U.S. GENERAL ACCOUNTING OFFICE SUPPLEMENT TO CONGRESSIONAL BUDGET OFFICE BACKGROUND PAPER ON REDUCING THE FEDERAL BUDGET: STRATEGIES AND EXAMPLES

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SUPPLEMENT TO

CONGRESSIONAL BUDGET OFFICE

BACKGROUND PAPER ON

REDUCING THE FEDERAL BUDGET: STRATEGIES AND EXAMPLES

March 1980

PREFACE

This document was prepared to supplement the Congressional Budget Office's background paper, "Reducing the Federal Budget: Strategies and Examples," February 1980. The CBO report identifies possible ways to reduce Federal spending and increase Federal revenues.

Because GAO has issued reports relevant to many of these areas of possible savings and increased revenues, it considered that congressional purposes would be served by preparing a single document consolidating CBO's analyses with discussions of GAO's work bearing on the same issues.

If you are interested in obtaining additional information on the matters discussed or copies of the GAO reports cited in this supplement, please contact our Office of Congressional Relations on 275-5388.

Comptroller General
of the United States

CONTENTS

Management Efficiencies. Savings could be made through consolidating programs, ending duplication, ferreting out fraud and abuse, and improving program administration.

STRATEGY I: MANAGEMENT EFFICIENCIES CBO Proposal

Administrative Improvements in Public Assistance Programs

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
325	350	375	400	440	1,890

One possible means of reducing the cost of public assistance programs would be to establish a nationwide monthly income reporting system, along with a one-month retrospective accounting system. In the current system, the various programs use several different accounting periods. The Supplemental Security Income (SSI) program calculates benefits on the basis of income expected over the coming quarter (quarterly prospective), the Aid to Families with Dependent Children (AFDC) program has no specific rules but is usually monthly prospective, and the food stamp program is monthly prospective. Reporting changes in income status is usually a responsibility of the recipient between periods of recertification.

This proposal would determine each month's benefits on the basis of the previous month's income. The recipient would be required to mail a monthly income status form to the public assistance office before benefits were calculated and a check mailed. A 1976-1977 pilot program suggests that such changes could result not only in budgetary savings but also in simplified eligibility determination, more rapid processing of initial applications, and increased responsiveness to changing needs of recipients.

The major savings would be generated through the monthly reporting requirement, which would reveal changes in income not reported or detected under the current discretionary system. Such a system would improve the efficiency of program operation through more accurate calculations of benefits for those with fluctuating incomes and by more rapid elimination of those who have become ineligible.

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Administrative Improvements in Public Assistance Programs

GAO Supplementary Discussion

GAO Views.

Historically, recipients of public assistance benefits have been reluctant to report changes in their circumstances that may reduce their benefit level. Our work has shown that even when changes in circumstances are reported promptly by the recipients, the administrative agency may fail to adjust benefits promptly. For example, recent quality control findings for the AFDC program show that about one-third of all case errors are due to the recipients' failure to report and about another one-third are due to the agency's failure to act promptly. We believe that monthly reporting along with a 1-month retrospective accounting system would go a long way toward reducing these errors. In our May 1978 report to the Chairmen, Senate Committee on Finance and House Committee on Ways and Means, we pointed out that if SSI benefits were determined on a monthly retrospective basis, overpayments would be decreased by about $40 million annually.

In commenting on recent major welfare reform proposals, we have expressed our concern about requiring all recipients to report monthly primarily because of (1) the sheer volume of reports that must be processed accurately and timely so recipients' benefits are not delayed or suspended and (2) the fact that certain types of recipients (SSI for example) expressed infrequent changes in circumstances so monthly reporting would serve no real value. By limiting the number of recipients reporting monthly, the volume of reports decreases and becomes more manageable.

The Social Welfare Reform Amendments of 1979 (H.R. 4904) call for a system of monthly reporting and retrospective accounting for the AFDC program. The House passed H.R. 4904 on November 7, 1979, and the Senate Committee on Finance is expected to consider the bill in 1980. Our past work would support these legislative changes to the AFDC program.

Relevant GAO Reports.

