,343	–2,147	–2,124	–2,014	–1,926
Total, Mandatory	–4,840	–4,744	–4,396	–3,963	–3,839	–3,655	–3,487
Total, International affairs	13,496	14,822	14,905	15,903	15,233	15,273	15,496
250 General science, space, and technology:							
Discretionary:							
General science and basic research:							
National Science Foundation programs	2,934	3,176	3,153	3,263	3,299	3,313	3,322
Department of Energy general science programs	1,054	989	988	1,001	998	996	996
Total, General science and basic research	3,988	4,165	4,141	4,264	4,297	4,309	4,318
Space flight, research, and supporting activities:							
Science, aeronautics and technology	4,199	4,483	4,574	4,843	4,835	4,902	4,971
Human space flight	5,452	5,420	5,604	5,246	5,089	4,876	4,733
Mission support	2,035	2,039	2,066	1,972	1,905	1,935	2,024
Other NASA programs	1,007	406	65	66	29	29	19
Total, Space flight, research, and supporting activities	12,693	12,348	12,309	12,127	11,858	11,742	11,747
Total, Discretionary	16,681	16,513	16,450	16,391	16,155	16,051	16,065

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
General science and basic research:							
National Science Foundation donations	28	38	38	31	31	31	31
Total, Mandatory	28	38	38	31	31	31	31
Total, General science, space, and technology	16,709	16,551	16,488	16,422	16,186	16,082	16,096
270 Energy:							
Discretionary:							
Energy supply:							
Research and development	3,832	3,467	3,475	3,433	3,395	3,268	3,125
Naval petroleum reserves operations	170	154	134	117	69	48	48
Uranium enrichment activities	439	299	254	224	195	190	190
Decontamination transfer	–350	–377	–388	–398	–410	–421	–435
Nuclear waste program	195	166	186	190	190	190	190
Federal power marketing	329	269	232	240	237	226	211
Rural electric and telephone discretionary loans	124	137	102	81	66	61	55
Financial management services	29	18	48	68	72	70	67
Total, Energy supply	4,768	4,133	4,043	3,955	3,814	3,632	3,451
Energy conservation and preparedness:							
Energy conservation	624	565	589	668	690	689	689
Emergency energy preparedness	141	31	226	215	214	214	214
Total, Energy conservation and preparedness	765	596	815	883	904	903	903
Energy information, policy, and regulation:							
Nuclear Regulatory Commission (NRC)	57	20	18	19	19	19	19
Federal Energy Regulatory Commission fees and recoveries, and other	–52	–31	–22	–22	–23	–24	–24
Departmental and other administration	420	248	191	191	189	189	189
Total, Energy information, policy, and regulation	425	237	187	188	185	184	184
Total, Discretionary	5,958	4,966	5,045	5,026	4,903	4,719	4,538

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Mandatory:							
Energy supply:							
Naval petroleum reserves oil and gas sales	–419	–444	–175	–20	–10	–10	–10
Proposed Legislation (PAYGO)	....	....	....	....	2	2	2
Subtotal, Naval petroleum reserves oil and gas sales	–419	–444	–175	–20	–8	–8	–8
Federal power marketing	–943	–818	–853	–776	–750	–754	–799
Tennessee Valley Authority	650	–111	–285	–303	–434	–436	–443
United States Enrichment Corporation	–278	....	–100	–89	–80	–100	–940
Nuclear waste fund program	–628	–649	–655	–657	–659	–660	–660
Rural electric and telephone liquidating accounts	–1,504	–891	–698	–1,868	–890	–1,061	–863
Total, Energy supply	–3,122	–2,913	–2,766	–3,713	–2,821	–3,019	–3,713
Emergency energy preparedness:							
Lease excess SPR capacity (Proposed PAYGO Legislation)	....	....	....	–14	–37	–67	–83
Sale of Weeks Island Oil (Proposed PAYGO Legislation)	....	....	....	....	....	....	–1,145
Total, Emergency energy preparedness	....	....	....	–14	–37	–67	–1,228
Total, Mandatory	–3,122	–2,913	–2,766	–3,727	–2,858	–3,086	–4,941
Total, Energy	2,836	2,053	2,279	1,299	2,045	1,633	–403
300 Natural resources and environment:							
Discretionary:							
Water resources:							
Corps of Engineers	3,676	3,631	3,361	3,300	3,321	3,322	3,313
Bureau of Reclamation	769	975	803	886	885	835	742
Other discretionary water resources programs	369	358	186	169	164	164	169
Proposed Legislation (non-PAYGO)	....	....	–7	–14	–14	–14	–14
Subtotal, Other discretionary water resources programs	369	358	179	155	150	150	155
Total, Water resources	4,814	4,964	4,343	4,341	4,356	4,307	4,210
Conservation and land management:							
Forest Service	2,331	2,600	2,379	2,385	2,426	2,471	2,520

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Management of public lands (BLM)	915	1,109	1,002	1,016	1,037	1,061	1,082
Proposed Legislation (non-PAYGO)	....	....	....	....	15	36	39
Subtotal, Management of public lands (BLM)	915	1,109	1,002	1,016	1,052	1,097	1,121
Conservation of agricultural lands	773	806	739	709	707	704	687
Other conservation and land management programs	600	596	642	677	687	687	637
Total, Conservation and land management	4,619	5,111	4,762	4,787	4,872	4,959	4,965
Recreational resources:							
Operation of recreational resources	2,290	2,295	2,403	2,417	2,444	2,497	2,550
Other recreational resources activities	23	34	40	40	40	40	40
Total, Recreational resources	2,313	2,329	2,443	2,457	2,484	2,537	2,590
Pollution control and abatement:							
Regulatory, enforcement, and research programs	2,273	2,589	2,641	2,703	2,814	2,858	2,898
State and tribal assistance grants	2,573	2,500	2,522	2,655	2,821	2,985	2,863
Hazardous substance superfund	1,416	1,376	1,551	1,751	1,690	1,551	1,498
Other control and abatement activities	151	126	133	137	139	141	141
Total, Pollution control and abatement	6,413	6,591	6,847	7,246	7,464	7,535	7,400
Other natural resources:							
NOAA	2,027	1,936	2,042	2,106	2,177	2,075	2,086
Other natural resource program activities	761	797	752	760	760	758	758
Total, Other natural resources	2,788	2,733	2,794	2,866	2,937	2,833	2,844
Total, Discretionary	20,947	21,728	21,189	21,697	22,113	22,171	22,009
Mandatory:							
Water resources:							
Mandatory water resource programs	–197	44	–147	–44	–81	–74	–98

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Conservation and land management:							
Conservation Reserve Program	1,739	2,010	2,219	2,182	2,268	2,270	2,261
Proposed Legislation (PAYGO)	....	....	–25	–25	–25	–25	–25
Subtotal, Conservation Reserve Program	1,739	2,010	2,194	2,157	2,243	2,245	2,236
Other conservation programs	894	810	734	552	535	533	533
Proposed Legislation (PAYGO)	....	....	16	–1	5	4	3
Subtotal, Other conservation programs	894	810	750	551	540	537	536
Offsetting receipts	–1,856	–2,011	–2,079	–2,115	–2,129	–2,156	–2,200
Proposed Legislation (PAYGO)	....	....	–35	–77	–98	–70	–70
Subtotal, Offsetting receipts	–1,856	–2,011	–2,114	–2,192	–2,227	–2,226	–2,270
Total, Conservation and land management	777	809	830	516	556	556	502
Recreational resources:							
Operation of recreational resources	599	711	735	742	696	711	730
Proposed Legislation (PAYGO)	....	....	16	16	74	76	84
Subtotal, Operation of recreational resources	599	711	751	758	770	787	814
Offsetting receipts	–239	–294	–308	–317	–236	–236	–240
Proposed Legislation (PAYGO)	....	....	–1	–1	–78	–80	–88
Subtotal, Offsetting receipts	–239	–294	–309	–318	–314	–316	–328
Total, Recreational resources	360	417	442	440	456	471	486
Pollution control and abatement:							
Superfund resources and other mandatory	–233	–143	–124	–100	–100	–101	–101
Proposed Legislation (PAYGO)	....	....	142	162	184	192	200
Subtotal, Superfund resources and other mandatory	–233	–143	18	62	84	91	99

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other natural resources:							
Other fees and mandatory programs	–40	–82	–18	–37	–42	–40	–42
Total, Mandatory	667	1,045	1,125	937	973	1,004	947
Total, Natural resources and environment	21,614	22,773	22,314	22,634	23,086	23,175	22,956
350 Agriculture:							
Discretionary:							
Farm income stabilization:							
Agriculture credit insurance loan subsidies	409	370	321	318	318	318	318
P.L.480 market development activities	286	162	118	93	90	90	90
Administrative expenses	756	842	926	959	889	858	857
Proposed Legislation (non-PAYGO)	....	....	–34	–52	–58	–70	–83
Subtotal, Administrative expenses	756	842	892	907	831	788	774
Total, Farm income stabilization	1,451	1,374	1,331	1,318	1,239	1,196	1,182
Agricultural research and services:							
Research programs	1,175	1,255	1,262	1,267	1,255	1,240	1,220
Extension programs	403	419	420	418	418	418	418
Marketing programs	42	40	45	52	51	51	51
Animal and plant inspection programs	481	429	444	443	431	431	431
Proposed Legislation (non-PAYGO)	....	....	–10	–10	–10	–10	–10
Subtotal, Animal and plant inspection programs	481	429	434	433	421	421	421
Economic intelligence	128	150	172	163	157	148	154
Grain inspection user fees	22	23	26	26	26	26	26
Proposed Legislation (non-PAYGO)	....	....	–16	–19	–19	–19	–19
Subtotal, Grain inspection user fees	22	23	10	7	7	7	7
Other programs and unallocated overhead	434	430	469	464	465	461	461
Total, Agricultural research and services	2,685	2,746	2,812	2,804	2,774	2,746	2,732
Total, Discretionary	4,136	4,120	4,143	4,122	4,013	3,942	3,914

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Farm income stabilization:							
Commodity Credit Corporation	4,634	5,836	7,739	7,278	6,774	5,573	5,299
Crop insurance and other farm credit activities	1,573	1,589	1,528	1,472	1,455	1,520	1,605
Proposed Legislation (PAYGO)	....	....	4	23	23	25	25
Subtotal, Crop insurance and other farm credit activities	1,573	1,589	1,532	1,495	1,478	1,545	1,630
Credit liquidating accounts (ACIF and FAC)	–1,181	–1,325	–1,155	–1,213	–1,164	–1,113	–1,117
Total, Farm income stabilization	5,026	6,100	8,116	7,560	7,088	6,005	5,812
Agricultural research and services:							
Fund for Rural America (Proposed PAYGO legislation)	....	....	13	20	....	–15	–12
Miscellaneous mandatory programs	145	168	206	205	228	226	216
Offsetting receipts	–148	–136	–137	–137	–137	–137	–137
Total, Agricultural research and services	–3	32	82	88	91	74	67
Total, Mandatory	5,023	6,132	8,198	7,648	7,179	6,079	5,879
Total, Agriculture	9,159	10,252	12,341	11,770	11,192	10,021	9,793
370 Commerce and housing credit:							
Discretionary:							
Mortgage credit:							
Federal Housing Administration (FHA) Loan Subsidies	398	–242	274	238	241	222	213
Other Housing and Urban Development	1	2	3	3	3	3	3
Rural housing insurance fund	671	626	609	584	579	579	578
Total, Mortgage credit	1,070	386	886	825	823	804	794
Postal service:							
Payments to the Postal Service fund (On-budget)	85	85	86	85	87	88	88
Deposit insurance:							
FSLIC Resolution Fund (transfer of balances)	4	....	....	....	....	....	....
Other discretionary	7	1	....	....	....	....	....
Total, Deposit insurance	11	1	....	....	....	....	....

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other advancement of commerce:							
Small and minority business assistance	505	541	558	553	553	553	553
Science and technology	595	708	680	703	741	776	818
Economic and demographic statistics	306	371	644	1,063	2,701	578	447
Regulatory agencies	178	173	152	154	149	150	150
International Trade Administration	246	261	267	274	272	272	272
Other discretionary	151	84	90	98	78	61	64
Total, Other advancement of commerce	1,981	2,138	2,391	2,845	4,494	2,390	2,304
Total, Discretionary	3,147	2,610	3,363	3,755	5,404	3,282	3,186
Mandatory:							
Mortgage credit:							
FHA and GNMA negative subsidies	–1,012	....	–1,315	–1,637	–1,712	–1,793	–1,953
Proposed Legislation (non-PAYGO)	....	....	–52	–97	–137	–180	–228
Proposed Legislation (PAYGO)	....	....	–370	–446	–404	–397	–395
Subtotal, FHA and GNMA negative subsidies	–1,012	....	–1,737	–2,180	–2,253	–2,370	–2,576
FHA Multifamily portfolio re-engineering (Proposed PAYGO Legislation)	....	....	–665	....	....	....	....
FHA Multifamily portfolio re-engineering (Proposed non-PAYGO Legislation)	....	....	523	899	864	–888	–1,069
Mortgage credit liquidating accounts	–4,824	–3,624	–629	–1,153	–1,367	–1,537	–1,475
Other mortgage credit activities	13	18	5	2	....	....	....
Total, Mortgage credit	–5,823	–3,606	–2,503	–2,432	–2,756	–4,795	–5,120
Postal service:							
Payments to the Postal Service fund for nonfunded liabilities (On-budget)	37	36	35	33	32	30	29
Proposed Legislation (PAYGO)	....	....	–35	–33	–32	–30	–29
Subtotal, Payments to the Postal Service fund for nonfunded liabilities (On-budget)	37	36	....	....	....	....	....

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Postal Service (Off-budget)	–626	1,976	4,059	844	–171	–1,760	–1,343
Proposed Legislation (non-PAYGO)			35	8			
Subtotal, Postal Service (Off-budget)	–626	1,976	4,094	852	–171	–1,760	–1,343
Total, Postal service	–589	2,012	4,094	852	–171	–1,760	–1,343
Deposit insurance:							
Resolution Trust Corporation Fund	–2,428						
Bank Insurance Fund	–1,089	–3,528	–1,100	156	–293	–834	–864
Proposed Legislation (PAYGO)			–81	–87	168		
Subtotal, Bank Insurance Fund	–1,089	–3,528	–1,181	69	–125	–834	–864
FSLIC Resolution Fund	–3,610	–3,834	–2,241	–1,834	–902	–906	–543
Savings Association Insurance Fund	–1,060	–4,535	–406	–65	56	354	124
National Credit Union Administration	–179	–169	–172	–168	–168	–168	–168
Other deposit insurance activities	–39	9					
Total, Deposit insurance	–8,405	–12,057	–4,000	–1,998	–1,139	–1,554	–1,451
Other advancement of commerce:							
Universal Service Fund	957	1,400	2,240	6,350	11,325	12,194	12,838
Payments to copyright owners	5	180	278	220	220	220	220
Spectrum auction subsidy	1	838	388				
Regulatory fees	–41	–38	–38	–38	–38	–38	–38
Patent and trademark fees	–111	–115	–119				
Proposed Legislation (PAYGO)				–119	–119	–119	–119
Subtotal, Patent and trademark fees	–111	–115	–119	–119	–119	–119	–119
Credit liquidating accounts	–85	–82	–259	–180	–90	–88	–85
Other mandatory	298	50	–16	–18	33	34	36
Proposed Legislation (PAYGO)			–69	–69	–69	–69	–69
Subtotal, Other mandatory	298	50	–85	–87	–36	–35	–33
Total, Other advancement of commerce	1,024	2,233	2,405	6,146	11,262	12,134	12,783
Total, Mandatory	–13,793	–11,418	–4	2,568	7,196	4,025	4,869
Total, Commerce and housing credit	–10,646	–8,808	3,359	6,323	12,600	7,307	8,055

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
400 Transportation:							
Discretionary:							
Ground transportation:							
Highways	17,838	17,830	18,265	18,206	18,214	18,107	18,094
State infrastructure banks	....	22	109	84	97	124	154
Highway safety	348	400	420	445	433	434	434
Mass transit	4,372	4,464	3,879	3,929	4,062	4,240	4,395
Railroads	1,012	917	1,029	1,090	902	900	899
Proposed Legislation (non-PAYGO)	....	....	–60	–60	–60	–60	–60
Subtotal, Railroads	1,012	917	969	1,030	842	840	839
Regulation	21	16	1	....	....	....	....
Total, Ground transportation	23,591	23,649	23,643	23,694	23,648	23,745	23,916
Air transportation:							
Airports and airways (FAA)	8,926	8,554	8,500	3,070	1,289	631	389
Proposed Legislation (non-PAYGO)	....	....	66	1,422	1,884	2,088	2,215
Proposed Legislation (PAYGO)	....	....	198	4,263	5,653	6,263	6,645
Subtotal, Airports and airways (FAA)	8,926	8,554	8,764	8,755	8,826	8,982	9,249
Aeronautical research and technology	1,187	1,348	1,285	1,326	1,391	1,419	1,466
Payments to air carriers	22	27	10	....	....	....	....
Total, Air transportation	10,135	9,929	10,059	10,081	10,217	10,401	10,715
Water transportation:							
Marine safety and transportation	2,734	2,611	2,747	2,824	2,838	2,855	2,863
Ocean shipping	297	294	192	203	184	131	133
Panama Canal Commission	–34	–26	–32	–1	39	19	....
Total, Water transportation	2,997	2,879	2,907	3,026	3,061	3,005	2,996
Other transportation:							
Other discretionary programs	341	355	228	225	228	228	228
Proposed Legislation (non-PAYGO)	....	....	1	1	1	1	1
Proposed Legislation (PAYGO)	....	....	5	6	5	5	5
Subtotal, Other discretionary programs	341	355	234	232	234	234	234
Total, Discretionary	37,064	36,812	36,843	37,033	37,160	37,385	37,861

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Ground transportation:							
Highways	2,082	1,967	1,834	1,586	1,386	1,227	1,115
Proposed Legislation (PAYGO)	....	....	15	56	35	–22	–82
Subtotal, Highways	2,082	1,967	1,849	1,642	1,421	1,205	1,033
Mass transit	1	....	....	....	....	....	....
Offsetting receipts and liquidating accounts	–24	–25	–35	–26	–30	–30	–30
Total, Ground transportation	2,059	1,942	1,814	1,616	1,391	1,175	1,003
Air transportation:							
Airports and airways (FAA)	....	....	50	50	50	50	50
Payments to air carriers	....	....	30	50	50	50	50
Total, Air transportation	....	....	80	100	100	100	100
Water transportation:							
Coast Guard retired pay	569	592	635	671	705	741	776
Other water transportation programs	–106	–53	–102	29	22	25	25
Proposed Legislation (PAYGO)	....	....	20	–34	–29	–29	–29
Subtotal, Other water transportation programs	–106	–53	–82	–5	–7	–4	–4
Total, Water transportation	463	539	553	666	698	737	772
Other transportation:							
Sale of Governor's Island and Union Station Air Rights (Proposed PAYGO Legislation)	....	....	....	....	....	....	–540
Other mandatory transportation programs	–21	–31	–31	–31	–32	–32	–32
Total, Other transportation	–21	–31	–31	–31	–32	–32	–572
Total, Mandatory	2,501	2,450	2,416	2,351	2,157	1,980	1,303
Total, Transportation	39,565	39,262	39,259	39,384	39,317	39,365	39,164
450 Community and regional development:							
Discretionary:							
Community development:							
Community development loan guarantees	1	23	35	31	30	30	30
Community development block grant	4,545	4,837	4,641	4,845	4,633	4,438	4,216