Review of the Better Jobs and Income Bill (HRD-78-110, 5-23-78)

Letter Report: Substantial Overpayments to SSI Recipients Occur Because SSA Determines Eligibility and Benefit Amounts on a Prospective Quarterly Basis (HRD-78-114, 5-26-78)

Letter Report: Comments on Welfare Reform Proposals to Simplify and Streamline the Administration of Welfare (HR8-Bill-10, B-192083, 7-20-78)

Reform of the Wage Board Pay System

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
260	610	780	870	950	3,470

The hourly rates of federal wage board (blue-collar) workers are adjusted annually in an attempt to maintain comparability with wage rates paid by the private sector in the same locality. Under certain provisions of current laws and regulations, however, the 400,000 federal wage board workers may receive about 8 percent more than their private-sector counterparts in similar jobs, with a few entitled to as much as 20 percent more. Recent limits on federal pay raises have reduced such differences over private-sector rates, but the laws and regulations remain.

The Administration has repeatedly recommended changes in the wage board system in order to eliminate the 8 percent differential. If the changes are enacted, the five-year outlay savings through 1985 could approach $3.5 billion. This estimate of savings assumes, however, that federal wage board workers would be granted a catch-up raise in fiscal year 1981 to make up for past limits on federal pay raises, and that no further limits would be imposed over the next five years. If a catch-up raise is not permitted in fiscal year 1981 and limits on pay raises continue, then the 8 percent differential would be eliminated. In those circumstances, wage board reform would result in a pay system that corresponds more closely to private-sector practices, but would not result in outlay savings.

Proponents of the proposed changes argue that the present system is overgenerous to wage board workers and unfair to federal taxpayers. Unions and others opposing the changes assert that there is wide variation in private-sector practices, and that some are similar to the federal system. They also contend that the reforms are selective, dealing only with those aspects of the wage-setting mechanism favorable to employees, while continuing those aspects of the system tending to depress federal wage rates.

Reform of the Wage Board Pay System

GAO Supplementary Discussion

GAO views. GAO has called for the same changes recommended by the Administration to eliminate or change features that cause Federal wages to depart from prevailing private-sector rates. The features that should be modified are

--a Federal five step grade system with the average private-sector rate equated to the Federal step 2 even though 80 percent of the employees are above step 2;

--Federal rates which are sometimes set on rates paid in other than the local wage area;

--night shift differentials that are not set according to local prevailing practice;

--exclusion of State and local government jobs from the pay surveys.

By causing Federal pay to exceed private-sector pay, these features reduce confidence in the Government's pay setting policies, and increase outlays for pay and benefits. To the detriment of Federal blue-collar employees these features also increase the likelihood of contracting out inasmuch as private sector employees will tend to be less costly.

Relevant GAO Reports. FPCD-75-122, June 3, 1975; FPCD-76-80, July 21, 1978.

Elimination of World War II Destroyers

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
129	27	20	31	35	242

The Navy has proposed to retire 12 destroyers built more than a third of a century ago. This year, however, the Congress directed that the 12 destroyers be retained in the fleet for use by the Navy Reserve. If they were phased out in 1981, the five-year savings through 1985 could be about $242 million.

While the old destroyers could be used for reserve training purposes, it is unlikely that they could play any future combat role. Thus, the reservists trained on them would, in any event, have to be assigned to other vessels with systems very different from those on which they had been trained.

Elimination of World War II Destroyers

GAO Supplementary Discussion

GAO views. In July 1979, the Secretary of the Navy notified the Congress of his intention to decommission 20 of 28 destroyers in the Naval Reserve Force. The Secretary cited the age, material condition, qualitative inadequacy to meet current and projected threats, and excessive cost to modernize as reasons for retiring the vessels. By October 1979, the Navy had decommissioned 8 of the 20 ships earmarked for retirement.

The Senate Subcommittee on Defense, Committee on Appropriations supports the Navy's decision to retire these ships. However, the House Subcommittee on Defense, Committee on Appropriations expressed strong disagreement with the Navy's decision during FY 80 Department of Defense Appropriation hearings. As a result of a conference agreement on the FY 80 Department of Defense Appropriation bill, the Navy was directed to cease preparation for retirement of the remaining 12 ships until the Senate and House Appropriations Committee had an opportunity to consider the practicality of overhauling the ships instead of retiring them. In addition, it was agreed that a careful review of this matter be made.

As a result of this agreement, GAO has received requests from Senator Eagleton, member of the Senate Subcommittee on Defense and Congressman Chappell, member, House Subcommittee on Defense to review the Navy's decision to decommission these ships. Specifically, GAO has been requested to review: (1) the material condition and combat capabilities of the ships, (2) the cost to overhaul and modernize the 12 ships scheduled for retirement, and (3) the manner and method of the day-to-day operational control, support, manning and management of the ships.