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Community development financial institutions	2	63	66	96	130	157	209
Other community development programs	291	379	329	301	258	251	251
Proposed Legislation (non-PAYGO)	....	....	2	36	80	59	17
Subtotal, Other community development programs	291	379	331	337	338	310	268
Total, Community development	4,839	5,302	5,073	5,309	5,131	4,935	4,723
Area and regional development:							
Rural development	741	850	849	800	815	826	862
Economic Development Administration	415	466	410	405	366	321	290
Indian programs	980	962	973	1,006	1,029	1,036	1,036
Proposed Legislation (non-PAYGO)	....	....	7	....	....	....	....
Subtotal, Indian programs	980	962	980	1,006	1,029	1,036	1,036
Appalachian Regional Commission	236	197	188	183	145	106	100
Tennessee Valley Authority	107	109	107	70	17	12	....
Total, Area and regional development	2,479	2,584	2,534	2,464	2,372	2,301	2,288
Disaster relief and insurance:							
Small Business Administration disaster loans	434	311	263	188	192	192	192
Disaster relief	2,232	3,593	3,323	2,999	1,453	320	320
Proposed Legislation (non-PAYGO)	....	....	5	25	45	50	50
Subtotal, Disaster relief	2,232	3,593	3,328	3,024	1,498	370	370
Other disaster assistance programs	384	462	344	332	327	327	327
Total, Disaster relief and insurance	3,050	4,366	3,935	3,544	2,017	889	889
Total, Discretionary	10,368	12,252	11,542	11,317	9,520	8,125	7,900

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Community development:							
Pennsylvania Avenue activities and other programs	111	186	85	....	....	....	....
Proposed Legislation (non-PAYGO)	....	157	....	....	....	....	....
Subtotal, Pennsylvania Avenue activities and other programs	111	343	85	....	....	....	....
Credit liquidating accounts	–90	–34	–43	–41	–38	–37	–35
Total, Community development	21	309	42	–41	–38	–37	–35
Area and regional development:							
Indian programs	351	500	438	438	454	459	459
Proposed Legislation (non-PAYGO)	....	....	–7	....	....	....	....
Subtotal, Indian programs	351	500	431	438	454	459	459
Rural development programs	68	428	13	31	41	38	23
Proposed Legislation (PAYGO)	....	....	12	20	....	–15	–13
Subtotal, Rural development programs	68	428	25	51	41	23	10
Credit liquidating accounts	128	–286	64	227	207	200	46
Offsetting receipts	–359	–258	–254	–254	–258	–264	–268
Total, Area and regional development	188	384	266	462	444	418	247
Disaster relief and insurance:							
National flood insurance fund	310	77	–69	–93	–114	–139	–160
Credit liquidating accounts	–202	–270	–346	–245	–166	–2	–2
Total, Disaster relief and insurance	108	–193	–415	–338	–280	–141	–162
Total, Mandatory	317	500	–107	83	126	240	50
Total, Community and regional development	10,685	12,752	11,435	11,400	9,646	8,365	7,950
500 Education, training, employment, and social services:							
Discretionary:							
Elementary, secondary, and vocational education:							
Education reform	271	691	730	1,249	1,255	1,199	1,036
School improvement programs	1,246	1,516	1,396	1,407	1,353	1,365	1,400

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Education for the disadvantaged	7,019	7,235	7,476	8,169	8,318	8,481	8,702
Special education	3,222	3,426	3,753	4,270	4,289	4,404	4,519
Impact aid	952	901	701	688	689	710	727
Vocational and adult education	1,341	1,589	1,487	1,554	1,602	1,645	1,688
Indian education programs	622	610	601	630	626	628	630
Bilingual and immigrant education	185	225	276	341	361	372	381
Other	6	13	11	7	7	7	7
Total, Elementary, secondary, and vocational education	14,864	16,206	16,431	18,315	18,500	18,811	19,090
Higher education:							
Student financial assistance	6,862	7,599	8,165	9,283	8,887	9,009	9,231
Proposed Legislation (non-PAYGO)				150	742	781	809
Subtotal, Student financial assistance	6,862	7,599	8,165	9,433	9,629	9,790	10,040
Higher education account	846	880	881	901	923	946	968
Proposed Legislation (non-PAYGO)			16	107	137	144	148
Subtotal, Higher education account	846	880	897	1,008	1,060	1,090	1,116
Federal family education loan program	41	41	44	48	50	51	53
Other higher education programs	323	316	328	336	345	354	362
Total, Higher education	8,072	8,836	9,434	10,825	11,084	11,285	11,571
Research and general education aids:							
Library of Congress	252	269	278	261	265	268	272
Public broadcasting	324	316	297	291	363	363	364
Smithsonian institution	431	469	470	495	488	485	474
Education research, statistics, and improvement	311	412	551	526	522	530	538
Other	882	799	764	795	808	834	858
Total, Research and general education aids	2,200	2,265	2,360	2,368	2,446	2,480	2,506
Training and employment:							
Training and employment services	4,296	4,718	4,737	5,094	5,310	5,408	5,491
Older Americans employment	382	407	354	37			

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Federal-State employment service	1,241	1,201	1,226	1,222	1,228	1,205	1,206
Proposed Legislation (non-PAYGO)	....	....	....	....	–50	–50	–50
Proposed Legislation (PAYGO)	....	....	19	38	38	38	38
Subtotal, Federal-State employment service	1,241	1,201	1,245	1,260	1,216	1,193	1,194
Welfare to work jobs	....	....	5	6	7	3	....
Other employment and training	81	78	80	86	85	85	85
Proposed Legislation (PAYGO)	....	....	6	12	12	12	12
Subtotal, Other employment and training	81	78	86	98	97	97	97
Total, Training and employment	6,000	6,404	6,427	6,495	6,630	6,701	6,782
Other labor services:							
Labor law, statistics, and other administration	925	1,004	1,053	1,052	1,054	1,054	1,053
Social services:							
National service initiative	478	504	612	700	795	825	850
Children and families services programs	4,751	5,067	5,392	5,611	5,840	6,104	6,397
Aging services program	818	851	914	1,249	1,278	1,278	1,278
Other	12	7	5	13	5	–3	–11
Total, Social services	6,059	6,429	6,923	7,573	7,918	8,204	8,514
Total, Discretionary	38,120	41,144	42,628	46,628	47,632	48,535	49,516
Mandatory:							
Elementary, secondary, and vocational education:							
Vocational and adult education	7	9	7	7	7	7	7
Proposed Legislation (PAYGO)	....	....	–1	–7	–7	–7	–7
Subtotal, Vocational and adult education	7	9	6	....	....	....	....
School construction (Proposed PAYGO legislation)	....	....	1,250	1,250	1,250	1,250	....
America Reads Challenge (Proposed PAYGO legislation)	....	....	31	212	284	331	380
Total, Elementary, secondary, and vocational education	7	9	1,287	1,462	1,534	1,581	380

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Higher education:							
Federal family education loan program	3,007	322	2,351	2,194	2,130	2,196	2,316
Proposed Legislation (PAYGO)	....	–340	–994	–418	–396	–408	–1,515
Subtotal, Federal family education loan program	3,007	–18	1,357	1,776	1,734	1,788	801
Federal direct loan program	595	412	1,126	1,353	1,342	1,242	1,262
Proposed Legislation (PAYGO)	....	....	–56	70	170	199	221
Subtotal, Federal direct loan program	595	412	1,070	1,423	1,512	1,441	1,483
Other higher education programs	–98	–82	–86	–80	–80	–79	–78
Credit liquidating account (Family education loan program)	615	6	–414	–541	–558	–595	–583
Total, Higher education	4,119	318	1,927	2,578	2,608	2,555	1,623
Research and general education aids:							
Mandatory programs	15	18	18	20	20	19	20
Training and employment:							
Trade adjustment assistance	99	107	110	108	101	97	97
Proposed Legislation (PAYGO)	....	....	....	9	19	23	24
Subtotal, Trade adjustment assistance	99	107	110	117	120	120	121
Welfare to work jobs (Proposed PAYGO legislation)	....	....	600	975	1,000	400	25
Payments to States for AFDC work programs	931	324	89	10	....	....	....
Total, Training and employment	1,030	431	799	1,102	1,120	520	146
Social services:							
Payments to States for foster care and adoption assistance	3,691	3,789	4,071	4,391	4,766	5,162	5,583
Family support and preservation	126	186	227	247	253	255	255
Social services block grant	2,484	2,694	2,621	2,611	2,607	2,453	2,380
Rehabilitation services	2,411	2,702	2,626	2,653	2,703	2,775	2,850

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other social services	–2						
Total, Social services	8,710	9,371	9,545	9,902	10,329	10,645	11,068
Total, Mandatory	13,881	10,147	13,576	15,064	15,611	15,320	13,237
Total, Education, training, employment, and social services	52,001	51,291	56,204	61,692	63,243	63,855	62,753
550 Health:							
Discretionary:							
Health care services:							
Substance abuse and mental health services	2,084	1,880	2,064	2,140	2,134	2,120	2,105
Indian health	2,027	2,117	2,091	2,122	2,136	2,147	2,159
Other discretionary health care services programs	5,722	5,305	5,348	5,452	5,441	5,412	5,384
Total, Health care services	9,833	9,302	9,503	9,714	9,711	9,679	9,648
Health research and training:							
National Institutes of Health	10,212	12,146	12,786	13,076	13,169	13,205	13,252
Clinical training	291	288	228	144	132	122	120
Other health research and training	306	247	284	295	283	278	274
Total, Health research and training	10,809	12,681	13,298	13,515	13,584	13,605	13,646
Consumer and occupational health and safety:							
Food safety and inspection	533	572	591	591	591	591	591
Proposed Legislation (non-PAYGO)			–390	–390	–390	–390	–390
Subtotal, Food safety and inspection	533	572	201	201	201	201	201
Occupational safety and health	489	534	564	567	568	568	568
Other consumer health programs	908	961	897	856	840	824	809
Proposed Legislation (PAYGO)			237	252	267	282	297
Subtotal, Other consumer health programs	908	961	1,134	1,108	1,107	1,106	1,106
Total, Consumer and occupational health and safety	1,930	2,067	1,899	1,876	1,876	1,875	1,875
Total, Discretionary	22,572	24,050	24,700	25,105	25,171	25,159	25,169

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Health care services:							
Medicaid grants	91,990	98,503	104,456	111,203	119,580	129,105	139,171
Proposed Legislation (PAYGO)	....	39	1,417	412	–1,414	–3,884	–5,783
Subtotal, Medicaid grants	91,990	98,542	105,873	111,615	118,166	125,221	133,388
Federal employees' and retired employees' health benefits	4,135	4,300	4,415	4,440	4,520	4,845	5,284
Coal miners retirees health benefits	351	342	336	328	320	314	307
Health initiatives (Proposed PAYGO legislation)	....	....	2,523	3,257	3,473	3,709	785
Other mandatory health services activities	313	336	362	322	317	332	324
Total, Health care services	96,789	103,520	113,509	119,962	126,796	134,421	140,088
Health research and safety:							
Health research and training	18	60	32	28	27	25	21
Consumer and occupational health and safety	–1	....	....	....	....	....	....
Total, Health research and safety	17	60	32	28	27	25	21
Total, Mandatory	96,806	103,580	113,541	119,990	126,823	134,446	140,109
Total, Health	119,378	127,630	138,241	145,095	151,994	159,605	165,278
570 Medicare:							
Discretionary:							
Medicare:							
Hospital insurance (HI) administrative expenses	1,188	1,154	1,213	1,202	1,194	1,194	1,201
Supplementary medical insurance (SMI) administrative expenses	1,765	1,546	1,540	1,529	1,517	1,518	1,521
Total, Medicare	2,953	2,700	2,753	2,731	2,711	2,712	2,722
Total, Discretionary	2,953	2,700	2,753	2,731	2,711	2,712	2,722
Mandatory:							
Medicare:							
Hospital insurance (HI)	126,495	136,317	147,473	159,482	171,999	185,579	199,625
Proposed Legislation (PAYGO)	....	....	–19,410	–25,470	–33,770	–38,450	–44,320
Subtotal, Hospital insurance (HI)	126,495	136,317	128,063	134,012	138,229	147,129	155,305

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Supplementary medical insurance (SMI)	67,181	74,941	82,475	91,145	100,047	109,702	120,621
Proposed Legislation (PAYGO)	....	....	14,889	14,578	13,059	13,288	14,047
Subtotal, Supplementary medical insurance (SMI)	67,181	74,941	97,364	105,723	113,106	122,990	134,668
Medicare premiums and collections	–22,404	–19,702	–21,307	–22,416	–23,286	–24,192	–25,181
Proposed Legislation (PAYGO)	....	....	211	–498	–1,439	–2,658	–4,277
Subtotal, Medicare premiums and collections	–22,404	–19,702	–21,096	–22,914	–24,725	–26,850	–29,458
Total, Medicare	171,272	191,556	204,331	216,821	226,610	243,269	260,515
Total, Mandatory	171,272	191,556	204,331	216,821	226,610	243,269	260,515
Total, Medicare	174,225	194,256	207,084	219,552	229,321	245,981	263,237
600 Income security:							
Discretionary:							
General retirement and disability insurance:							
Railroad retirement	312	300	284	264	248	233	219
Pension Benefit Guaranty Corporation	11	10	11	11	11	11	11
Pension and Welfare Benefits Administration and other	64	82	85	86	86	86	86
Total, General retirement and disability insurance	387	392	380	361	345	330	316
Federal employee retirement and disability:							
Civilian retirement and disability program administrative expenses	81	92	90	82	82	82	82
Armed forces retirement home	56	61	65	71	72	58	56
Total, Federal employee retirement and disability	137	153	155	153	154	140	138
Unemployment compensation:							
Unemployment programs administrative expenses	2,315	2,361	2,570	2,531	2,453	2,456	2,458
Housing assistance:							
Public and Indian housing performance funds	....	....	13	323	961	1,549	2,046

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Subsidized, public, homeless and other HUD housing	26,094	28,338	29,041	29,271	28,862	27,935	27,235
Proposed Legislation (non-PAYGO)	....	....	–375	–814	–1,213	–838	–571
Subtotal, Subsidized, public, homeless and other HUD housing	26,094	28,338	28,666	28,457	27,649	27,097	26,664
Rural housing assistance	565	607	629	656	702	744	784
Other housing assistance	1	1	....	....	....	....	....
Total, Housing assistance	26,660	28,946	29,308	29,436	29,312	29,390	29,494
Food and nutrition assistance:							
Special supplemental food program for women, infants, and children (WIC)	3,678	3,860	3,997	4,130	4,240	4,350	4,464
Other nutrition programs	508	548	509	497	487	477	476
Total, Food and nutrition assistance	4,186	4,408	4,506	4,627	4,727	4,827	4,940
Other income assistance:							
Refugee assistance	361	429	405	399	398	397	396
Low income home energy assistance	1,067	1,097	996	1,000	1,000	1,000	1,000
Child care and development block grant	933	959	998	998	1,000	1,000	1,000
Supplemental security income (SSI) administrative expenses	1,949	2,133	2,213	2,185	2,196	2,194	2,178
Proposed Legislation (non-PAYGO)	....	....	37	67	79	80	89
Subtotal, Supplemental security income (SSI) administrative expenses	1,949	2,133	2,250	2,252	2,275	2,274	2,267
Total, Other income assistance	4,310	4,618	4,649	4,649	4,673	4,671	4,663
Total, Discretionary	37,995	40,878	41,568	41,757	41,664	41,814	42,009
Mandatory:							
General retirement and disability insurance:							
Railroad retirement	4,365	4,235	4,245	4,246	4,375	4,546	4,485
Proposed Legislation (PAYGO)	....	....	31	46	46	47	47
Subtotal, Railroad retirement	4,365	4,235	4,276	4,292	4,421	4,593	4,532
Special benefits for disabled coal miners	1,216	1,181	1,116	1,072	1,026	980	934

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Pension Benefit Guaranty Corporation	–862	–1,320	–1,296	–1,284	–1,053	–1,041	–1,066
Special workers' compensation expenses	128	143	144	150	159	166	174
Total, General retirement and disability insurance	4,847	4,239	4,240	4,230	4,553	4,698	4,574
Federal employee retirement and disability:							
Federal civilian employee retirement and disability	40,141	41,889	43,922	45,969	47,993	50,039	52,293
Proposed Legislation (PAYGO)	....	....	–278	–285	–293	–301	–309
Subtotal, Federal civilian employee retirement and disability	40,141	41,889	43,644	45,684	47,700	49,738	51,984
Military retirement	28,831	30,105	31,251	32,389	33,477	34,512	35,537
Federal employees workers' compensation (FECA)	61	118	134	154	220	192	264
Federal employees life insurance fund	–1,077	–1,051	–1,200	–1,134	–1,116	–1,105	–1,087
Total, Federal employee retirement and disability	67,956	71,061	73,829	77,093	80,281	83,337	86,698
Unemployment compensation:							
Unemployment insurance programs	22,393	22,556	24,327	25,734	26,999	28,096	29,145
Proposed Legislation (PAYGO)	....	....	....	....	–200	–200	–200
Subtotal, Unemployment insurance programs	22,393	22,556	24,327	25,734	26,799	27,896	28,945
Trade adjustment assistance	190	200	230	226	242	244	246
Proposed Legislation (PAYGO)	....	....	....	17	24	25	26
Subtotal, Trade adjustment assistance	190	200	230	243	266	269	272
Total, Unemployment compensation	22,583	22,756	24,557	25,977	27,065	28,165	29,217
Housing assistance:							
Mandatory housing assistance programs	94	100	93	–4	–6	–6	–7

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Food and nutrition assistance:							
Food stamps (including Puerto Rico)	25,422	24,500	25,034	26,147	27,017	27,919	28,802
Proposed Legislation (PAYGO)	....	362	836	659	600	405	835
Subtotal, Food stamps (including Puerto Rico)	25,422	24,862	25,870	26,806	27,617	28,324	29,637
State child nutrition programs	7,875	8,258	8,485	8,854	9,304	9,770	10,275
Funds for strengthening markets, income, and supply (Sec.32)	450	467	416	417	417	417	417
Proposed Legislation (PAYGO)	....	....	–10	–11	–11	–11	–11
Subtotal, Funds for strengthening markets, income, and supply (Sec.32)	450	467	406	406	406	406	406
Total, Food and nutrition assistance	33,747	33,587	34,761	36,066	37,327	38,500	40,318
Other income support:							
Supplemental security income (SSI)	24,125	26,563	25,500	26,793	29,717	26,454	29,722
Proposed Legislation (PAYGO)	....	224	1,703	1,820	2,092	1,904	2,181
Subtotal, Supplemental security income (SSI)	24,125	26,787	27,203	28,613	31,809	28,358	31,903
Family support payments	16,670	6,426	3,024	2,708	2,815	2,899	3,090
Federal share of child support collections	....	–839	–1,032	–1,097	–1,106	–1,110	–1,208
Temporary assistance for needy families and related programs	....	12,388	16,682	17,500	17,266	17,232	16,997
Child care entitlement to states	....	1,592	1,922	2,088	2,227	2,212	2,442
Earned income tax credit (EITC)	19,159	21,163	21,983	22,864	23,818	24,634	25,518
Other assistance	....	41	59	54	67	68	69
SSI recoveries and receipts	–1,187	–1,324	–1,390	–1,452	–1,626	–1,474	–1,648
Total, Other income support	58,767	66,234	68,451	71,278	75,270	72,819	77,163
Total, Mandatory	187,994	197,977	205,931	214,640	224,490	227,513	237,963
Total, Income security	225,989	238,855	247,499	256,397	266,154	269,327	279,972

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
650 Social security:							
Discretionary:							
Social security:							
Old-age and survivors insurance (OASI)administrative expenses	1,588	2,114	2,157	2,167	2,091	2,031	2,034
Disability insurance (DI) administrative expenses	1,033	1,360	1,236	1,195	1,217	1,205	1,207
Office of the Inspector General—Social Security Adm.	4	7	10	10	17	17	17
Total, Social security	2,625	3,481	3,403	3,372	3,325	3,253	3,258
Total, Discretionary	2,625	3,481	3,403	3,372	3,325	3,253	3,258
Mandatory:							
Social security:							
Old-age and survivors insurance (OASI)(Off-budget)	303,864	317,376	330,517	344,515	359,469	375,844	392,349
Quinquennial OASI and DI adjustments	–332	....	....	....	....	–553	....
Disability insurance (DI)(Off-budget)	43,517	46,846	50,418	54,107	58,266	62,672	67,337
Proposed Legislation (non-PAYGO)	....	....	....	–5	1	7	13
Subtotal, Disability insurance (DI)(Off-budget)	43,517	46,846	50,418	54,102	58,267	62,679	67,350
Intragovernmental transactions	2	10	....	....	....	....	....
Total, Social security	347,051	364,232	380,935	398,617	417,736	437,970	459,699
Total, Mandatory	347,051	364,232	380,935	398,617	417,736	437,970	459,699
Total, Social security	349,676	367,713	384,338	401,989	421,061	441,223	462,957
700 Veterans benefits and services:							
Discretionary:							
Veterans education, training, and rehabilitation:							
Loan fund program account	2	2	2	1	1	1	1
Hospital and medical care for veterans:							
Medical care and hospital services	16,343	17,356	17,004	17,217	17,255	17,253	17,253
Proposed Legislation (non-PAYGO)	....	....	591	670	749	825	903
Subtotal, Medical care and hospital services	16,343	17,356	17,595	17,887	18,004	18,078	18,156

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Transfer in of collections for medical care (Proposed PAYGO legislation)	....	....	–591	–670	–749	–825	–903
Construction of medical facilities	696	547	470	399	344	308	292
Total, Hospital and medical care for veterans	17,039	17,903	17,474	17,616	17,599	17,561	17,545
Veterans housing:							
Housing program loan subsidies	118	139	160	156	151	149	150
Other veterans benefits and services:							
Other general operating expenses	1,006	1,027	1,007	1,018	1,020	1,013	1,014
Total, Discretionary	18,165	19,071	18,643	18,791	18,771	18,724	18,710
Mandatory:							
Income security for veterans:							
Compensation	14,220	16,160	16,436	16,566	17,899	15,439	16,816
Proposed Legislation (non-PAYGO)	....	....	298	773	1,162	1,524	2,005
Proposed Legislation (PAYGO)	....	....	–17	–38	–60	–76	–95
Subtotal, Compensation	14,220	16,160	16,717	17,301	19,001	16,887	18,726
Pensions	2,834	3,140	3,177	3,706	4,020	3,515	3,866
Proposed Legislation (PAYGO)	....	....	....	–516	–539	–566	–592
Subtotal, Pensions	2,834	3,140	3,177	3,190	3,481	2,949	3,274
Burial benefits and miscellaneous assistance	114	117	119	121	124	127	130
National service life insurance trust fund	1,240	1,323	1,304	1,319	1,322	1,308	1,293
All other insurance programs	31	58	65	63	–15	–11	–9
Insurance program receipts	–238	–258	–218	–207	–193	–178	–163
Total, Income security for veterans	18,201	20,540	21,164	21,787	23,720	21,082	23,251
Veterans education, training, and rehabilitation:							
Readjustment benefits (GI Bill and related programs)	1,213	1,342	1,409	1,462	1,469	1,512	1,529
Post-Vietnam era education	27	80	33	21	16	10	9
All-volunteer force educational assistance trust fund	–128	–345	–224	–234	–235	–240	–234
Total, Veterans education, training, and rehabilitation	1,112	1,077	1,218	1,249	1,250	1,282	1,304

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Hospital and medical care for veterans:							
Fees, charges and other mandatory medical care	–453	–416	–470	–311	–360	–408	–456
Transfer out of collections for medical care (Proposed PAYGO legislation)	....	....	468	309	356	403	452
Total, Hospital and medical care for veterans	–453	–416	–2	–2	–4	–5	–4
Veterans housing:							
Housing loan subsidies	94	–581	192	396	386	377	374
Proposed Legislation (PAYGO)	....	....	–29	–234	–229	–228	–223
Subtotal, Housing loan subsidies	94	–581	163	162	157	149	151
Housing loan liquidating account	–146	–75	–126	–90	–67	–49	–32
Proposed Legislation (PAYGO)	....	....	–127	....	....	....	....
Subtotal, Housing loan liquidating account	–146	–75	–253	–90	–67	–49	–32
Total, Veterans housing	–52	–656	–90	72	90	100	119
Other veterans programs:							
Other mandatory veterans programs	12	34	38	38	77	61	28
Total, Mandatory	18,820	20,579	22,328	23,144	25,133	22,520	24,698
Total, Veterans benefits and services	36,985	39,650	40,971	41,935	43,904	41,244	43,408
750 Administration of justice:							
Discretionary:							
Federal law enforcement activities:							
Criminal investigations (DEA, FBI, FinCEN, ICDE)	3,263	3,503	3,887	3,952	4,019	4,031	4,126
Alcohol, tobacco, and firearms investigations (ATF)	396	456	504	523	539	526	548
Border enforcement activities (Customs and INS)	2,869	3,729	3,892	3,673	3,681	3,713	3,829
Equal Employment Opportunity Commission	225	256	245	246	246	246	246
Other law enforcement activities	1,044	1,149	1,336	1,350	1,347	1,369	1,400
Total, Federal law enforcement activities[1]	7,797	9,093	9,864	9,744	9,832	9,885	10,149

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Federal litigative and judicial activities:							
Civil and criminal prosecution and representation	2,222	2,292	2,524	2,596	2,648	2,708	2,796
Representation of indigents in civil cases	282	257	330	347	357	366	376
Federal judicial and other litigative activities	2,927	3,123	3,322	3,505	3,604	3,703	3,803
Total, Federal litigative and judicial activities [1]	5,431	5,672	6,176	6,448	6,609	6,777	6,975
Correctional activities:							
Discretionary programs	3,082	3,151	3,318	3,727	3,677	3,615	3,655
Criminal justice assistance:							
Discretionary programs	1,274	2,101	4,304	5,478	5,915	5,369	4,777
Total, Discretionary	17,584	20,017	23,662	25,397	26,033	25,646	25,556
Mandatory:							
Federal law enforcement activities:							
Assets forfeiture fund	390	379	352	402	399	399	399
Border enforcement activities (Customs and INS)	1,108	1,392	1,476	1,484	1,536	1,590	1,646
Customs and INS fees	–2,161	–2,261	–2,319	–2,390	–2,476	–2,542	–2,622
Other mandatory law enforcement programs	278	296	294	294	301	304	307
Total, Federal law enforcement activities [1]	–385	–194	–197	–210	–240	–249	–270
Federal litigative and judicial activities:							
Mandatory programs	246	623	479	445	452	460	471
Correctional activities:							
Mandatory programs	–69	–47	–31	–26	–26	–26	–27
Criminal justice assistance:							
Mandatory programs	172	385	315	330	214	219	226
Total, Mandatory	–36	767	566	539	400	404	400
Total, Administration of justice	17,548	20,784	24,228	25,936	26,433	26,050	25,956
800 General government:							
Discretionary:							
Legislative functions:							
Legislative branch discretionary programs	1,873	1,938	2,056	2,083	2,098	2,111	2,122
Executive direction and management:							
Drug control programs	73	118	265	283	282	282	282

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Executive Office of the President	178	179	198	197	195	195	195
Presidential transition and former Presidents	2	2	2	2	2	8	2
Total, Executive direction and management	253	299	465	482	479	485	479
Central fiscal operations:							
Tax administration	7,183	7,133	7,316	7,758	7,790	7,349	7,307
Other fiscal operations	488	531	653	682	687	685	699
Total, Central fiscal operations	7,671	7,664	7,969	8,440	8,477	8,034	8,006
General property and records management:							
Real property activities	390	701	263	143	70	....	....
Records management	198	200	216	215	213	213	213
Other general and records management	281	197	174	176	149	136	136
Total, General property and records management	869	1,098	653	534	432	349	349
Central personnel management:							
Discretionary central personnel management programs	103	153	148	148	148	148	148
General purpose fiscal assistance:							
Payments and loans to the District of Columbia	712	719	712	712	712	712	712
Proposed Legislation (non-PAYGO)	....	....	–180	–259	–113	–90	–197
Subtotal, Payments and loans to the District of Columbia	712	719	532	453	599	622	515
Payments to States and counties from Federal land management activities	11	11	10	10	10	10	10
Payments in lieu of taxes	113	114	102	102	102	102	102
Other	....	2	2	1	1	1	1
Total, General purpose fiscal assistance	836	846	646	566	712	735	628
Other general government:							
Discretionary programs	158	177	164	167	163	160	161
Total, Discretionary	11,763	12,175	12,101	12,420	12,509	12,022	11,893

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Mandatory:							
Legislative functions:							
Congressional members compensation and other	92	94	101	94	96	96	95
Executive direction and management:							
Mandatory programs	–1	....	....	....	....	....	....
Central fiscal operations:							
Mandatory programs	–212	–121	–182	–184	–186	–188	–189
Proposed Legislation (PAYGO)	....	....	–15	–10	–5	–5	–5
Subtotal, Mandatory programs	–212	–121	–197	–194	–191	–193	–194
General property and records management:							
Mandatory programs	–26	17	13	12	–3	–3	–5
Offsetting receipts	–23	–21	–21	–20	–18	–18	–18
Total, General property and records management	–49	–4	–8	–8	–21	–21	–23
General purpose fiscal assistance:							
Payments and loans to the District of Columbia	–12	–12	–12	–12	–12	–15	....
Payments to States and counties	737	811	840	778	799	821	844
Payments to territories and Puerto Rico	110	123	127	130	134	138	143
Tax revenues for Puerto Rico (Treasury, BATF)	221	230	230	230	230	230	230
Proposed Legislation (PAYGO)	....	....	....	67	167	286	424
Subtotal, Tax revenues for Puerto Rico (Treasury, BATF)	221	230	230	297	397	516	654
Other general purpose fiscal assistance	89	92	94	96	98	100	102
Total, General purpose fiscal assistance	1,145	1,244	1,279	1,289	1,416	1,560	1,743
Other general government:							
Territories	194	177	192	215	217	184	169
Treasury claims	509	750	635	635	610	610	610
Presidential election campaign fund	209	3	....	26	233	7	....

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other mandatory programs	–64	–25	–46	–55	–72	–52	–66
Total, Other general government	848	905	781	821	988	749	713
Deductions for offsetting receipts:							
Offsetting receipts	–1,694	–1,184	–1,184	–1,184	–1,184	–1,184	–1,184
Total, Mandatory	129	934	772	818	1,104	1,007	1,150
Total, General government	11,892	13,109	12,873	13,238	13,613	13,029	13,043
900 Net interest:							
Mandatory:							
Interest on the public debt:							
Interest on the public debt	343,955	356,740	365,344	370,406	369,987	369,816	367,643
Proposed Legislation (non-PAYGO)	....	....	763	2,063	4,300	7,087	9,149
Subtotal, Interest on the public debt	343,955	356,740	366,107	372,469	374,287	376,903	376,792
Interest received by on-budget trust funds:							
Civil service retirement and disability fund	–28,530	–30,727	–32,012	–32,757	–33,059	–33,493	–34,000
Proposed Legislation (non-PAYGO)	....	....	–40	–110	–190	–277	–369
Subtotal, Civil service retirement and disability fund	–28,530	–30,727	–32,052	–32,867	–33,249	–33,770	–34,369
Military retirement	–11,501	–11,600	–11,800	–12,000	–12,300	–12,500	–12,700
Medicare	–11,777	–11,389	–10,314	–8,654	–6,405	–3,661	–1,562
Proposed Legislation (non-PAYGO)	....	....	–302	–1,886	–4,004	–6,662	–8,584
Subtotal, Medicare	–11,777	–11,389	–10,616	–10,540	–10,409	–10,323	–10,146
Other on-budget trust funds	–9,061	–9,096	–8,876	–9,193	–9,427	–9,800	–10,175
Proposed Legislation (non-PAYGO)	....	....	–402	–16	–29	–42	–57
Subtotal, Other on-budget trust funds	–9,061	–9,096	–9,278	–9,209	–9,456	–9,842	–10,232
Total, Interest received by on-budget trust funds	–60,869	–62,812	–63,746	–64,616	–65,414	–66,435	–67,447
Interest received by off-budget trust funds:							
Interest received by social security trust funds	–36,507	–41,238	–45,199	–49,228	–53,181	–57,272	–61,554

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other interest:							
Interest on loans to Federal Financing Bank	–6,458	–4,351	–3,958	–3,503	–3,121	–2,779	–2,425
Interest on refunds of tax collections	2,172	2,644	2,753	2,855	2,991	3,143	3,295
Payment to the Resolution Funding Corporation	2,328	2,328	2,328	2,328	2,328	2,328	2,328
Interest paid to loan guarantee financing accounts	2,350	2,438	2,452	2,491	2,541	2,601	2,674
Interest received from direct loan financing accounts	–3,031	–4,391	–5,754	–7,045	–8,336	–9,661	–10,976
Interest on deposits in tax and loan accounts	–757	–736	–750	–750	–750	–750	–750
Interest received from Outer Continental Shelf escrow account, Interior	–1	....	–1,142	....	....	....	....
All other interest	–2,092	–3,083	–3,232	–3,158	–3,142	–3,115	–3,175
Proposed Legislation (non-PAYGO)	....	–157	....	....	....	....	....
Subtotal, All other interest	–2,092	–3,240	–3,232	–3,158	–3,142	–3,115	–3,175
Total, Other interest	–5,489	–5,308	–7,303	–6,782	–7,489	–8,233	–9,029
Total, Mandatory	241,090	247,382	249,859	251,843	248,203	244,963	238,762
950 Undistributed offsetting receipts:							
Mandatory:							
Employer share, employee retirement (on-budget):							
Contributions to military retirement fund	–11,174	–11,180	–10,544	–10,566	–10,730	–10,850	–11,078
Postal Service contributions to Civil Service Retirement and Disability Fund	–5,712	–5,916	–6,103	–6,065	–6,280	–6,488	–6,733
Other contributions to civil and foreign service retirement and disability fund	–7,991	–8,303	–8,535	–8,746	–9,153	–9,640	–10,178
Proposed Legislation (non-PAYGO)	....	....	–621	–604	–588	–577	–567
Subtotal, Other contributions to civil and foreign service retirement and disability fund	–7,991	–8,303	–9,156	–9,350	–9,741	–10,217	–10,745
Contributions to HI trust fund	–2,382	–2,470	–2,625	–2,777	–2,942	–3,072	–3,259
Total, Employer share, employee retirement (on-budget)	–27,259	–27,869	–28,428	–28,758	–29,693	–30,627	–31,815

Table 31–2. OUTLAYS BY FUNCTION, CATEGORY AND PROGRAM—Continued

(in millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Employer share, employee retirement (off-budget):							
Contributions to social security trust funds	–6,278	–6,505	–7,028	–7,633	–8,356	–8,942	–9,781
Rents and royalties on the Outer Continental Shelf:							
OCS Receipts	–3,741	–4,152	–4,375	–4,036	–3,885	–4,050	–4,254
Sale of major assets:							
Proceeds from Sale of U.S. Enrichment Corporation	....	....	–1,800	....	....	....	....
Privatization of Elk Hills	....	....	–2,415	....	....	....	....
Proceeds from sale of Power Marketing Administrations	....	....	–85	....	....	....	....
Total, Sale of major assets	....	....	–4,300	....	....	....	....
Other undistributed offsetting receipts:							
Spectrum Auction	–342	–7,961	–9,359	–1,304	–264	–132	....
Proposed Legislation (PAYGO)	....	....	–2,100	–1,800	–3,800	–6,300	–22,100
Subtotal, Spectrum Auction	–342	–7,961	–11,459	–3,104	–4,064	–6,432	–22,100
Total, Mandatory	–37,620	–46,487	–55,590	–43,531	–45,998	–50,051	–67,950
Total	1,560,330	1,631,016	1,687,475	1,760,700	1,814,427	1,844,488	1,879,717
On-budget	(1,259,872)	(1,316,014)	(1,358,896)	(1,422,832)	(1,463,751)	(1,479,969)	(1,499,370)
Off-budget	(300,458)	(315,002)	(328,579)	(337,868)	(350,676)	(364,519)	(380,347)

[1] For 1999—2002, Federal law enforcement and Federal litigation and judicial totals do not include Violent Crime Reduction Trust Fund spending. That spending appears under the correctional activities and justice assistance subfunction pending decisions on specific allocation.

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION

(in millions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
NATIONAL DEFENSE:							
DIRECT LOANS:							
Loan disbursements	....	....	....	....	....	....	....
Outstandings	1,384	1,309	1,226	1,140	1,140	1,140	1,140
GUARANTEED LOANS:							
New guaranteed loans	276	50	250	500	800	800	800
Outstandings	441	50	300	787	1,561	2,309	3,005
INTERNATIONAL AFFAIRS:							
DIRECT LOANS:							
Public Law 480:							
Loan disbursements	....	....	....	....	....	....	....
Outstandings	9,767	9,438	8,879	8,528	8,227	7,920	7,611
Foreign Military Financing Loans:							
Loan disbursements	594	602	569	911	793	697	707
Outstandings	8,119	7,759	7,392	7,441	7,414	7,301	7,189
Economic assistance loans—liquidating account:							
Loan disbursements	3	4	....	....	....	....	....
Outstandings	12,649	11,977	11,400	10,868	10,343	9,814	9,285
Overseas Private Investment Corporation:							
Loan disbursements	30	63	60	60	60	60	60
Outstandings	125	161	203	236	272	302	322
Export-Import Bank:							
Loan disbursements	1,045	1,373	1,235	1,218	1,308	1,255	1,255
Outstandings	7,887	7,770	7,870	8,232	8,809	9,382	10,058
Other, International Affairs:							
Loan disbursements	2	108	36	2	1	1	1
Outstandings	436	480	462	413	363	313	263
Total, direct loans:							
Loan disbursements	1,674	2,150	1,900	2,191	2,162	2,013	2,023
Outstandings	38,983	37,585	36,206	35,718	35,428	35,032	34,728
GUARANTEED LOANS:							
Foreign Military Financing Loans:							
New guaranteed loans	....	....	....	....	....	....	....
Outstandings	6,129	5,694	5,305	4,921	4,544	4,183	3,828
Loan Guarantees to Israel:							
New guaranteed loans	1,751	2,000	....	....	....	....	....
Outstandings	6,564	8,564	8,564	8,564	8,564	8,564	8,564
Overseas Private Investment Corporation:							
New guaranteed loans	855	1,520	1,905	2,400	2,700	2,400	2,400
Outstandings	1,551	2,942	4,272	5,632	6,802	7,481	7,881
Export-Import Bank:							
New guaranteed loans	5,667	8,997	10,102	10,693	11,036	11,302	11,600
Outstandings	17,785	17,999	17,792	17,281	16,528	15,339	14,004
Other, International Affairs:							
New guaranteed loans	145	175	52	....	....	....	....
Outstandings	2,312	2,367	2,229	2,062	1,957	1,849	1,744
Total, guaranteed loans:							
New guaranteed loans	8,418	12,692	12,059	13,093	13,736	13,702	14,000
Outstandings	34,341	37,566	38,162	38,460	38,395	37,416	36,021