The Navy believes savings can be realized by decommissioning these ships because they cannot perform a useful mission and it is not cost effective to overhaul and modernize them. Savings will accrue from reduced operating and maintenance costs and scheduled overhauls. As part of GAO's review the value of any potential savings will be determined. However, GAO has not yet reached a conclusion as to whether or not decommissioning of 12 destroyers is warranted. This review is scheduled for completion July 31, 1980.

Based on discussions with a CBO official, we understand that the report savings for fiscal year 1981 of $129 million include savings from decommissioning 7 destroyers—$105 million for overhaul, $11.5 million for active duty personnel and $12.3 million for operation and maintenance. It is doubtful that the active duty personnel savings are real. These resources would be reallocated.

Relevant GAO reports. In process

Elimination of Certain GI Bill Benefits

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
70	60	50	40	30	250

Under the GI Bill, veterans are eligible for correspondence and flight training to assist them in readjusting to civilian life. The effectiveness of this training in the readjustment process, however, has been repeatedly questioned. Under current law, all eligibility for the use of Readjustment Benefits will expire at the end of 1989. If the correspondence and flight training benefits were eliminated in 1981, the five-year savings by 1985 would be about $250 million. About 53,000 veterans would be affected in 1981, and about 16,000 in 1985.

Those who question these benefits point to the fact that veterans' flight training is known to be used mainly for recreational purposes, and that correspondence training—with its low completion and placement rates—confers little benefit in return for the expenditure. The argument against eliminating the benefits is that individuals would be deprived of an earned benefit promised to them by the government when they were in the armed forces. A few veterans, moreover, make use of the training to advance their careers.

Elimination of Certain GI Bill Benefits

GAO Supplementary Discussion

GAO Views. In 1974 the Congress mandated that institutions offering vocational and technical training programs must show that 50 percent of the persons who completed such courses obtained employment in the field for which the course was designed to provide training.

In August of 1979 GAO reported that, upon reviewing a random sample of veterans who had completed flight and selected correspondence training courses during a recent 5-year period, only about 16 percent of the flight-trained veterans and 34 percent of the correspondence-trained veterans had full-time jobs related directly to their training. However, reports submitted to VA by institutions offering such training indicated that over 50 percent of their graduates had found employment related to their training. GAO concluded that flight and correspondence courses covered by its review had not met the minimum 50 percent employment standard mandated by the Congress for VA-approved vocational objective training programs and that such courses tended to serve avocational, recreational or personal enrichment, rather than basic readjustment and employment objectives. Accordingly, GAO recommended that the Congress adopt VA's legislative proposal to terminate GI bill benefits for flight and correspondence training. This would be in agreement with the action proposed by the CBO.

According to GAO's report, VA estimated that termination of these programs would save about $217 million during the five fiscal years ending in 1984. Based upon more recent data obtained from VA, GAO believes this estimate could be increased to $250 million for the five fiscal years ending in 1985 as was reported by the CBO.

Relevant GAO Reports. HRD-79-115 (GI Bill Benefits For Flight And Correspondence Training Should Be Discontinued, 8-24-79); B-114859 (More Veterans Not Completing Correspondence Courses--More Guidance Needed from the Veterans Administration, 3-22-72) and HRD-79-158 (Letter report to Senate Committee on Veterans' Affairs on Responses to Questionnaires on Operation and Effect of Educational Assistance Programs Provided by VA, 8-11-76).

CBO Proposal

Restructuring of Military Retirement Pay

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year
1981	1982	1983	1984	1985	Savings
-100	-90	-60	-20	20	-250

Military pay reforms almost invariably involve higher costs in the first few years, although they may save large sums in future years. The example used here is just such a case.

Under the current military retirement system, most of those who leave before completing 20 years of service receive no pension; at 20 years, retirees become eligible for a pension, payable immediately and equal to half the basic pay rate in effect on the day of retirement. This scheme may contribute to the departure of too many persons after 4 or 5 years' service, at a time when they have become trained and experienced, and the retention of too many with between 10 and 19 years' service, who may contribute to an excess of supervisors.

The proposal presented here has three elements: (1) to base military retirement pay on the individual's highest three pay years, phasing in this change over a three-year period; (2) to provide a deferred annuity at age 60 for those who leave after fewer than 20 years' service, beginning immediately; and (3) immediately to increase selective bonuses after 10 years' service to retain enlisted men and women whose skills are in short supply.

Savings from such steps would not begin to appear until the fifth year, but they could grow to $360 million annually by 1990, and they would continue to increase until after the turn of the century.