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
ENERGY:							
DIRECT LOANS:							
Rural electrification and telecommunications:							
Loan disbursements	975	2,419	1,975	1,607	2,520	1,661	1,510
Outstandings	33,965	34,730	35,504	35,782	36,032	36,484	36,710
Other, Energy:							
Loan disbursements	61	108	118	124	143	153	172
Outstandings	160	207	254	299	353	409	469
Total, direct loans:							
Loan disbursements	1,036	2,527	2,093	1,731	2,663	1,814	1,682
Outstandings	34,125	34,937	35,758	36,081	36,385	36,893	37,179
GUARANTEED LOANS:							
Rural electrification and telecommunications:							
New guaranteed loans							
Outstandings	691	670	646	646	646	646	646
NATURAL RESOURCES AND ENVIRONMENT:							
DIRECT LOANS:							
Natural Resources and Environment:							
Loan disbursements	34	45	38	37	37	39	40
Outstandings	294	321	342	362	381	403	426
AGRICULTURE:							
DIRECT LOANS:							
Agricultural credit insurance fund:							
Loan disbursements	806	672	545	606	681	760	790
Outstandings	10,809	9,720	8,658	7,618	6,842	6,105	5,566
Commodity credit corporation fund:							
Loan disbursements	5,137	6,174	7,922	7,844	7,500	6,797	6,256
Outstandings	1,672	1,436	1,665	1,638	1,546	1,480	1,437
P.L. 480 Direct credit financing account:							
Loan disbursements	240	228	169	123	113	113	113
Outstandings	1,264	1,474	1,599	1,722	1,835	1,948	2,061
P.L. 480 Title I Food for Progress Credits, financing account:							
Loan disbursements							
Outstandings	508	508	508	508	508	508	508
Debt reduction—financing account:							
Loan disbursements			34				
Outstandings	66	66	100	100	100	100	100
Financial assistance corporation fund:							
Loan disbursements							
Outstandings	1,261	1,261	1,261	1,261	1,261	1,261	1,261
Total, direct loans:							
Loan disbursements	6,183	7,074	8,670	8,573	8,294	7,670	7,159
Outstandings	15,580	14,465	13,791	12,847	12,092	11,402	10,933
GUARANTEED LOANS:							
Agricultural credit insurance fund:							
New guaranteed loans	1,770	2,380	2,375	2,288	2,274	2,270	2,269
Outstandings	6,878	7,791	8,695	9,204	9,586	9,882	10,115

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Commodity credit corporation export guarantees:							
New guaranteed loans	3,312	5,500	5,700	5,700	5,700	5,700	5,700
Outstandings	5,414	8,058	10,086	11,169	11,379	11,496	11,545
Other, Agriculture:							
New guaranteed loans	....	....	....	....	....	....	....
Outstandings	17	17	17	17	17	17	17
Total, guaranteed loans:							
New guaranteed loans	5,082	7,880	8,075	7,988	7,974	7,970	7,969
Outstandings	12,309	15,866	18,798	20,390	20,982	21,395	21,677
COMMERCE AND HOUSING CREDIT:							
DIRECT LOANS:							
Rural Housing insurance fund:							
Loan disbursements	1,156	1,139	1,212	1,455	1,784	2,121	2,271
Outstandings	29,985	29,662	29,418	29,409	29,700	30,295	30,988
FHA-Mutual mortgage and cooperative housing insurance:							
Loan disbursements	3	200	200	....	....	....	....
Outstandings	9	150	260	260	260	260	260
FHA-General and special risk insurance:							
Loan disbursements	....	40	120	20	20	20	20
Outstandings	97	125	216	186	136	108	81
Housing for the elderly or handicapped fund liquidating account:							
Loan disbursements	2	189	....	....	....	....	....
Outstandings	8,306	8,424	8,352	8,281	8,211	8,141	8,072
GNMA-Guarantees of mortgage-backed securities:							
Loan disbursements	128	144	116	99	86	78	75
Outstandings	321	327	329	334	341	350	360
SBA-Business Loans:							
Loan disbursements	164	129	103	82	13	13	14
Outstandings	1,832	1,486	898	327	296	267	241
Spectrum Auction Direct Loans:							
Loan disbursements	115	6,980	3,220	....	....	....	....
Outstandings	115	6,973	9,732	9,732	9,732	9,732	9,732
Other, Commerce and Housing Credit:							
Loan disbursements	2	3	2	26	25	26	25
Outstandings	232	201	107	129	148	165	179
Total, direct loans:							
Loan disbursements	1,570	8,824	4,973	1,682	1,928	2,258	2,405
Outstandings	40,897	47,348	49,312	48,658	48,824	49,318	49,913
GUARANTEED LOANS:							
Rural Housing insurance fund:							
New guaranteed loans	1,496	2,319	2,944	3,018	2,831	2,612	2,488
Outstandings	3,535	5,712	8,427	11,107	13,484	15,519	17,301
FHA-Mutual mortgage and cooperative housing insurance:							
New guaranteed loans	59,221	65,440	60,718	61,710	62,687	63,694	64,712
Outstandings	363,994	390,979	414,967	445,562	472,134	497,512	520,340
FHA-General and special risk insurance:							
New guaranteed loans	12,220	14,652	15,005	14,887	14,940	14,940	14,940

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Outstandings	91,176	98,323	106,811	113,886	120,272	126,442	132,668
GNMA, Guarantees of mortgage-backed securities:							
New guaranteed loans	101,540	79,560	75,799	74,582	75,357	77,233	79,128
Outstandings	497,433	533,333	563,667	556,837	577,255	568,817	560,073
SBA-Business Guaranteed Loans:							
New guaranteed loans	6,774	6,956	7,144	7,337	7,535	7,739	7,948
Outstandings	31,013	33,793	36,869	40,203	43,766	47,535	51,497
Other, Commerce and Housing Credit:							
New guaranteed loans	26	32	3				
Outstandings	269	267	240	222	206	191	177
Total, guaranteed loans:							
New guaranteed loans	181,277	168,959	161,613	161,534	163,350	166,218	169,216
Outstandings	987,420	1,062,407	1,130,981	1,167,817	1,227,117	1,256,016	1,282,056
TRANSPORTATION:							
DIRECT LOANS:							
Transportation infrastructure credit direct loans:							
Loan disbursements			425	638	851	851	851
Outstandings			425	1,063	1,914	2,765	3,616
Direct loan financing account:							
Loan disbursements		140	140	120			
Outstandings		140	280	400	400	400	400
Other, Transportation:							
Loan disbursements	47	76	26	33	12	28	28
Outstandings	314	311	285	272	240	225	210
Total, direct loans:							
Loan disbursements	47	216	591	791	863	879	879
Outstandings	314	451	990	1,735	2,554	3,390	4,226
GUARANTEED LOANS:							
Maritime guaranteed loans:							
New guaranteed loans	826	1,065	477	477	477	477	477
Outstandings	2,154	3,354	3,499	3,646	3,784	3,913	4,014
COMMUNITY AND REGIONAL DEVELOPMENT:							
DIRECT LOANS:							
Rural development insurance fund:							
Loan disbursements	12	35	3				
Outstandings	4,348	4,183	3,994	3,810	3,635	3,467	3,308
Rural water and waste disposal loans:							
Loan disbursements	650	759	706	656	695	761	648
Outstandings	1,615	2,362	3,052	3,686	4,354	5,080	5,685
Rural community facility loans:							
Loan disbursements	118	161	180	177	206	196	183
Outstandings	348	501	671	835	1,024	1,199	1,357
Distance learning and medical link loans:							
Loan disbursements		45	120	150	150	150	150
Outstandings		42	120	273	384	482	564
SBA, Disaster Loans:							
Loan disbursements	946	874	1,041	746	878	902	936
Outstandings	8,903	8,807	8,751	5,127	1,561	1,607	1,658

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Other, Community and Regional Development:							
Loan disbursements	237	439	410	179	189	201	226
Outstandings	2,525	2,726	2,937	1,214	1,302	1,402	1,526
Total, direct loans:							
Loan disbursements	1,963	2,313	2,460	1,908	2,118	2,210	2,143
Outstandings	17,739	18,621	19,525	14,945	12,260	13,237	14,098
GUARANTEED LOANS:							
Rural development insurance fund:							
New guaranteed loans	1	18	....	....	....	....	....
Outstandings	499	425	344	280	228	186	152
Rural community facility loan guarantees:							
New guaranteed loans	45	54	77	129	153	184	208
Outstandings	94	143	212	330	465	624	798
Rural business and industry guaranteed loans:							
New guaranteed loans	339	543	609	621	616	610	454
Outstandings	723	1,185	1,661	2,097	2,481	2,817	2,960
Community development loan guarantees:							
New guaranteed loans	404	765	1,160	1,210	1,207	1,255	1,250
Outstandings	993	1,628	2,620	3,650	4,632	5,612	6,542
Other, Community and Regional Development:							
New guaranteed loans	50	74	95	95	114	110	110
Outstandings	256	262	323	378	445	496	538
Total, guaranteed loans:							
New guaranteed loans	839	1,454	1,941	2,055	2,090	2,159	2,022
Outstandings	2,565	3,643	5,160	6,735	8,251	9,735	10,990
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:							
DIRECT LOANS:							
Federal direct student loan program:							
Loan disbursements	9,100	11,978	14,533	17,635	20,156	21,730	23,076
Outstandings	11,565	23,153	36,829	52,879	70,430	88,240	105,781
Other, Education, Training, Employment and Social Services:							
Loan disbursements	20	6	3	1	6	6	....
Outstandings	866	847	827	806	794	781	764
Total, direct loans:							
Loan disbursements	9,120	11,984	14,536	17,636	20,162	21,736	23,076
Outstandings	12,431	24,000	37,656	53,685	71,224	89,021	106,545
GUARANTEED LOANS:							
Federal family education loan program:							
New guaranteed loans	19,816	20,948	21,241	20,533	20,520	21,518	22,872
Outstandings	101,874	107,800	111,301	113,630	113,242	112,815	112,273
Historically Black college and university loan guarantees:							
New guaranteed loans	....	10	15	15	20	20	....

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Outstandings	....	10	25	40	59	78	77
Total, guaranteed loans:							
New guaranteed loans	19,816	20,958	21,256	20,548	20,540	21,538	22,872
Outstandings	101,874	107,810	111,326	113,670	113,301	112,893	112,350
HEALTH:							
DIRECT LOANS:							
Loan disbursements	25	20	....	....	....	....	....
Outstandings	834	823	796	770	746	723	704
GUARANTEED LOANS:							
Health Professions Graduate Student Loans:							
New guaranteed loans	210	140	85	....	....	....	....
Outstandings	2,915	2,952	2,940	2,833	2,711	2,580	2,438
Other, Health:							
New guaranteed loans	....	134	20	6	....	....	....
Outstandings	198	281	260	224	190	158	154
Total, guaranteed loans:							
New guaranteed loans	210	274	105	6	....	....	....
Outstandings	3,113	3,233	3,200	3,057	2,901	2,738	2,592
INCOME SECURITY:							
DIRECT LOANS:							
Low-rent public housing—loans and other expenses:							
Loan disbursements	....	....	....	....	....	....	....
Outstandings	1,627	1,562	1,497	1,432	1,367	1,302	1,237
Other, Income Security:							
Loan disbursements	93	95	73	8	....	....	....
Outstandings	676	769	839	844	841	838	835
Total, direct loans:							
Loan disbursements	93	95	73	8	....	....	....
Outstandings	2,303	2,331	2,336	2,276	2,208	2,140	2,072
GUARANTEED LOANS:							
Low-rent public housing—loans and other expenses:							
New guaranteed loans	....	....	....	....	....	....	....
Outstandings	3,861	3,507	3,227	2,947	2,667	2,387	2,107
Indian housing:							
New guaranteed loans	5	5	17	34	40	40	37
Outstandings	6	11	28	62	102	142	179
Total, guaranteed loans:							
New guaranteed loans	5	5	17	34	40	40	37
Outstandings	3,867	3,518	3,255	3,009	2,769	2,529	2,286
VETERANS BENEFITS AND SERVICES:							
DIRECT LOANS:							
Veterans housing benefit program fund:							
Loan disbursements	1,434	1,918	2,172	2,229	2,271	2,285	2,267
Outstandings	1,172	1,811	2,227	2,599	2,961	3,295	3,600

Table 31–3. DIRECT AND GUARANTEED LOANS BY FUNCTION—Continued

(in millions of dollars)

Function	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Other, Veterans Benefits:							
Loan disbursements	8	15	17	20	2	2	2
Outstandings	16	28	43	60	58	57	56
Total, direct loans:							
Loan disbursements	1,442	1,933	2,189	2,249	2,273	2,287	2,269
Outstandings	1,188	1,839	2,270	2,659	3,019	3,352	3,656
GUARANTEED LOANS:							
Veterans housing benefit program fund:							
New guaranteed loans	28,676	30,230	28,948	25,458	25,032	24,566	24,059
Outstandings	154,762	156,703	159,047	156,185	153,594	151,136	148,711
GENERAL GOVERNMENT:							
DIRECT LOANS:							
Loan disbursements	379	461	....	....	....	....	....
Outstandings	462	531	57	44	31	15	13
FEDERAL GOVERNMENT TOTALS:							
DIRECT LOANS:							
Loan disbursements	23,566	37,642	37,523	36,806	40,500	40,906	41,676
Outstandings	166,534	184,561	200,265	210,920	226,292	246,066	265,633
GUARANTEED LOANS (Gross):							
New guaranteed loans	245,425	243,567	234,741	231,693	234,039	237,470	241,452
Outstandings	1,303,537	1,394,820	1,474,374	1,514,402	1,573,301	1,600,726	1,624,348
Less, secondary guaranteed loans: [1]							
GNMA guarantees of FmHA/VA/FHA pools:							
New guaranteed loans	–101,540	–79,560	–75,799	–74,582	–75,357	–77,233	–79,128
Outstandings	–497,433	–533,333	–563,667	–556,837	–577,255	–568,817	–560,073
Total, primary guaranteed loans:							
New guaranteed loans	143,885	164,007	158,942	157,111	158,682	160,237	162,324
Outstandings	806,104	861,487	910,707	957,565	996,046	1,031,909	1,064,275

[1] Loans guaranteed by FHA, VA, or FmHA are included above. GNMA places a secondary guarantee on these loans, so they are deducted here to avoid double counting in the totals.

Table 31–4. TAX EXPENDITURES BY FUNCTION

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
National defense:							
Current law tax expenditures:							
Exclusion of benefits and allowances to armed forces personnel	2,060	2,080	2,095	2,120	2,140	2,160	2,180
Total, current law tax expenditures	2,060	2,080	2,095	2,120	2,140	2,160	2,180
International affairs:							
Current law tax expenditures:							
Exclusion of income earned abroad by United States citizens	1,520	1,680	1,865	2,065	2,290	2,545	2,825
Exclusion of income of foreign sales corporations	1,500	1,600	1,700	1,800	1,900	2,000	2,100
Inventory property sales source rules exception	1,400	1,500	1,600	1,700	1,800	1,900	2,000
Deferral of income from controlled foreign corporations (normal tax method)	2,100	2,200	2,400	2,600	2,800	3,000	3,200
Total, current law tax expenditures	6,520	6,980	7,565	8,165	8,790	9,445	10,125
Proposals affecting tax expenditures:							
Tax benefits for foreign sales corporations	....	10	90	100	110	120	130
Expand subpart F provisions regarding certain income	....	....	–19	–34	–39	–44	–48
Reduce allocations to foreign source income under sales source rules by 50 percent	....	....	–403	–594	–625	–670	–715
Replace sales source rule with activity-based rule	....	....	–488	–880	–930	–1,080	–1,140
Total, proposals affecting tax expenditures	....	10	–820	–1,408	–1,484	–1,674	–1,773
General science, space, and technology:							
Current law tax expenditures:							
Expensing of research and experimentation expenditures (normal tax method)	40	195	430	580	685	740	765
Credit for increasing research activities	805	685	1,045	250	105	40	5
Total, current law tax expenditures	845	880	1,475	830	790	780	770
Proposals affecting tax expenditures:.							
Extend R&E credit	....	430	787	540	234	111	41
Total, proposals affecting tax expenditures	....	430	787	540	234	111	41
Energy:							
Current law tax expenditures:							
Expensing of exploration and development costs, fuels	–210	–130	–40	20	100	75	80
Excess of percentage over cost depletion, fuels	1,125	1,145	1,170	1,190	1,205	1,225	1,255
Alternative fuel production credit	570	600	485	565	535	505	485
Exception from passive loss limitation for working interests in oil and gas properties	50	50	55	55	60	60	65
Capital gains treatment of royalties on coal	15	15	15	20	20	20	20
Exclusion of interest on State and local IDBs for energy facilities	315	315	315	315	310	310	310
Enhanced oil recovery credit	80	85	90	100	105	105	110
New technology credit	30	35	40	40	40	45	45
Alcohol fuel credit [1]	10	10	10	10	10	10	10
Tax credit and deduction for clean-fuel burning vehicles and properties	65	65	75	80	85	90	95
Exclusion from income of conservation subsidies provided by public utilities	150	65	15	30	35	45	45
Total, current law tax expenditures	2,200	2,255	2,230	2,425	2,505	2,490	2,520

Table 31–4. TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
Proposals affecting tax expenditures:							
Eliminate extension of synthetic fules credit from biomass or coal	....	–14	–64	–96	–99	–101	–102
Total, proposals affecting tax expenditures	....	–14	–64	–96	–99	–101	–102
Natural resources and environment:							
Current law tax expenditures:							
Expensing of exploration and development costs, nonfuel minerals	35	35	35	35	35	35	35
Excess of percentage over cost depletion, nonfuel minerals	285	295	300	305	315	320	325
Capital gains treatment of iron ore	....	....	....	....	....	....	....
Special rules for mining reclamation reserves	50	50	50	50	50	50	50
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	700	690	675	655	640	600	545
Capital gains treatment of certain timber income	15	15	15	20	20	20	20
Expensing of multiperiod timber growing costs	395	415	440	460	485	505	525
Investment credit and seven-year amortization for reforestation expenditures	45	50	50	50	50	50	50
Tax incentives for preservation of historic structures	125	120	115	115	110	105	105
Total, current law tax expenditures	1,650	1,670	1,680	1,690	1,705	1,685	1,655
Proposals affecting tax expenditures:							
Repeal percentage depletion for non-fuel minerals mined from certain lands	....	–8	–89	–92	–94	–96	–97
Total, proposals affecting tax expenditures	....	–8	–89	–92	–94	–96	–97
Agriculture:							
Current law tax expenditures							
Expensing of certain capital outlays	65	65	65	70	70	70	70
Expensing of certain multiperiod production costs	80	80	80	85	85	85	85
Treatment of loans forgiven solvent farmers as if insolvent	10	10	10	10	10	10	10
Capital gains treatment of certain income	165	170	175	180	185	190	195
Total, current law tax expenditures	320	325	330	345	350	355	360
Proposals affecting tax expenditures:							
Phase-out preferential tax deferral for certain large farm corporations required to use accrual accounting	....	–28	–136	–121	–124	–124	–124
Total, proposals affecting tax expenditures	....	–28	–136	–121	–124	–124	–124
Commerce and housing:							
Current law tax expenditures:							
Housing:							
Exclusion of interest on owner-occupied mortgage subsidy bonds	1,765	1,755	1,735	1,715	1,690	1,665	1,640
Exclusion of interest on State and local debt for rental housing	755	760	755	760	765	760	750
Deductibility of mortgage interest on owner-occupied homes	47,525	49,820	52,115	54,440	56,830	59,345	62,060
Deductibility of State and local property tax on owner-occupied homes	15,900	16,670	17,435	18,215	19,015	19,855	20,765
Deferral of income from post 1987 installment sales	955	975	995	1,015	1,035	1,055	1,075
Deferral of capital gains on home sales	14,410	14,845	15,290	15,745	16,220	16,705	17,205
Exclusion of capital gains on home sales for persons age 55 and over	5,225	5,230	5,095	5,515	5,295	5,810	5,495
Exception from passive loss rules for $25,000 of rental loss	3,950	3,700	3,470	3,260	3,065	2,885	2,715

Table 31–4. TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
Accelerated depreciation on rental housing (normal tax method)	1,190	1,350	1,555	1,955	2,335	2,240	2,310
Credit for low-income housing investments	2,600	2,840	3,270	3,500	3,595	3,445	3,325
Financial institutions and insurance:							
Exemption of credit union income	660	700	745	790	835	885	940
Excess bad debt reserves of financial institutions	90	70	40	15	5		
Deferral on income on life insurance and annuity contracts	10,525	11,210	11,940	12,715	13,540	14,420	15,360
Special alternative tax on small property and casualty insurance companies	5	5	5	5	5	5	5
Tax exemption of certain insurance companies	240	245	255	260	280	295	310
Small life insurance company deduction	110	115	120	130	135	140	145
Commerce:							
Cancellation of indebtedness	70	40	15		–10	–5	–5
Permanent exceptions from imputed interest rules	150	155	155	160	160	160	165
Capital gains (other than agriculture, timber, iron ore, and coal) (normal tax method)	7,990	8,230	8,480	8,730	8,995	9,265	9,540
Capital gains exclusion of small corporation stock			5	20	40	70	95
Step-up basis of capital gains at death	29,530	30,715	31,945	33,225	34,555	35,940	37,375
Carryover basis of capital gains on gifts	140	150	160	170	180	190	200
Ordinary income treatment of loss from small business corporation stock sale	35	35	35	35	40	40	40
Accelerated depreciation of buildings other than rental housing (normal tax method)	6,800	5,800	4,660	3,420	2,385	1,640	1,085
Accelerated depreciation of machinery and equipment (normal tax method)	25,430	27,280	29,285	32,500	35,730	38,325	40,125
Expensing of certain small investments (normal tax method)	1,440	1,065	900	890	850	700	560
Amortization of start-up costs (normal tax method)	195	200	205	210	215	220	225
Graduated corporation income tax rate (normal tax method)	4,435	4,695	4,940	5,125	5,455	5,720	5,925
Exclusion of interest on small issue IDBs	275	265	260	255	250	250	240
Treatment of Alaska Native Corporations	20	15	10	5	5	5	
Total, current law tax expenditures	182,415	188,935	195,875	204,780	213,495	222,030	229,670
Proposals affecting tax expenditures:							
Capital gains exclusion on sale of principal residence		71	288	301	284	268	249
Further restrict like-kind exchanges involving foreign property		–2	–7	–12	–17	–23	–29
Require recognition of gain on certain stocks, indebtedness and partnership interests			–38	–61	–65	–71	–76
Total, proposals affecting tax expenditures		69	243	228	202	174	144
Transportation:							
Current law tax expenditures:							
Deferral of tax on shipping companies	20	20	20	20	20	20	20
Exclusion of reimbursed employee parking expenses	1,250	1,285	1,315	1,350	1,385	1,425	1,470
Exclusion for employer-provided transit passes	50	60	70	85	100	115	130
Total, current law tax expenditures	1,320	1,365	1,405	1,455	1,505	1,560	1,620
Community and regional development:							
Current law tax expenditures:							
Investment credit for rehabilitation of structures (other than historic)	80	80	70	70	70	65	65
Exclusion of interest on IDBs for airports, docks, and sports and convention facilities	1,980	1,975	1,970	1,915	1,865	1,810	1,760
Exemption of certain mutuals' and cooperatives' income	60	60	60	65	65	65	70

Table 31–4. TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
Empowerment zones	530	585	640	670	700	700	530
Total, current law tax expenditures	2,650	2,700	2,740	2,720	2,700	2,640	2,425
Proposals affecting tax expenditures:							
Tax incentives for distressed areas		40	424	500	502	469	410
Tax credit for investment in community development institutions and venture capital funds			2	5	7	9	11
District of Columbia tax incentive			24	46	56	66	68
Total, proposals affecting tax expenditures		40	450	551	565	544	489
Education, training, employment, and social services:							
Current law tax expenditures:							
Education:							
Exclusion of scholarship and fellowship income (normal tax method)	835	845	850	860	870	875	885
Exclusion of interest on State and local student loan bonds	305	290	280	265	260	250	250
Exclusion of interest on State and local debt for private nonprofit educational facilities	955	930	895	860	830	800	775
Exclusion of interest on savings bonds transferred to educational institutions	5	10	10	15	15	15	20
Parental personal exemption for students age 19 or over	820	845	885	930	985	1,045	1,090
Deductibility of charitable contributions (education)	1,865	1,960	2,060	2,165	2,270	2,385	2,500
Exclusion of employer provided educational assistance	20	575	20				
Training, employment, and social services:							
Work opportunity tax credit		120	150	85	30	10	
Exclusion of employer provided child care	775	830	890	955	1,025	1,100	1,180
Adoption assistance		10	200	320	355	370	365
Exclusion of employee meals and lodging (other than military)	570	600	630	665	700	735	775
Credit for child and dependent care expenses	2,580	2,705	2,840	2,985	3,130	3,290	3,455
Credit for disabled access expenditures	80	85	85	85	90	90	90
Expensing of costs of removing certain architectural barriers to the handicapped	20	20	20	20	20	20	20
Deductibility of charitable contributions, other than education and health	16,045	16,845	17,680	18,560	19,480	20,445	21,455
Exclusion of certain foster care payments	30	35	35	35	40	40	45
Exclusion of parsonage allowances	295	315	335	360	380	410	435
Total, current law tax expenditures	25,200	27,020	27,865	29,165	30,480	31,880	33,340
Proposals affecting tax expenditures:							
Incentive for education and training		84	4,044	6,199	7,848	8,632	9,386
Extension of income exclusion for employer-provided educational assistance		82	645	670	758	247	
Extend work opportunity tax credit			128	157	93	31	10
Targeted welfare-to-work tax credit			68	137	163	122	61
Equitable tolling						6	49
Extend deduction provided for contribuitions of appreciated stock to private foundations			34	38			
Total, proposals affecting tax expenditures		166	4,919	7,201	8,862	9,038	9,506
Health:							
Current law tax expenditures:							
Exclusion of employer contributions for medical insurance premiums and medical care	64,450	70,460	75,750	81,285	86,900	92,815	98,995
Medical savings accounts		10	100	190	195	195	200
Deductibility of medical expenses	3,675	4,060	4,535	4,895	5,270	5,670	6,100

Table 31–4. TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
Exclusion of interest on State and local debt for private nonprofit health facilities	2,135	2,080	2,005	1,930	1,855	1,790	1,745
Deductibility of charitable contributions (health)	2,360	2,480	2,600	2,735	2,870	3,005	3,155
Tax credit for orphan drug research	5	20	10				
Special Blue Cross/Blue Shield deduction	120	135	95	150	165	200	250
Total, current law tax expenditures	72,745	79,245	85,095	91,185	97,255	103,675	110,445
Proposals affecting tax expenditures:							
Extend orphan drug credit		8	19	12	3	3	1
Total, proposals affecting tax expenditures		8	19	12	3	3	1
Income security:							
Current law tax expenditures:							
Exclusion of railroad retirement system benefits	440	440	450	450	455	455	465
Exclusion of workmen's compensation benefits	4,695	4,970	5,305	5,550	5,855	6,220	6,660
Exclusion of public assistance benefits (normal tax method)	500	515	550	575	600	625	655
Exclusion of special benefits for disabled coal miners	90	90	85	80	75	75	70
Exclusion of military disability pensions	130	130	130	130	130	130	130
Net exclusion of pension contributions and earnings:							
Employer plans	55,410	55,810	56,245	56,665	57,085	57,510	57,940
Individual Retirement Accounts	8,025	8,345	8,600	8,880	9,125	9,340	9,520
Keogh plans	3,030	3,200	3,325	3,500	3,680	3,875	4,080
Exclusion of employer provided death benefits	35	35	35	40	40	45	45
Exclusion of other employee benefits:							
Premiums on group term life insurance	2,495	2,615	2,745	2,880	3,020	3,170	3,325
Premiums on accident and disability insurance	155	165	175	185	195	205	215
Income of trusts to finance supplementary unemployment benefits	20	20	20	20	20	20	20
Special ESOP rules	905	735	720	740	760	790	820
Additional deduction for the blind	25	25	25	30	30	30	30
Additional deduction for the elderly	1,470	1,485	1,495	1,500	1,510	1,515	1,515
Tax credit for the elderly and disabled	45	50	50	50	50	50	50
Deductibility of casualty losses	460	485	510	535	560	590	620
Earned income credit [2]	5,097	5,653	5,814	6,112	6,319	6,621	6,859
Total, current law tax expenditures	83,027	84,768	86,279	87,922	89,509	91,266	93,019
Proposals affecting tax expenditures:							
Expand individual retirement accounts			1,454	477	753	1,157	1,674
Tax credit for dependent children		718	9,889	6,806	8,552	10,387	10,369
Total, proposals affecting tax expenditures		718	11,343	7,283	9,305	11,544	12,043
Social Security:							
Current law tax expenditures:							
Exclusion of social security benefits:							
OASI benefits for retired workers	17,005	17,810	18,495	19,290	20,190	20,875	21,495
Disability insurance benefits	2,090	2,375	2,615	2,820	3,045	3,290	3,545
Benefits for dependents and survivors	3,795	3,985	4,175	4,355	4,530	4,710	4,895
Total, current law tax expenditures	22,890	24,170	25,285	26,465	27,765	28,875	29,935
Veterans benefits and services:							
Current law tax expenditures:							
Exclusion of veterans disability compensation	2,615	2,770	2,930	3,100	3,280	3,470	3,675
Exclusion of veterans pensions	70	70	70	70	75	80	85
Exclusion of GI bill benefits	50	60	70	80	90	95	100
Exclusion of interest on State and local debt for veterans housing	40	40	35	35	35	35	35

Table 31–4. TAX EXPENDITURES BY FUNCTION—Continued

(In millions of dollars)

Function and provision	Total Revenue Loss						
	1996	1997	1998	1999	2000	2001	2002
Total, current law tax expenditures	2,775	2,940	3,105	3,285	3,480	3,680	3,895
General government:							
Current law tax expenditures:							
Exclusion of interest on public purpose State and local debt	15,720	15,800	15,735	15,595	15,445	15,300	15,170
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	28,265	29,630	30,995	32,375	33,800	35,290	36,910
Tax credit for corporations receiving income from doing business in U.S. possessions	2,760	2,700	2,770	2,800	2,885	2,970	3,060
Total, current law tax expenditures	46,745	48,130	49,500	50,770	52,130	53,560	55,140
Proposals affecting tax expenditures:							
Extend pro-rata disallowance of tax-exempt interest expense to all corporations	....	....	–16	–31	–45	–56	–65
Extend possessions wage credit	....	....	27	68	91	109	122
Total, proposals affecting tax expenditures	....	....	11	37	46	53	57
Interest:							
Current law tax expenditures:							
Deferral of interest on savings bonds	1,300	1,290	1,285	1,270	1,215	1,170	1,155
Total, current law tax expenditures	1,300	1,290	1,285	1,270	1,215	1,170	1,155

Notes:

Revenue loss estimates for new proposals are not directly comparable to estimates for current law tax expenditures, because the current law estimates do not reflect behavioral effects.

Total revenue loss estimates by function are calculated here as the simple totals for the provisions listed for each function. Because of interactions across provisions, these estimates are only rough approximations of the total revenue loss for the functions.

Negative numbers for proposals affecting tax expenditures indicate the expected increase in receipts; postive numbers indicate the expected decrease in receipts.

[1] In addition, the partial exemption from the excise tax for alcohol fuels results in a reduction in excise tax receipts as follows: 1996, $670 million; 1997, $670 million; 1998, $700 million; 1999, $740 million; 2000, $770 million; 2001, $800 million; and 2002, $840 million.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays is as follows: 1996, $19,159 million; 1997, $21,163 million; 1998, $21,983 million; 1999, $22,864 million; 2000, $23,818 million; 2001, $24,634 million; and 2002, $25,518 million.

VII. SUMMARY TABLES

Budget Aggregates

BUDGET AGGREGATES

Table S–1. OUTLAYS, RECEIPTS, AND DEFICIT SUMMARY

(In billions of dollars)

	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Outlays:							
Discretionary:							
National defense	266.0	268.0	260.1	262.1	267.7	268.6	273.9
International	18.3	19.6	19.3	19.9	19.1	18.9	19.0
Domestic	250.1	262.5	268.0	275.5	277.1	273.5	274.3
Subtotal, discretionary	534.4	550.0	547.5	557.5	563.9	561.0	567.2
Mandatory:							
Programmatic:							
Social security	347.1	364.2	380.9	398.6	417.7	438.0	459.7
Medicare and Medicaid	263.3	290.1	310.2	328.4	344.8	368.5	393.9
Means-tested entitlements (except Medicaid)	95.3	103.8	107.4	111.6	117.1	115.3	121.9
Deposit insurance	–8.4	–12.1	–4.0	–2.0	–1.1	–1.6	–1.5
Other	125.2	134.0	151.2	158.2	169.8	168.3	167.7
Subtotal, programmatic	822.5	880.1	945.7	994.9	1,048.3	1,088.5	1,141.7
Undistributed offsetting receipts	–37.6	–46.5	–55.6	–43.5	–46.0	–50.1	–68.0
Subtotal, mandatory	784.9	833.6	890.2	951.3	1,002.3	1,038.5	1,073.8
Net interest	241.1	247.4	249.9	251.8	248.2	245.0	238.8
Subtotal, mandatory and net interest	1,026.0	1,081.0	1,140.0	1,203.2	1,250.5	1,283.5	1,312.5
Total outlays	**1,560.3**	**1,631.0**	**1,687.5**	**1,760.7**	**1,814.4**	**1,844.5**	**1,879.7**
Receipts	**1,453.1**	**1,505.4**	**1,566.8**	**1,643.3**	**1,727.3**	**1,808.3**	**1,896.7**
Deficit/Surplus	**–107.3**	**–125.6**	**–120.6**	**–117.4**	**–87.1**	**–36.1**	**17.0**
Memorandum:							
Discretionary Budget Authority:							
National Defense	265.0	263.1	266.0	269.8	275.5	282.0	289.8
International	18.1	18.1	23.0	20.1	19.1	18.8	18.8
Domestic	219.3	224.6	241.5	245.5	247.9	248.6	252.0
Total	502.5	505.8	530.5	535.4	542.5	549.4	560.6

Table S–2. ON- AND OFF-BUDGET TOTALS (1996–2007)

	1996 Actual	Estimate										
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
In billions of dollars												
Outlays	1,560.3	1,631.0	1,687.5	1,760.7	1,814.4	1,844.5	1,879.7	1,986.3	2,063.8	2,147.9	2,229.0	2,319.9
Receipts	1,453.1	1,505.4	1,566.8	1,643.3	1,727.3	1,808.3	1,896.7	1,986.4	2,081.3	2,189.4	2,291.8	2,402.1
Deficit/Surplus:												
Unified	–107.3	–125.6	–120.6	–117.4	–87.1	–36.1	17.0	0.1	17.6	41.5	62.8	82.2
On-Budget	–174.3	–199.5	–197.0	–204.7	–183.3	–139.2	–92.5	–115.5	–104.4	–93.6	–76.7	–65.1
Off-Budget	67.0	73.9	76.4	87.3	96.2	103.1	109.5	115.6	122.0	135.1	139.4	147.4
As percentages of GDP												
Outlays	20.8	20.8	20.5	20.4	20.1	19.4	18.9	19.0	18.8	18.6	18.4	18.3
Receipts	19.4	19.2	19.1	19.1	19.1	19.0	19.0	19.0	18.9	19.0	18.9	18.9
Deficit/Surplus:												
Unified	–1.4	–1.6	–1.5	–1.4	–1.0	–0.4	0.2	*	0.2	0.4	0.5	0.6
On-Budget	–2.3	–2.5	–2.4	–2.4	–2.0	–1.5	–0.9	–1.1	–1.0	–0.8	–0.6	–0.5
Off-Budget	0.9	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2

*0.05 percent or less.

Table S–3. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS (–): 1789–2002

(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1789–1849	1,160	1,090	70	1,160	1,090	70	....	....	....
1850–1900	14,462	15,453	–991	14,462	15,453	–991	....	....	....
1901	588	525	63	588	525	63	....	....	....
1902	562	485	77	562	485	77	....	....	....
1903	562	517	45	562	517	45	....	....	....
1904	541	584	–43	541	584	–43	....	....	....
1905	544	567	–23	544	567	–23	....	....	....
1906	595	570	25	595	570	25	....	....	....
1907	666	579	87	666	579	87	....	....	....
1908	602	659	–57	602	659	–57	....	....	....
1909	604	694	–89	604	694	–89	....	....	....
1910	676	694	–18	676	694	–18	....	....	....
1911	702	691	11	702	691	11	....	....	....
1912	693	690	3	693	690	3	....	....	....
1913	714	715	–*	714	715	–*	....	....	....
1914	725	726	–*	725	726	–*	....	....	....
1915	683	746	–63	683	746	–63	....	....	....
1916	761	713	48	761	713	48	....	....	....
1917	1,101	1,954	–853	1,101	1,954	–853	....	....	....
1918	3,645	12,677	–9,032	3,645	12,677	–9,032	....	....	....
1919	5,130	18,493	–13,363	5,130	18,493	–13,363	....	....	....
1920	6,649	6,358	291	6,649	6,358	291	....	....	....
1921	5,571	5,062	509	5,571	5,062	509	....	....	....
1922	4,026	3,289	736	4,026	3,289	736	....	....	....
1923	3,853	3,140	713	3,853	3,140	713	....	....	....
1924	3,871	2,908	963	3,871	2,908	963	....	....	....
1925	3,641	2,924	717	3,641	2,924	717	....	....	....
1926	3,795	2,930	865	3,795	2,930	865	....	....	....
1927	4,013	2,857	1,155	4,013	2,857	1,155	....	....	....
1928	3,900	2,961	939	3,900	2,961	939	....	....	....
1929	3,862	3,127	734	3,862	3,127	734	....	....	....
1930	4,058	3,320	738	4,058	3,320	738	....	....	....
1931	3,116	3,577	–462	3,116	3,577	–462	....	....	....
1932	1,924	4,659	–2,735	1,924	4,659	–2,735	....	....	....
1933	1,997	4,598	–2,602	1,997	4,598	–2,602	....	....	....
1934	2,955	6,541	–3,586	2,955	6,541	–3,586	....	....	....
1935	3,609	6,412	–2,803	3,609	6,412	–2,803	....	....	....
1936	3,923	8,228	–4,304	3,923	8,228	–4,304	....	....	....
1937	5,387	7,580	–2,193	5,122	7,582	–2,460	265	–2	267
1938	6,751	6,840	–89	6,364	6,850	–486	387	–10	397
1939	6,295	9,141	–2,846	5,792	9,154	–3,362	503	–13	516
1940	6,548	9,468	–2,920	5,998	9,482	–3,484	550	–14	564
1941	8,712	13,653	–4,941	8,024	13,618	–5,594	688	35	653
1942	14,634	35,137	–20,503	13,738	35,071	–21,333	896	66	830
1943	24,001	78,555	–54,554	22,871	78,466	–55,595	1,130	89	1,041
1944	43,747	91,304	–47,557	42,455	91,190	–48,735	1,292	114	1,178
1945	45,159	92,712	–47,553	43,849	92,569	–48,720	1,310	143	1,167
1946	39,296	55,232	–15,936	38,057	55,022	–16,964	1,238	210	1,028
1947	38,514	34,496	4,018	37,055	34,193	2,861	1,459	303	1,157
1948	41,560	29,764	11,796	39,944	29,396	10,548	1,616	368	1,248
1949	39,415	38,835	580	37,724	38,408	–684	1,690	427	1,263
1950	39,443	42,562	–3,119	37,336	42,038	–4,702	2,106	524	1,583
1951	51,616	45,514	6,102	48,496	44,237	4,259	3,120	1,277	1,843
1952	66,167	67,686	–1,519	62,573	65,956	–3,383	3,594	1,730	1,864
1953	69,608	76,101	–6,493	65,511	73,771	–8,259	4,097	2,330	1,766
1954	69,701	70,855	–1,154	65,112	67,943	–2,831	4,589	2,912	1,677
1955	65,451	68,444	–2,993	60,370	64,461	–4,091	5,081	3,983	1,098
1956	74,587	70,640	3,947	68,162	65,668	2,494	6,425	4,972	1,452
1957	79,990	76,578	3,412	73,201	70,562	2,639	6,789	6,016	773
1958	79,636	82,405	–2,769	71,587	74,902	–3,315	8,049	7,503	546
1959	79,249	92,098	–12,849	70,953	83,102	–12,149	8,296	8,996	–700
1960	92,492	92,191	301	81,851	81,341	510	10,641	10,850	–209
1961	94,388	97,723	–3,335	82,279	86,046	–3,766	12,109	11,677	431