The shift to "high-3" pay as a basis for retirement checks may be opposed on the ground that it would eventually result in entitlements about 10 percent smaller than under the present system of using the final pay rate as the basis. Opponents may also argue that any change in retirement pay must apply only to those entering the military after enactment of the change, which would delay savings for 20 years. But if the change is phased in over three

years, the effect would be to honor all retirement credits actually earned before the change. The shift to "high-3" would make the military system consistent with that of the federal civil service, and it would eliminate the advantage available to those who can time their retirements to coincide with pay increases. The deferred annuity and bonuses would help to retain a larger proportion of persons with 5 to 10 years of experience, which is consistent with many analysts' judgments about sound force management.

Restructuring of Military Retirement Pay

GAO Supplementary Discussion

GAO views. GAO has also recommended that the 20 year military retirement system be restructured. The thrust of our recommendations was to make the system more flexible to meet the services' needs and we did not estimate whether a budgetary savings would accrue. We concluded that a more flexible system would allow the Department of Defense to more effectively retain the mix of manpower it needs--first and second termers versus career members and by type of military occupation. We recommended that the arbitrary 20-year career length be done away with and replaced by a system that would tend to retain a youthful and vigorous force as well as those whose skills and occupations are in short supply. We also recommended some form of vesting for those who do not complete full careers.

Relevant GAO Reports. FPCD-77-81, March 13, 1978.

Change in Enlisted/Officer Ratio in the Armed Forces

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
16	35	57	83	110	301

Some observers believe that the ratio of enlisted personnel to officers in the armed forces could be increased with no loss of military effectiveness. The ratio in recent years has been about 6.4 enlisted persons for every officer. Before the Vietnam buildup, the ratio was about 6.8 to 1. If over the next five years the ratio was gradually increased to 6.6 to 1, the cumulative savings would be about $300 million; in the following five years the savings would be considerably greater. (This assumes that promotion policies would be adjusted to keep average grades at today's levels.)

A possible explanation for the current high proportion of officers is that the drawdown since the peak of force numbers in the late 1960s has been heavier in enlisted ranks, where turnover is greater and tenure guarantees are fewer. Increases in technical complexity may, however, justify having more officers relative to enlisted personnel than in earlier years. The science of defining officer requirements is sufficiently inexact and subjective to preclude a firm case for any particular ratio.

Change in Enlisted/Officer Ratio in the Armed Services GAO Supplementary Discussion

GAO Views. Arbitrary officer reductions, based only on enlisted strength, are counter to our efforts to improve the efficiency and effectiveness of our military forces and could as well result in strong disincentives and double payment for efficiency and effectiveness initiatives. The enlisted-to-officer ratio is the product of many constantly changing factors, such as force levels, weapon systems, laws and management policies affecting the service of officer and enlisted personnel. The enlisted-to-officer ratio has frequently been used as a yardstick to make historical comparisons between forces. The general assumption is that a low proportion of officers is good and that a high proportion of officers is bad. Enlisted-to-officer ratios since World War II follow:

Average FY 1954-1964	FY 1964	FY 1968	FY 1972	FY 1974	FY 1976	FY 1977-79
7.1	7.0	7.5	5.9	6.2	6.4	6.5

The enlisted/officer ratio has limited usefulness as a comparative measure and is likely to produce erroneous judgements about the composition and effectiveness of forces.

There are two basic reasons for this. First, the number of management personnel (officers) required in any organization is primarily dependent on both the nature and extent of the management and supervisory functions which must be performed, and not simply on the gross numbers of all personnel comprising the organization.

With respect to organization, in 1945 there was no Department of Defense nor separate Air Force. The Defense Reorganization Act of 1958 created three new unified commands and four new Defense Agencies, strengthened the office of the Secretary of Defense, the organization of the Joint Chiefs of Staff and the Unified Command System. Both NATO and SEATO were established after 1945. All these developments have affected the numbers and kinds of officers.

With respect to functions, management today is far more complex than in 1945. Technological advances in weapon systems and their employment increase officer requirements. In turn, automation of weapon systems reduces enlisted manning requirements. Increased emphasis on and complexity of fiscal and resource management, which does not reduce commensurate with force reductions, increased emphasis on human resource management and increased requirements for specialists, e.g. physicians, lawyers also contribute to the proportion of officers in the total military force.