Table S–3. SUMMARY OF RECEIPTS, OUTLAYS, AND SURPLUSES OR DEFICITS (–): 1789–2002—Continued

(In millions of dollars)

Year	Total			On-Budget			Off-Budget		
	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)	Receipts	Outlays	Surplus or Deficit (–)
1962	99,676	106,821	–7,146	87,405	93,286	–5,881	12,271	13,535	–1,265
1963	106,560	111,316	–4,756	92,385	96,352	–3,966	14,175	14,964	–789
1964	112,613	118,528	–5,915	96,248	102,794	–6,546	16,366	15,734	632
1965	116,817	118,228	–1,411	100,094	101,699	–1,605	16,723	16,529	194
1966	130,835	134,532	–3,698	111,749	114,817	–3,068	19,085	19,715	–630
1967	148,822	157,464	–8,643	124,420	137,040	–12,620	24,401	20,424	3,978
1968	152,973	178,134	–25,161	128,056	155,798	–27,742	24,917	22,336	2,581
1969	186,882	183,640	3,242	157,928	158,436	–507	28,953	25,204	3,749
1970	192,807	195,649	–2,842	159,348	168,042	–8,694	33,459	27,607	5,852
1971	187,139	210,172	–23,033	151,294	177,346	–26,052	35,845	32,826	3,019
1972	207,309	230,681	–23,373	167,402	193,824	–26,423	39,907	36,857	3,050
1973	230,799	245,707	–14,908	184,715	200,118	–15,403	46,084	45,589	495
1974	263,224	269,359	–6,135	209,299	217,270	–7,971	53,925	52,089	1,836
1975	279,090	332,332	–53,242	216,633	271,892	–55,260	62,458	60,440	2,018
1976	298,060	371,792	–73,732	231,671	302,183	–70,512	66,389	69,609	–3,220
TQ	81,232	95,975	–14,744	63,216	76,555	–13,339	18,016	19,421	–1,405
1977	355,559	409,218	–53,659	278,741	328,502	–49,760	76,817	80,716	–3,899
1978	399,561	458,746	–59,186	314,169	369,089	–54,920	85,391	89,657	–4,266
1979	463,302	504,032	–40,729	365,309	404,054	–38,745	97,994	99,978	–1,984
1980	517,112	590,947	–73,835	403,903	476,618	–72,715	113,209	114,329	–1,120
1981	599,272	678,249	–78,976	469,097	543,053	–73,956	130,176	135,196	–5,020
1982	617,766	745,755	–127,989	474,299	594,351	–120,052	143,467	151,404	–7,937
1983	600,562	808,380	–207,818	453,242	661,272	–208,030	147,320	147,108	212
1984	666,499	851,888	–185,388	500,424	686,074	–185,650	166,075	165,813	262
1985	734,165	946,499	–212,334	547,994	769,692	–221,698	186,171	176,807	9,363
1986	769,260	990,505	–221,245	569,031	807,007	–237,976	200,228	183,498	16,731
1987	854,396	1,004,164	–149,769	640,994	810,332	–169,339	213,402	193,832	19,570
1988	909,303	1,064,489	–155,187	667,812	861,798	–193,986	241,491	202,691	38,800
1989	991,190	1,143,671	–152,481	727,525	932,760	–205,235	263,666	210,911	52,754
1990	1,031,969	1,253,163	–221,194	750,314	1,028,098	–277,784	281,656	225,065	56,590
1991	1,055,041	1,324,400	–269,359	761,157	1,082,713	–321,557	293,885	241,687	52,198
1992	1,091,279	1,381,681	–290,402	788,853	1,129,343	–340,489	302,426	252,339	50,087
1993	1,154,401	1,409,414	–255,013	842,467	1,142,827	–300,360	311,934	266,587	45,347
1994	1,258,627	1,461,731	–203,104	923,601	1,182,359	–258,758	335,026	279,372	55,654
1995	1,351,830	1,515,729	–163,899	1,000,751	1,227,065	–226,314	351,079	288,664	62,415
1996	1,453,062	1,560,330	–107,268	1,085,570	1,259,872	–174,302	367,492	300,458	67,034
1997 est.	1,505,425	1,631,016	–125,591	1,116,522	1,316,014	–199,492	388,903	315,002	73,901
1998 est.	1,566,842	1,687,475	–120,633	1,161,898	1,358,896	–196,998	404,944	328,579	76,365
1999 est.	1,643,320	1,760,700	–117,380	1,218,124	1,422,832	–204,708	425,196	337,868	87,328
2000 est.	1,727,304	1,814,427	–87,123	1,280,408	1,463,751	–183,343	446,896	350,676	96,220
2001 est.	1,808,347	1,844,488	–36,141	1,340,730	1,479,969	–139,239	467,617	364,519	103,098
2002 est.	1,896,686	1,879,717	16,969	1,406,821	1,499,370	–92,549	489,865	380,347	109,518

*$500 thousand or less.

1998 Budget Proposals

1998 BUDGET PROPOSALS

Table S–4. SUMMARY OF BUDGET PROPOSALS
(In billions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total 1998–2002
Current services deficit	127.7	119.5	140.1	127.6	108.5	100.8	
Programmatic changes:							
Revenues:							
Tax relief	1.4	17.9	16.2	19.6	21.9	22.8	98.4
Eliminate unwarranted benefits and other	–3.0	–10.9	–14.9	–15.9	–16.4	–17.9	–76.0
Total, revenues	–1.6	7.0	1.4	3.7	5.5	4.9	22.4
Discretionary Programs:							
Defense	–0.7	–5.3	–14.6	–14.4	–21.9	–23.2	–79.5
Nondefense	*	–0.6	–3.3	–8.3	–18.8	–27.0	–58.0
Total, discretionary programs	–0.7	–5.9	–17.8	–22.7	–40.7	–50.2	–137.4
Mandatory Programs:							
Medicare	....	–4.3	–11.4	–22.2	–27.8	–34.6	–100.2
Medicaid:							
New initiatives	*	1.2	2.0	2.6	3.4	3.9	13.2
Savings proposals	....	0.2	–1.6	–4.1	–7.3	–9.7	–22.4
Net savings, Medicaid	*	1.4	0.4	–1.4	–3.9	–5.8	–9.3
Spectrum auction receipts	....	–2.1	–1.8	–3.8	–6.3	–22.1	–36.1
Other mandatory programs	0.2	5.1	7.2	8.0	5.4	–1.4	24.3
Total, mandatory programs	0.3	0.1	–5.6	–19.4	–32.6	–63.8	–121.2
Total, programmatic changes	–2.0	1.2	–22.0	–38.4	–67.8	–102.2	–236.3
Debt service	–0.1	–0.1	–0.7	–2.1	–4.5	–8.5	–15.9
Total, proposals	–2.1	1.1	–22.7	–40.5	–72.3	–117.7	–252.1
Resulting deficit/surplus (–)	125.6	120.6	117.4	87.1	36.1	–17.0	

* $50 million or less.

Table S–5. CURRENT SERVICES AND PROPOSED DISCRETIONARY SPENDING LEVELS

(In billions of dollars)

		Estimate						Total, 1998–2002
		1997	1998	1999	2000	2001	2002	
Current Services Baseline:								
Defense Discretionary	BA	265.8	273.6	281.8	290.2	298.9	307.8	1,452.3
	OL	268.7	265.4	276.7	282.2	290.5	297.1	1,411.9
Non-Defense Discretionary	BA	242.9	257.8	269.2	279.2	288.9	298.8	1,393.8
	OL	282.0	288.0	298.7	304.4	311.3	320.3	1,522.6
Total current services	BA	508.8	531.4	551.0	569.4	587.7	606.6	2,846.1
	OL	550.7	553.4	575.4	586.6	601.8	617.4	2,934.5
Proposed Levels:								
Defense Discretionary	BA	263.1	266.0	269.8	275.5	282.0	289.8	1,383.1
	OL	268.0	260.1	262.1	267.7	268.6	273.9	1,332.4
Non-Defense Discretionary	BA	242.7	264.5	265.6	267.0	267.4	270.8	1,335.3
	OL	282.1	287.3	295.4	296.2	292.5	293.3	1,464.7
Total discretionary proposals [1]	BA	505.8	530.5	535.4	542.5	549.4	560.7	2,718.4
	OL	550.1	547.5	557.5	563.9	561.0	567.2	2,797.1
Discretionary savings from current services baseline:								
Defense Discretionary	BA	–2.8	–7.6	–11.9	–14.7	–16.9	–18.1	–69.2
	OL	–0.7	–5.3	–14.6	–14.4	–21.9	–23.2	–79.5
Non-Defense Discretionary	BA	–0.2	6.7	–3.7	–12.1	–21.4	–28.0	–58.5
	OL	0.0	–0.6	–3.3	–8.3	–18.8	–27.0	–58.0
Total savings	BA	–3.0	–0.9	–15.6	–26.8	–38.3	–46.0	–127.7
	OL	–0.7	–5.9	–17.8	–22.7	–40.7	–50.2	–137.4

[1] The budget proposes a five-year budget resolution by function, from 1998 through 2002, consistent with the level of discretionary spending assumed in the budget, which achieves balance in 2002.

Table S–6. MANDATORY BUDGET PROPOSALS BY PROGRAM

(In millions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total 1998–2002
Preserve Medicare	....	**–4,310**	**–11,390**	**–22,150**	**–27,820**	**–34,550**	**–100,220**
Strengthen Medicaid:							
Savings proposals	....	**205**	**–1,597**	**–4,059**	**–7,313**	**–9,666**	**–22,430**
New initiatives:							
Children's health initiatives	....	344	587	934	1,362	1,530	4,757
Welfare reform proposals	39	619	793	975	1,194	1,315	4,896
Effects of other mandatory proposals	....	249	629	736	873	1,038	3,525
Subtotal, new initiatives	**39**	**1,212**	**2,009**	**2,645**	**3,429**	**3,883**	**13,178**
Net savings, Medicaid	**39**	**1,417**	**412**	**–1,414**	**–3,884**	**–5,783**	**–9,252**
Spectrum:							
Broaden and extend non-broadcast auctions	....	–1,400	–1,800	–3,800	–4,500	–5,600	–17,100
Auction analog broadcast	....	....	....	....	....	–14,800	–14,800
Auction 888 phone numbers	....	–700	....	....	....	....	–700
Auction a portion of the broadcast channels 60–69	....	....	....	....	–1,800	–1,700	–3,500
Subtotal, Spectrum	....	**–2,100**	**–1,800**	**–3,800**	**–6,300**	**–22,100**	**–36,100**
Other mandatory:							
Agriculture:							
Amend Welfare Reform Food Stamps provisions	362	836	659	600	405	835	3,335
Shift fund for Rural America from 2000 to 1998 to correct a drafting error	....	25	40	....	–30	–25	10
Enhance the farm income "safety net"	....	–21	–2	–2	....	....	–25
Use certain Forest Service fees to protect forest ecosystems	....	....	....	....	....	....	....
Have beneficiaries of marketing orders pay administrative costs	....	–10	–11	–11	–11	–11	–54
Subtotal, Agriculture	362	830	686	587	364	799	3,266
Commerce:							
Extend surcharge on patent fees	....	....	–119	–119	–119	–119	–476
Defense:							
Sell from National Defense Stockpile	....	....	....	....	....	–200	–200
Education:							
Student loans:							
Reduce payments to lenders, restructure guaranty agencies and recover Federal reserves, reduce Federal administrative funding, and reduce borrower fees	–340	–1,050	–348	–226	–209	–1,294	–3,127
Improve third grade literacy	....	31	212	284	331	380	1,238
Invest in school construction	....	1,250	1,250	1,250	1,250	....	5,000
Repeal the mandatory appropriation under the Smith-Hughes Act of 1918	....	–1	–7	–7	–7	–7	–29
Subtotal, Education	–340	230	1,107	1,301	1,365	–921	3,082
Energy:							
Lease excess Strategic petroleum reserve storage space	....	....	–14	–37	–67	–83	–201
Sell Weeks Island Strategic petroleum reserve oil	....	....	....	....	....	–1,145	–1,145
Sell or lease naval petroleum and oil shale reserves	....	....	–10	2	2	2	–4
Subtotal, Energy	....	....	–24	–35	–65	–1,226	–1,350
Health and Human Services:							
Set annual targets to increase permanent adoptions and establish a financial bonus to states for increasing adoptions [1]	....	....	....	....	....	....	....
Permit States to spend HCFA initial survey and certification fee (offset under revenue)	....	10	10	10	10	10	50
Establish health insurance for the families of workers in-between jobs	....	1,738	2,472	2,688	2,924	....	9,822
Establish purchasing cooperative grants	....	25	25	25	25	25	125

Table S–6. MANDATORY BUDGET PROPOSALS BY PROGRAM—Continued

(In millions of dollars)

	1997	Estimate 1998	1999	2000	2001	2002	Total 1998–2002
Expand health coverage for children	....	750	750	750	750	750	3,750
Subtotal, Health and Human Services	....	2,523	3,257	3,473	3,709	785	13,747
Housing and Urban Development:							
Replace FHA single family loan limits with conforming limit	....	–206	–226	–222	–220	–224	–1,098
Reform FHA single family assignment	....	–164	–220	–182	–177	–171	–914
Retain receipts by proposing to lower administrative expenses for FHA single family assignment (non-paygo)	....	–33	–46	–60	–74	–89	–302
Undertake FHA portfolio reengineering:							
Paygo	....	–665	....	....	....	....	–665
Non-paygo	....	523	899	864	–888	–1,069	329
Subtotal, Housing and Urban Development	....	–545	407	400	–1,359	–1,553	–2,650
Interior:							
Extend and index hardrock mining holding fees on public lands	....	–1	–32	–33	–34	–35	–135
Establish hardrock mining royalties on public domain lands (5 percent on net smelter return)	....	....	–42	–63	–35	–35	–175
Charge sugar assessment for Everglades restoration	....	–18	–4	....	....	....	–22
Impose Hetch Hetchy Dam (CA) rental payments	....	–1	–1	–1	–1	–1	–5
Extend National Park Service fee demonstration authority through 2002; make all new receipts available to parks [2]	....	....	....	....	....	....	....
Subtotal, Interior	....	–20	–79	–97	–70	–71	–337
Labor:							
Increase Federal Unemployment Trust Fund ceilings (net of administrative distribution to the States)	....	....	....	–200	–200	–200	–600
Extend the NAFTA Transitional Adjustment Assistance program	....	....	26	43	48	50	167
Move 1 million welfare recipients into jobs by 2000	....	600	975	1,000	400	25	3,000
Reduce unemployment compensation payments from increased attention to integrity activities in State unemployment insurance operations (non-paygo)	....	–118	–158	–160	–162	–165	–763
Improve management of Workers' Compensation benefits (non-paygo)	....	4	–20	–41	–49	–44	–150
Subtotal, Labor	....	486	823	642	37	–334	1,654
State:							
Delay foreign service retirement COLA	....	–4	–4	–4	–4	–4	–20
Transportation:							
Extend vessel tonnage fees	....	....	–62	–62	–62	–62	–248
Convert Boat Safety State Grant program to mandatory	....	15	27	35	35	35	147
Transform St. Lawrence Seaway Development Corporation into a Performance Based Organization	....	11	12	13	13	13	62
Decrease Federal-aid highways minimum allocation	....	15	56	35	–22	–82	2
Sell Governor's Island	....	....	....	....	....	–500	–500
Sell Union Station air rights	....	....	....	....	....	–40	–40
Subtotal, Transportation	....	41	33	21	–36	–636	–577
Treasury:							
Charge vendors for the cost of making payments by paper check	....	–15	–10	–5	–5	–5	–40
Provide funding for job training assistance for Puerto Rico	....	....	67	167	286	424	944
Subtotal, Treasury	....	–15	57	162	281	419	904
Veterans:							
Move medical care existing collections to discretionary	....	468	309	356	403	452	1,988

Table S–6. MANDATORY BUDGET PROPOSALS BY PROGRAM—Continued

(In millions of dollars)

	Estimate						Total 1998–2002
	1997	1998	1999	2000	2001	2002	
Compensation and Pensions:							
Extend rounding down for compensation COLA	....	–17	–38	–60	–76	–95	–286
Extend income verification of pension beneficiaries	....	....	–10	–23	–36	–51	–120
Limit pension benefits to Medicaid-eligible beneficiaries in nursing homes [3]	....	....	–506	–516	–530	–541	–2,093
Housing:							
Enable VA to use Federal salary and tax refund offset to collect on deficiency balances for defaulted loans guaranteed prior to 1990	....	–127	....	....	....	....	–127
Extend three provisions that maintain higher loan fees and reduce resale losses on foreclosed properties	....	....	–204	–198	–197	–192	–791
Increase fees for non-veterans in the home loan program to match FHA	....	–25	–26	–26	–26	–27	–130
Permanently extend loan asset sale enhancement authority	....	–4	–4	–5	–5	–4	–22
Subtotal, Veterans	....	295	–479	–472	–467	–458	–1,581
District of Columbia:							
Assume liabilities of the DC pension system	....	422	425	451	479	506	2,283
Receive reimbursement from DC pension system assets	....	–422	–425	–451	–479	–506	–2,283
Subtotal, District of Columbia	....	....	....	....	....	....	....
Environmental Protection Agency:							
Provide funding for Superfund orphan shares	....	142	162	184	192	200	880
Federal Deposit Insurance Corporation:							
Collect state bank exam fees (net of premium reduction)	....	–79	–82	161	....	....	....
Federal Trade Commission:							
Increase Hart-Scott Rodino merger filing fees	....	–70	–70	–70	–70	–70	–350
Japan-United State Friendship Commission:							
Privatize the Japan/United State Friendship Commission	....	37	....	....	....	....	37
Office of Personnel Management:							
Delay civilian retirement COLA	....	–274	–281	–289	–297	–305	–1,446
Increase agency contributions to CSRS (non-paygo)	....	–621	–604	–588	–577	–567	–2,957
Subtotal, Office of Personnel Management	....	–895	–885	–877	–874	–872	–4,403
Postal Service:							
Repeal Workers' Compensation Reimbursement to the United States Postal Service:							
Paygo	....	–35	–33	–32	–30	–29	–159
Non-paygo	....	35	8	....	....	....	43
Subtotal, Postal Service	....	....	–25	–32	–30	–29	–116
Railroad Retirement Board:							
Conform railroad retirement Social Security equivalent benefits with Social Security	....	31	46	46	47	47	217
Social Security Administration:							
Amend welfare reform provisions to exempt disabled immigrants from Supplemental Security Income restrictions and extend eligibility for refugees and asylees	224	1,707	1,824	2,096	1,907	2,184	9,718
Test employment strategy for the disabled:							
Paygo	....	–4	–4	–4	–3	–3	–18
Non-paygo	....	....	–5	1	7	13	16
Subtotal, test employment strategy for the disabled	....	–4	–9	–3	4	10	–2
Subtotal, Social Security Administration	224	1,703	1,815	2,093	1,911	2,194	9,716

Table S–6. MANDATORY BUDGET PROPOSALS BY PROGRAM—Continued

(In millions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total 1998–2002
Undistributed Offsetting Receipts:							
Effects of lower pay raise impact on agency payments to the civilian service retirement trust fund (non-paygo)	....	436	602	630	664	701	3,033
Other proposals:							
Other paygo proposals	....	1	1	1	1	1	5
Other non-paygo proposals (largely effects of pay raise)	....	....	–10	–35	–48	–63	–156
Subtotal, other mandatory outlay proposals	**246**	**5,127**	**7,219**	**7,960**	**5,429**	**–1,410**	**24,325**
Total, mandatory outlay proposals	**285**	**134**	**–5,559**	**–19,404**	**–32,575**	**–63,843**	**–121,247**
Non-paygo	....	226	666	611	–1,127	–1,283	–907
Paygo:.							
Mandatory	285	–92	–6,225	–20,015	–31,448	–62,560	–120,340
Paygo funding of discretionary spending that requires adjusting the discretionary caps (see below)	....	971	5,137	6,564	7,195	7,592	27,459
Total, paygo proposals	285	879	–1,088	–13,451	–24,253	–54,968	–92,881
Paygo funding of discretionary spending funded by governmental receipts that requires adjusting the discretionary caps:							
HHS:.							
Increase spending from Food and Drug Administration user fees	....	237	252	267	282	297	1,335
Labor:							
Increase spending from alien labor certification fee	....	25	50	50	50	50	225
State:							
Increase spending from State immigration, passport and other fees	....	506	566	589	595	595	2,851
Transportation:							
Increase spending from aviation fees	....	198	4,263	5,653	6,263	6,645	23,022
National Transportation and Safety Board:							
Increase spending from user fees	....	5	6	5	5	5	26
Total, paygo funding of discretionary spending funded by governmental receipts that requires adjusting the discretionary caps	....	971	5,137	6,564	7,195	7,592	27,459
MEMORANDUM							
Welfare Reform proposals included above:							
Medicaid	39	619	793	975	1,194	1,315	4,896
Agriculture: Food Stamps	362	836	659	600	405	835	3,335
Social Security Administration: Supplementary Security Income	224	1,707	1,824	2,096	1,907	2,184	9,718
Total, Welfare Reform proposals	625	3,162	3,276	3,671	3,506	4,334	17,949

Note: All savings are paygo, unless otherwise stated.

[1] The budget includes a proposal to pay incentive payments to States that increase adoptions from the foster care system. The budget assumes incentive payments of up to $108 million over 1999–2002 for these payments. It is anticipated that reduced foster care payments would offset the outlays from any incentives paid.

[2] Also affects Bureau of Land Management, Fish and Wildlife Services, and Forest Service. Current proposal would make available all new receipts to the collections agency (no net savings).

[3] Net Government savings is $300 million less annually because of offsetting costs to the Medicaid program.

Table S–7. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total 1998–2002
Provide tax relief and extend expiring provisions:							
Middle Class Bill of Rights:							
Provide tax credit for dependent children	–718	–9,889	–6,806	–8,552	–10,387	–10,369	–46,003
Expand Individual Retirement Accounts (IRAs)	....	–1,454	–477	–753	–1,157	–1,674	–5,515
Provide tax incentive for education and training	–84	–4,044	–6,199	–7,848	–8,632	–9,386	–36,109
Subtotal, Middle Class Bill of Rights	–802	–15,387	–13,482	–17,153	–20,176	–21,429	–87,627
Provide targeted welfare-to-work tax credit	....	–68	–137	–163	–122	–61	–551
Provide capital gains exclusion on sale of principal residence	–71	–288	–301	–284	–268	–249	–1,390
Establish DC tax incentive program	....	–24	–46	–56	–66	–68	–260
Provide estate tax relief for small business	....	–1	–164	–166	–174	–182	–687
Provide tax incentives for distressed areas	–40	–424	–500	–502	–469	–410	–2,305
Provide tax credit for investment in community development financial institutions (CDFI)	....	–2	–5	–7	–9	–11	–34
Toll statute of limitations for incapacitated taxpayers	....	....	....	....	–6	–49	–55
Allow Foreign Sales Corporation (FSC) benefits for computer software licenses	–10	–90	–100	–110	–120	–130	–550
Extend exclusion for employer-provided educational assistance	–82	–645	–670	–758	–247	....	–2,320
Extend R&E tax credit	–430	–787	–540	–234	–111	–41	–1,713
Extend orphan drug tax credit	–8	–19	–12	–3	–3	–1	–38
Extend work opportunity tax credit	....	–128	–157	–93	–31	–10	–419
Extend deduction for contributions of appreciated stock	....	–34	–38	....	....	....	–72
Extend and modify Puerto Rico economic-activity tax credit	....	–27	–68	–91	–109	–122	–417
Subtotal, Provide tax relief and extend expiring provisions	**–1,443**	**–17,924**	**–16,220**	**–19,620**	**–21,911**	**–22,763**	**–98,438**
Eliminate unwarranted benefits and adopt other revenue measures:							
Deny interest deduction on certain debt instruments	15	52	103	158	213	271	797
Defer original issue discount deduction on convertible debt	....	12	21	32	43	52	160
Limit dividends-received deduction (DRD):							
Reduce DRD to 50 percent	....	255	339	354	370	387	1,705
Eliminate DRD for certain stock	....	13	23	36	49	63	184
Modify holding period for DRD	....	36	26	27	28	29	146
Interaction	....	–8	–8	–8	–9	–9	–42
Extend pro-rata disallowance of tax-exempt interest to all corporations.	....	16	31	45	56	65	213
Require average-cost basis for stocks, securities, etc.	....	638	601	594	589	589	3,011
Require recognition of gain on certain stocks, indebtedness and partnership interests	....	38	61	65	71	76	311
Change the treatment of gains and losses on extinguishment	....	6	6	6	7	7	32
Require reasonable payment assumptions for interest accruals on certain debt instruments	....	79	234	288	289	207	1,097
Require gain recognition for certain extraordinary dividends	401	586	6	11	17	23	643
Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands	8	89	92	94	96	97	468
Modify loss carryback and carryforward rules	5	144	617	798	690	629	2,878
Treat certain preferred stock as "boot"	25	145	163	172	180	144	804
Repeal tax free conversions of large C corporations to S corporations	....	1	12	26	35	45	119

Table S–7. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	Estimate						Total 1998–2002
	1997	1998	1999	2000	2001	2002	
Require gain recognition in certain distributions of controlled corporation stock	10	62	67	71	73	76	349
Reform treatment of certain stock transfers	31	114	127	137	146	155	679
Expand subpart F provisions regarding certain income	....	19	34	39	44	48	184
Modify taxation of captive "insurance" companies	....	26	18	13	7	4	68
Modify foreign tax credit carryback and carryforward rules	....	50	263	340	293	275	1,221
Replace sales source rules with activity-based rules	....	891	1,474	1,555	1,750	1,855	7,525
Modify rules relating to foreign oil and gas extraction income	....	4	59	97	104	107	371
Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting	28	136	121	124	124	124	629
Initiate Inventory reform:							
Repeal lower of cost or market method	20	213	351	372	378	179	1,493
Repeal components of cost method	39	130	178	187	196	204	895
Expand requirement that involuntarily converted property be replaced with property acquired from an unrelated party	....	2	4	5	8	10	29
Place further restrictions on like-kind exchanges involving personal property	2	7	12	17	23	29	88
Require registration of certain corporate tax shelters	....	1	3	2	2	2	10
Require reporting of payments to corporations rendering service to Federal agencies	....	1	7	21	45	77	151
Increase penalties for failure to file correct information returns	....	3	16	21	24	26	90
Tighten substantial understatement penalty for large corporations	....	24	40	41	35	29	169
Repeal exemption for withholding on gambling winnings from bingo and keno in excess of $5,000	1	17	4	1	1	1	24
Require tax reporting for payments to attorneys	....	....	3	3	2	2	10
Extend oil spill excise tax [1]	26	222	224	228	230	231	1,135
Impose excise taxes on kerosene as diesel fuel [1]	4	35	33	31	30	30	159
Limit extension of tax credit for producing fuel from a nonconventional source	14	64	96	99	101	102	462
Extend and modify FUTA provisions:							
Extend FUTA surtax [1]	....	....	862	1,218	1,295	1,333	4,708
Accelerate deposit of unemployment insurance taxes	....	....	....	....	....	1,320	1,320
Subtotal, Eliminate unwarranted benefits	**629**	**4,123**	**6,323**	**7,320**	**7,635**	**8,894**	**34,295**
Other provisions that affect receipts:							
Extend corporate environmental tax [2]	....	1,095	732	767	785	803	4,182
Extend Superfund excise taxes [1]	110	661	675	687	697	708	3,428
Extend LUST excise taxes [1]	16	120	126	128	131	134	639
Extend aviation excise taxes/new user fee [1, 3]	2,291	5,017	6,678	6,647	6,824	7,007	32,173
Extend GSP and modify other trade provisions [1]	....	–665	–509	–648	–732	–771	–3,325
Assess fees for examination of FDIC-insured banks and bank holding companies (receipt effect) [1]	....	72	75	78	82	86	393
Modify method of reimbursing Federal Reserve Banks (receipt effect)	....	122	125	129	132	136	644
Establish IRS continuous levy	....	402	398	364	269	212	1,645
Assess fees for NTSB aviation accident investigation activities [1]	....	5	5	5	5	5	25
Establish alien labor certification fee [1]	....	19	37	37	37	37	167
Exempt Federal vaccine purchases from the payment of vaccine excise taxes [1]	....	–72	....	....	....	....	–72
Extend and increase FDA user fees [1]	....	178	189	200	211	223	1,001
Initiate HCFA Medicare survey and certification fee [1]	....	7	7	7	7	7	35

Table S–7. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	Estimate 1997	1998	1999	2000	2001	2002	Total 1998–2002
Increase employee contributions to CSRS and FERS	....	....	214	423	571	621	1,829
Adjust Federal pay raise (receipt effect)	....	–164	–216	–213	–212	–212	–1,017
Subtotal, Other provisions	**2,417**	**6,797**	**8,536**	**8,611**	**8,807**	**8,996**	**41,747**
Subtotal, Eliminate unwarranted benefits and other provisions that affect receipts	**3,046**	**10,920**	**14,859**	**15,931**	**16,442**	**17,890**	**76,042**
Total effect of proposals [1]	**1,603**	**–7,004**	**–1,361**	**–3,689**	**–5,469**	**–4,873**	**–22,396**
(Paygo proposals) [1]	**1,603**	**–6,890**	**–1,270**	**–3,605**	**–5,389**	**–4,797**	**–21,951**
(Non-Paygo proposals) [1]	....	**–114**	**–91**	**–84**	**–80**	**–76**	**–445**

[1] Net of income offsets.

[2] Net of deductibility for income tax purposes.

[3] The aviation excise taxes are proposed to be reinstated effective April 1, 1997. In addition, the Administration proposes that aviation excise taxes be repealed effective October 1, 1998 and replaced with cost-based user fees.

Table S–8. SUMMARY OF SUPPLEMENTAL AND RESCISSION PROPOSALS

(In millions of dollars)

	Budget Authority			Outlays					
	1997	1998	1999	1997	1998	1999	2000	2001	2002
Supplemental Increases in Discretionary Programs:									
Department of Agriculture	106	....	....	91	9	....	....	....	....
Department of Defense	2,098	....	....	1,572	404	71	....	....	....
Department of Housing and Urban Development	30	....	....	....	3	21	6	....	....
Department of Labor	....	....	....	–45	30	....	15	....	....
Department of State	....	....	921	....	....	921	....	....	....
Department of Transportation	....	....	....	47	168	52	15	9	8
Other Independent Agencies	20	....	....	18	2	....	....	....	....
Subtotal, Supplemental Increases in Discretionary Programs	**2,254**	....	**921**	**1,683**	**616**	**1,065**	**36**	**9**	**8**
Decreases in Discretionary Programs:									
Department of Agriculture	–50	....	....	–28	–18	–3	....	....	....
Department of Defense	–4,872	....	....	–2,314	–1,333	–825	....	....	....
Corps of Engineers—Civil	–50	....	....	–30	–20	....	....	....	....
Department of Housing and Urban Development	–280	....	....	–16	–33	–47	–40	–37	–33
Subtotal, Decreases in Discretionary Programs	**–5,252**	....	....	**–2,388**	**–1,404**	**–875**	**–40**	**–37**	**–33**
Supplemental Increases in Mandatory Programs:									
Department of Transportation	4	....	....	4	....	....	....	....	....
Department of Veterans Affairs	753	....	....	753	....	....	....	....	....
Subtotal, Supplemental Increases in Mandatory Programs	757	....	....	757	....	....	....	....	....
Total, All Proposals	**–2,241**	....	**921**	**52**	**–788**	**190**	**–4**	**–28**	**–25**

Table S–9. DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE

(In millions of dollars)

Appropriations Subcommittee	1996 Enacted		1997 Estimate		1998 Proposed		Change: 1997 to 1998	
	BA	Outlays	BA	Outlays	BA	Outlays	BA	Outlays
General Purpose Discretionary								
Agriculture and Rural Development	13,776	13,672	13,644	14,480	13,839	13,889	195	–591
Commerce, Justice, State, and the Judiciary	23,876	23,962	25,191	25,232	26,362	26,455	1,171	1,223
National Security	242,556	243,254	238,967	242,835	243,290	238,581	4,323	–4,254
District of Columbia	712	712	719	719	770	532	51	–187
Energy and Water Development	19,624	21,603	19,919	21,275	23,000	19,677	3,081	–1,598
Foreign Operations	12,331	12,600	12,244	13,194	16,846	13,165	4,602	–29
Interior and Related Agencies	12,808	13,294	12,751	13,628	13,107	13,520	356	–108
Labor, HHS, and Education	67,183	67,895	74,346	73,114	79,602	75,641	5,256	2,527
Legislative	2,121	2,161	2,169	2,247	2,386	2,373	217	126
Military Construction	11,150	10,511	9,984	10,920	8,383	9,521	1,601	–1,399
Transportation and Related Agengies	12,573	35,916	12,735	35,505	12,416	35,729	–319	224
Treasury, Postal Service and General Government	11,444	11,594	12,054	12,213	13,057	12,520	1,003	307
Veterans Affairs, HUD, and Independent Agencies	68,211	75,939	64,280	80,457	71,921	80,575	7,641	118
Subtotal, General Purpose Discretionary	498,366	533,114	499,004	545,820	524,980	542,178	25,976	–3,642
Violent Crime Reduction Trust Fund (VCRTF)								
Commerce, Justice, State, and the Judiciary	3,956	1,175	4,525	2,508	5,238	4,705	713	2,197
Labor, HHS, and Education	53	26	61	47	144	76	83	29
Treasury, Postal Service, and General Government	77	55	84	81	118	102	34	21
Subtotal, VCRTF	4,086	1,256	4,670	2,636	5,500	4,883	830	2,247
Total, Discretionary	**502,452**	**534,370**	**503,674**	**548,456**	**530,479**	**547,061**	**26,805**	**–1,395**
Memorandum: Amounts Excluded From Budget Resolution Allocations And Not Included Above								
National Security	....	....	2,078	1,567	....	399	....	....
Transportation and Related Agencies	....	....	20	18	....	2	....	....
Total, Supplemental Requests for Emergency Funding	....	....	**2,098**	**1,585**	....	**401**	....	....

Summaries by Agency

SUMMARIES BY AGENCY

Table S–10. DISCRETIONARY BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

Agency	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Legislative Branch	2.2	2.2	2.4	2.4	2.5	2.5	2.5
The Judiciary	2.8	3.0	3.4	3.5	3.6	3.7	3.8
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	10.8	10.8	15.6	11.9	11.8	11.4	11.3
Agriculture	15.3	15.3	15.1	15.2	15.4	15.5	15.8
Commerce	3.7	3.8	4.2	4.9	6.1	4.0	4.0
Defense—Military	253.6	250.9	251.6	257.2	263.5	270.3	278.4
Defense—Civil	3.4	3.5	3.8	3.4	3.4	3.4	3.4
Education	21.4	26.2	29.1	29.8	30.5	31.1	31.5
Energy	16.4	16.5	19.2	17.6	16.7	16.3	15.8
Health and Human Services	33.2	34.1	36.3	36.6	36.8	37.1	37.4
Housing and Urban Development	21.7	19.3	24.8	28.4	30.3	31.7	33.0
Interior	7.1	6.9	7.4	7.4	7.6	7.5	7.5
Justice	14.6	16.3	17.1	17.8	16.8	17.0	17.5
Labor	9.4	10.2	10.8	10.6	10.6	10.7	10.9
State	4.7	4.8	5.1	5.8	4.9	5.0	5.0
Transportation	12.7	12.8	12.5	13.7	13.9	14.1	14.3
Treasury	10.4	10.6	11.8	11.8	11.4	11.6	11.8
Veterans Affairs	18.3	18.9	18.7	18.7	18.7	18.7	18.7
Environmental Protection Agency	6.5	6.8	7.6	7.7	7.1	7.2	7.3
General Services Administration	0.2	0.6	0.2	0.1	0.1	0.1	0.1
National Aeronautics and Space Administration	13.9	13.7	13.5	13.4	13.2	13.2	13.2
Office of Personnel Management	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Small Business Administration	0.8	0.9	0.7	0.7	0.7	0.7	0.7
Social Security Administration	5.0	5.6	5.6	5.5	5.5	5.5	5.5
Other Independent Agencies	14.0	11.7	13.6	10.8	10.9	10.7	10.7
Total	**502.5**	**505.8**	**530.5**	**535.4**	**542.5**	**549.4**	**560.6**

Table S–11. DISCRETIONARY OUTLAYS BY AGENCY

(In billions of dollars)

Agency	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Legislative Branch	2.2	2.3	2.4	2.4	2.5	2.5	2.5
The Judiciary	2.9	3.1	3.3	3.5	3.6	3.6	3.7
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	11.4	11.8	11.9	11.7	11.8	11.6	11.6
Agriculture	15.1	16.2	15.2	15.2	15.2	15.4	15.6
Commerce	3.8	3.9	4.2	4.7	6.4	4.1	4.0
Defense—Military	253.7	255.2	248.4	250.1	255.9	256.9	262.3
Defense—Civil	3.8	3.7	3.5	3.4	3.4	3.4	3.4
Education	23.2	25.3	26.3	29.5	30.0	30.5	31.1
Energy	18.4	17.7	16.8	17.0	16.8	16.4	16.2
Health and Human Services	32.3	34.0	35.4	36.3	36.7	36.9	37.2
Housing and Urban Development	31.4	33.4	34.0	34.3	33.9	33.7	33.5
Interior	7.0	7.5	7.3	7.5	7.6	7.6	7.5
Justice	11.5	13.5	16.6	18.0	18.4	17.9	17.6
Labor	9.6	10.1	10.5	10.5	10.5	10.6	10.7
State	4.5	5.1	5.1	5.8	4.9	5.0	5.0
Transportation	36.3	35.9	36.0	36.1	36.1	36.4	36.8
Treasury	10.2	10.5	11.1	11.8	11.9	11.5	11.7
Veterans Affairs	18.1	19.0	18.6	18.7	18.7	18.7	18.7
Environmental Protection Agency	6.3	6.5	6.7	7.1	7.3	7.4	7.3
General Services Administration	0.7	0.9	0.4	0.3	0.2	0.1	0.1
National Aeronautics and Space Administration	13.9	13.7	13.6	13.5	13.2	13.2	13.2
Office of Personnel Management	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Small Business Administration	0.9	0.8	0.8	0.7	0.7	0.7	0.7
Social Security Administration	4.6	5.6	5.7	5.6	5.6	5.5	5.5
Other Independent Agencies	12.2	13.9	13.4	13.2	12.0	10.9	10.8
Total	**534.4**	**550.0**	**547.5**	**557.5**	**563.9**	**561.0**	**567.2**

Table S–12. BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

Agency	1996 Actual	Estimate 1997	1998	1999	2000	2001	2002
Legislative Branch	2.5	2.5	2.8	2.8	2.8	2.8	2.9
The Judiciary	3.2	3.4	3.8	3.9	4.0	4.1	4.2
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	10.2	10.6	14.9	10.5	10.6	10.8	11.0
Agriculture	58.7	60.6	60.3	60.3	62.3	62.7	65.6
Commerce	3.6	3.7	4.2	4.8	6.1	4.0	3.9
Defense—Military	254.4	250.0	250.7	256.3	262.8	269.6	277.5
Defense—Civil	32.4	33.8	35.2	35.9	37.0	38.0	39.0
Education	29.1	29.4	39.5	36.4	37.0	37.7	37.4
Energy	14.1	14.2	17.0	15.5	14.6	14.0	11.4
Health and Human Services	318.5	357.3	370.0	396.3	414.3	439.2	463.1
Housing and Urban Development	21.1	19.4	23.0	28.7	30.6	31.1	31.8
Interior	7.2	7.1	7.3	7.3	7.4	7.3	7.3
Justice	15.2	17.4	17.8	18.4	17.4	17.7	18.2
Labor	33.4	34.4	37.5	39.0	40.3	40.3	41.5
State	5.1	5.2	5.5	6.3	5.5	5.6	5.6
Transportation	35.7	43.0	43.3	42.1	42.2	42.5	42.2
Treasury	365.8	382.6	392.9	399.6	401.4	404.4	404.9
Veterans Affairs	38.7	39.4	41.1	41.6	42.1	42.6	43.1
Environmental Protection Agency	6.3	6.6	7.7	7.8	7.2	7.2	7.3
General Services Administration	0.2	0.7	0.2	0.1	0.1	0.1	0.1
National Aeronautics and Space Administration	13.9	13.7	13.5	13.4	13.2	13.2	13.2
Office of Personnel Management	43.8	44.8	47.8	50.1	52.3	54.7	57.3
Small Business Administration	1.1	0.9	0.7	0.7	0.7	0.7	0.7
Social Security Administration	377.3	395.7	412.7	433.2	455.8	472.8	497.9
On-Budget	(31.0)	(35.3)	(34.5)	(37.7)	(41.7)	(38.4)	(42.9)
Off-Budget	(346.3)	(360.3)	(378.2)	(395.5)	(414.2)	(434.4)	(455.0)
Other Independent Agencies	24.3	27.0	25.8	23.5	28.4	30.4	31.9
On-Budget	(20.9)	(19.0)	(20.9)	(22.1)	(27.2)	(28.0)	(28.6)
Off-Budget	(3.4)	(8.0)	(5.0)	(1.4)	(1.2)	(2.4)	(3.3)
Undistributed Offsetting Receipts	–135.0	–150.5	–165.7	–157.4	–164.6	–173.8	–197.0
On-Budget	(–92.2)	(–102.8)	(–113.4)	(–100.5)	(–103.1)	(–107.5)	(–125.6)
Off-Budget	(–42.8)	(–47.7)	(–52.2)	(–56.9)	(–61.5)	(–66.2)	(–71.3)
Total	**1,581.1**	**1,652.9**	**1,709.5**	**1,777.4**	**1,831.7**	**1,880.0**	**1,922.3**
On-Budget	(1,274.1)	(1,332.3)	(1,378.6)	(1,437.3)	(1,477.9)	(1,509.4)	(1,535.3)
Off-Budget	(307.0)	(320.6)	(330.9)	(340.1)	(353.8)	(370.6)	(387.0)

Table S–13. OUTLAYS BY AGENCY

(In billions of dollars)

Agency	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Legislative Branch	2.3	2.5	2.8	2.7	2.7	2.8	2.8
The Judiciary	3.1	3.6	3.7	3.8	3.9	4.1	4.2
Executive Office Of the President	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Funds Appropriated to the President	9.7	9.7	10.2	10.4	10.6	10.5	10.6
Agriculture	54.3	57.0	58.8	58.0	59.7	59.7	61.6
Commerce	3.7	3.8	4.1	4.6	6.2	4.0	3.9
Defense—Military	253.3	254.3	247.5	249.3	255.2	256.2	261.4
Defense—Civil	32.5	33.9	34.8	35.8	36.9	38.0	39.0
Education	29.7	28.3	32.1	36.2	36.8	37.4	35.9
Energy	16.2	15.4	14.6	14.9	14.6	14.1	11.8
Health and Human Services	319.8	351.1	376.1	396.9	414.1	438.6	461.9
Housing and Urban Development	25.5	29.9	32.3	32.9	32.4	30.2	29.6
Interior	6.7	7.4	7.1	7.3	7.3	7.4	7.2
Justice	12.0	14.5	17.4	18.7	19.1	18.5	18.2
Labor	32.5	32.9	35.6	37.5	39.0	39.6	40.4
State	5.0	5.5	5.5	6.3	5.5	5.5	5.6
Transportation	38.8	38.4	38.5	38.5	38.4	38.4	38.2
Treasury	364.6	380.6	390.4	397.8	400.2	402.5	402.8
Veterans Affairs	36.9	39.6	40.9	41.9	43.8	41.1	43.3
Environmental Protection Agency	6.0	6.3	6.7	7.1	7.4	7.4	7.3
General Services Administration	0.7	1.2	0.5	0.3	0.2	0.1	0.1
National Aeronautics and Space Administration	13.9	13.7	13.6	13.5	13.2	13.2	13.2
Office of Personnel Management	42.9	44.8	46.5	48.6	50.7	53.0	55.7
Small Business Administration	0.9	0.5	0.1	0.2	0.5	0.6	0.6
Social Security Administration	375.2	395.9	413.0	432.0	454.0	470.9	495.9
On-Budget	(31.4)	(35.2)	(36.3)	(38.1)	(41.7)	(38.4)	(42.9)
Off-Budget	(343.9)	(360.8)	(376.7)	(393.9)	(412.4)	(432.5)	(453.0)
Other Independent Agencies	8.9	10.4	20.2	22.5	26.2	24.1	25.1
On-Budget	(9.5)	(8.5)	(16.1)	(21.7)	(26.3)	(25.8)	(26.4)
Off-Budget	(–0.6)	(2.0)	(4.1)	(0.9)	(–0.2)	(–1.8)	(–1.3)
Undistributed Offsetting Receipts	–135.0	–150.5	–165.7	–157.4	–164.6	–173.8	–197.0
On-Budget	(–92.2)	(–102.8)	(–113.4)	(–100.5)	(–103.1)	(–107.5)	(–125.6)
Off-Budget	(–42.8)	(–47.7)	(–52.2)	(–56.9)	(–61.5)	(–66.2)	(–71.3)
Total	**1,560.3**	**1,631.0**	**1,687.5**	**1,760.7**	**1,814.4**	**1,844.5**	**1,879.7**
On-Budget	(1,259.9)	(1,316.0)	(1,358.9)	(1,422.8)	(1,463.8)	(1,480.0)	(1,499.4)
Off-Budget	(300.5)	(315.0)	(328.6)	(337.9)	(350.7)	(364.5)	(380.3)

Other Summary Tables

OTHER SUMMARY TABLES

Table S–14. RECEIPTS BY SOURCE—SUMMARY

(In millions of dollars)

Source	1996 Actual	Estimate 1997	1998	1998	2000	2001	2002
Individual income taxes	656,417	672,683	691,199	721,554	755,558	795,223	839,850
Corporation income taxes	171,824	176,199	189,662	199,555	212,046	220,521	227,844
Social insurance taxes and contributions	509,414	535,766	557,783	585,229	614,395	642,161	673,075
(On-budget)	(141,922)	(146,863)	(152,839)	(160,033)	(167,499)	(174,544)	(183,210)
(Off-budget)	(367,492)	(388,903)	(404,944)	(425,196)	(446,896)	(467,617)	(489,865)
Excise taxes	54,014	57,247	61,239	64,496	64,934	66,194	67,363
Estate and gift taxes	17,189	17,588	18,817	19,969	21,390	22,926	24,573
Customs duties	18,670	17,328	18,307	18,469	19,617	20,523	21,988
Miscellaneous receipts	25,534	28,614	29,835	34,048	39,364	40,799	41,993
Total receipts	**1,453,062**	**1,505,425**	**1,566,842**	**1,643,320**	**1,727,304**	**1,808,347**	**1,896,686**
On-budget	*(1,085,570)*	*(1,116,522)*	*(1,161,898)*	*(1,218,124)*	*(1,280,408)*	*(1,340,730)*	*(1,406,821)*
Off-budget	*(367,492)*	*(388,903)*	*(404,944)*	*(425,196)*	*(446,896)*	*(467,617)*	*(489,865)*

Table S–15. FEDERAL EMPLOYMENT IN THE EXECUTIVE BRANCH

(Civilian employment as measured by Full-Time Equivalents, in thousands)

Agency	1993 Base	Actual				Estimate		Change: 1993 base to 1998	
		1993	1994	1995	1996	1997	1998	FTE's	Percent
Cabinet agencies:									
Agriculture[1]	115.6	114.4	109.8	103.8	100.7	101.7	99.9	–15.8	–13.6%
Commerce	36.7	36.1	36.0	35.3	33.8	34.9	38.3	+1.6	+4.3%
Defense-military functions	931.3	931.8	868.3	821.7	778.9	760.0	733.2	–198.1	–21.3%
Education	5.0	4.9	4.8	4.8	4.7	4.6	4.6	–0.5	–9.3%
Energy	20.6	20.3	19.8	19.7	19.1	18.2	17.2	–3.4	–16.5%
Health and Human Services[1]	65.0	66.1	62.9	59.3	57.2	57.6	57.6	–7.3	–11.3%
Social Security Administration	65.4	64.8	64.5	64.6	64.0	65.6	65.4	....	....
Housing and Urban Development	13.6	13.3	13.1	12.1	11.4	11.4	11.0	–2.7	–19.6%
Interior	79.3	78.1	76.3	72.0	66.7	70.6	71.4	–7.9	–10.0%
Justice	99.4	95.4	95.3	97.9	103.8	113.3	121.8	+22.4	+22.5%
Labor	18.3	18.0	17.5	16.8	16.0	16.6	17.1	–1.2	–6.5%
State	26.0	25.6	25.2	23.9	22.9	23.2	23.2	–2.8	–10.8%
Transportation	70.3	69.1	66.4	63.2	62.4	64.0	64.8	–5.5	–7.8%
Treasury	166.1	161.1	157.3	157.5	151.1	148.3	148.1	–18.0	–10.8%
Veterans Affairs[1]	232.4	234.2	233.1	228.5	221.9	215.5	210.6	–21.8	–9.4%
Other agencies (excluding Postal Service):									
Agency for International Development[1]	4.4	4.1	3.9	3.6	3.4	3.1	3.0	–1.4	–31.9%
Corps of Engineers	29.2	28.4	27.9	27.7	27.1	27.1	26.4	–2.8	–9.7%
Environmental Protection Agency	18.6	17.9	17.6	17.5	17.2	18.0	18.3	–0.3	–1.6%
EEOC	2.9	2.8	2.8	2.8	2.7	2.7	2.7	–0.2	–6.2%
FEMA	2.7	4.0	4.9	4.6	4.7	5.0	4.7	+1.9	+70.5%
FDIC/RTC	21.6	21.9	20.0	15.7	11.8	9.4	7.8	–13.8	–64.0%
General Services Administration	20.6	20.2	19.5	17.0	15.7	14.9	14.4	–6.2	–30.2%
NASA	25.7	24.9	23.9	22.4	21.1	20.7	19.8	–6.0	–23.3%
National Archives and Records Admin.	2.8	2.6	2.6	2.5	2.5	2.5	2.5	–0.2	–8.6%
National Labor Relations Board	2.1	2.1	2.1	2.0	1.9	2.0	2.0	–0.1	–6.0%
National Science Foundation	1.3	1.2	1.2	1.2	1.3	1.3	1.2	–0.1	–8.2%
Nuclear Regulatory Commission	3.4	3.4	3.3	3.2	3.1	3.1	3.0	–0.4	–12.1%
Office of Personnel Management	6.2	5.9	5.3	4.2	3.4	3.4	3.3	–3.0	–47.6%
Panama Canal Commission	8.7	8.5	8.5	8.8	9.0	10.2	10.3	+1.6	+18.5%
Peace Corps	1.3	1.2	1.2	1.2	1.1	1.2	1.1	–0.1	–9.4%
Railroad Retirement Board	1.9	1.8	1.7	1.6	1.5	1.4	1.3	–0.5	–29.0%
Securities and Exchange Commission	2.7	2.7	2.7	2.7	2.8	2.8	2.8	+0.1	+2.1%
Small Business Administration	4.0	5.6	6.3	5.7	4.8	4.6	4.6	+0.6	+15.2%
Smithsonian Institution	5.9	5.5	5.4	5.3	5.1	5.3	5.3	–0.6	–10.4%
Tennessee Valley Authority	19.1	17.3	18.6	16.6	16.0	15.7	15.6	–3.6	–18.8%
United States Information Agency	8.7	8.3	8.1	7.7	7.0	7.0	6.9	–1.8	–20.9%
All other small agencies	16.1	15.4	15.0	15.1	14.1	14.8	14.5	–1.6	–9.9%
Total, Executive Branch civilian employment	**2,155.2**	**2,138.8**	**2,052.7**	**1,970.2**	**1,891.7**	**1,881.3**	**1,855.6**	**–299.6**	**–13.9%**
Reduction from 1993 base	....	–16.4	–102.5	–185.0	–263.5	–273.9	–299.6	....	....
Subtotal, Defense	931.3	931.8	868.3	821.7	778.9	760.0	733.2	–198.1	–21.3%
Subtotal, non-defense	1,223.9	1,207.1	1,184.4	1,148.4	1,112.8	1,121.2	1,122.4	–101.5	–8.3%
Status of Federal civilian employment relative to the FWRA:[2]									
Total, Executive Branch employment	....	....	2,052.7	1,970.2	1,891.7	1,881.3	1,855.6	....	....
Less: FTEs exempt from FWRA	....	....	5.7	5.7	7.6	7.9	5.6	....	....
Total, Executive Branch subject to FWRA Ceiling	....	....	2,047.0	1,964.4	1,884.1	1,873.3	1,850.0	....	....
FWRA ceiling	....	....	2,084.6	2,043.3	2,003.3	1,963.3	1,922.3	....	....
Executive Branch employment relative to FWRA ceiling	....	....	–37.6	–78.9	–119.2	–90.0	–72.3	....	....

[1] The Departments of Agriculture, Health and Human Services, Veterans Affairs, and the Agency for International Development have components that are exempt from FTE controls. In 1998, Agriculture has 2,098 exemptions; HHS has 268 exemptions; Veterans Affairs has 3,200 exemptions and AID has 27 exemptions.

[2] FTE limitations are set for the Executive Branch in the Federal Workforce Restructuring Act of 1994 (P.L. 103–226) from 1994–99.

Table S–16. FEDERAL GOVERNMENT FINANCING AND DEBT[1]

(In billions of dollars)

	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Financing:							
Surplus or deficit (–)	–107.3	–125.6	–120.6	–117.4	–87.1	–36.1	17.0
(On-budget)	–174.3	–199.5	–197.0	–204.7	–183.3	–139.2	–92.5
(Off-budget)	67.0	73.9	76.4	87.3	96.2	103.1	109.5
Means of financing other than borrowing from the public:							
Changes in:[2]							
Treasury operating cash balance	–6.3	4.2	....	....	....	....	....
Checks outstanding, etc.[3]	–3.9	–*	–1.4	....	....	....	....
Deposit fund balances	–1.0	0.7	–2.6	....	....	....	....
Seigniorage on coins	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Less: Net financing disbursements:							
Direct loan financing accounts	–13.0	–22.6	–21.9	–21.9	–23.8	–24.4	–24.0
Guaranteed loan financing accounts	1.3	–0.2	0.4	0.6	0.7	0.9	1.2
Total, means of financing other than borrowing from the public	–22.3	–17.2	–24.9	–20.7	–22.4	–22.8	–22.1
Total, requirement for borrowing from the public	–129.6	–142.8	–145.6	–138.1	–109.6	–59.0	–5.2
Change in debt held by the public	129.6	142.8	145.6	138.1	109.6	59.0	5.2
Debt Outstanding, End of Year:							
Gross Federal debt:							
Debt issued by Treasury	5,146.9	5,420.4	5,706.3	5,983.1	6,243.0	6,456.6	6,624.3
Debt issued by other agencies	35.1	33.3	29.9	29.5	29.0	28.7	28.2
Total, gross Federal debt	5,181.9	5,453.7	5,736.2	6,012.6	6,272.0	6,485.2	6,652.5
Held by:							
Government accounts	1,449.0	1,577.9	1,714.8	1,853.2	2,003.0	2,157.2	2,319.4
The public	3,733.0	3,875.8	4,021.4	4,159.4	4,269.0	4,328.0	4,333.1
Federal Reserve Banks	390.9	....	....	....	....	....	....
Other	3,342.0	....	....	....	....	....	....
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	5,146.9	5,420.4	5,706.3	5,983.1	6,243.0	6,456.6	6,624.3
Less: Treasury debt not subject to limitation[4]	–15.5	–15.5	–15.5	–15.5	–15.5	–15.5	–15.5
Agency debt subject to limitation	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for discount and premium[5]	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Total, debt subject to statutory limitation[6]	5,137.2	5,410.7	5,696.6	5,973.4	6,233.3	6,446.9	6,614.7

* $50 million or less.

[1] Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

[2] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing the deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing the deficit and therefore also have a positive sign.

[3] Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Consists primarily of Federal Financing Bank debt.

[5] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[6] The statutory debt limit is $5,500 billion.

Table S–17. COMPARISON OF ECONOMIC ASSUMPTIONS

(Calendar years)

	Projections					
	1997	1998	1999	2000	2001	2002
Real GDP (chain-weighted): [1]						
1997 Mid-Session Review	2.3	2.3	2.3	2.3	2.3	2.3
CBO January [2]	2.1	2.1	2.2	2.2	2.1	2.1
1998 Budget	2.0	2.0	2.3	2.3	2.3	2.3
Chain-weighted GDP Price Index: [1]						
1997 Mid-Session Review	2.7	2.7	2.7	2.7	2.7	2.7
CBO January [2]	2.4	2.6	2.6	2.6	2.6	2.6
1998 Budget	2.5	2.6	2.6	2.6	2.6	2.6
Consumer Price Index (all-urban): [1]						
1997 Mid-Session Review	2.8	2.8	2.8	2.8	2.8	2.8
CBO January [2]	2.9	3.0	3.0	3.0	3.0	3.0
1998 Budget	2.6	2.7	2.7	2.7	2.7	2.7
Unemployment rate: [3]						
1997 Mid-Session Review	5.7	5.7	5.7	5.7	5.7	5.7
CBO January [2]	5.3	5.6	5.8	5.9	6.0	6.0
1998 Budget	5.3	5.5	5.5	5.5	5.5	5.5
Interest rates: [3]						
91-day Treasury bills:						
1997 Mid-Session Review	4.5	4.3	4.2	4.0	4.0	4.0
CBO January [2]	5.0	5.0	4.6	4.2	3.9	3.9
1998 Budget	5.0	4.7	4.4	4.2	4.0	4.0
10-year Treasury notes:						
1997 Mid-Session Review	5.6	5.2	5.0	5.0	5.0	5.0
CBO January [2]	6.2	6.1	5.8	5.5	5.5	5.5
1998 Budget	6.1	5.9	5.5	5.3	5.1	5.1

[1] Percent change, fourth quarter over fourth quarter.
[2] Economic projections assuming balanced budget policy.
[3] Annual averages, percent.

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