We concluded in a study 1/ conducted for the Chairman, House Armed Services Committee that the large number of officer positions is a product of the large number of management echelons rather than the officer requirements process and that a sizable reduction, through elmination and consolidation in the number of management headquarters and staffs and associated duplicative functions may offer the best means of reducing senior officer positions. We have recommended consolidation and streamlining of headquarters functions to improve efficiency and effectiveness in a number of studies (See partial listing 2/ below), but have also warned about the consequences of across-the-board cuts and reduction of staff a the expense of effectively administered programs. 3/ Action on our recommendations made in these reports as well as many others would reduce officer requirements in a logical rather than arbitrary way.

On the other hand we have reported extensively (see partial listing 4/ below) on the need to replace military personnel with civilians. Since FY 1964 the Department of Defense has converted over 100,000 military jobs (almost all enlisted) to civilian positions. This efficiency measure, which we contin to strongly urge 5/, further impacts on the enlisted-to-offic ratio. As more enlisted military positions are identified and converted to civilian jobs the ratio will decrease and further arbitrary officer cuts made to bring the ratio up may effect program effectiveness, a concern we have addressed repeatedly.

Relevant GAO Reports

1. Development of Field Grade Officer Requirements By the Military Services, FPCD-75-137, 3-25-75

2. Suggested Improvements In Staffing And Organization Of Top Management Headquarters In the Department of Defense, FPCD-76-35

   Pacific Fleet Headquarters Efficiency Can Be Improved Through Consolidations, FPCD-76-98, 2-4-77

   Opportunities to Streamline the Air Force Headquarters Structure In the Pacific, FPCD-79-27, 2-8-79

3. Personnel Restrictions And Cutbacks In Executive Agencies: Need For Caution, FPCD-77-85, 2-9-78

4. Development And Use of Military Services' Staffing Standards: More Direction, Emphasis, And Consistency Needed, FPCD-77-72, 10-18-77

   Using Civilian Personnel For Military Administrative and Support Positions--Can More Be Done? FPCD-78-69, 9-26-78

   Military Personnel Cuts Have Not Impaired Most Morale, Welfare, And Recreation Activities, FPCD-79-54, 7-11-79

5. Defense Use of Military Personnel In Industrial Facilities-Largely Unnecessary And Very Expensive, FPCD-79-10, 5-1-79

   Military And Civilian Managers of Defense Manpower: Improvements Possible In Their Experience, Training, And Rewards, Volume I, FPCD-79-1, 2-16-79

6. Improvements Needed In Army's Determination of Manpower Requirements For Support And Administrative Functions, FPCD-79-32, 5-21-79

   DOD's Oversight of Individual Skill Training In the Military Services Should Be More Comprehensive, FPCD-79-13, 7-31-79

   Lack of Control And Feedback Hinders Army Manpower Management Improvements, FPCD-80-9, 10-31-79

   The Navy's Shore Requirements, Standards, And Manpower Planning System (SHORSTAMPS)--Does The Navy Really Want It? FPCD-80-29, 2-7-80

   The Navy's Pilot Shortage: A Selective Bonus And Other Actions Could Improve Retention, FPCD-80-31, 2-15-80

Elimination of Dual Pay for Reservists Who Are Federal Employees

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
35	39	42	46	50	212

Federal civilian employees who are reservists in the armed forces receive both civilian and military pay during their two-week annual period of active duty for training. They also receive their regular vacation entitlement (13, 20, or 26 days, depending on length of service) in addition to the two-week absence for military training. The Administration has repeatedly recommended paying such federal employees the greater of their civilian or reserve salaries, rather than both. Adopting this change would save over $200 million in the next five years.

Those who favor such a change point out that the dual pay practice is generally not followed by private employers, nor by the federal government itself when a reservist is called up for state duty. Under those circumstances, the employee receives only the higher salary. Moreover, the practice may attract disproportionately large numbers of federal employees to the reserves, despite the greater likelihood that their civilian jobs would excuse them from a military mobilization. The counterargument is that the change could have an adverse effect on reserve recruiting and retention—in a force already falling short of its manning goals.

Elimination of Dual Pay for Reservists Who Are Federal Employees

GAO Supplementary Discussion

GAO views. GAO has generally been in favor of eliminating or amending laws that provide for dual compensation, and believe that this dual pay practice should be discontinued unless there is evidence to show that doing so would severely affect the recruitment and maintenance of an adequate reserve force. We agree with the savings estimate.

Relevant GAO Reports. B-188600, October 14, 1977.

Closing of the Clinch River Breeder Reactor Program

CBO Proposa

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
220	430	560	160	80	1,450

The Clinch River Breeder Reactor (CRBR) project has been a subject of controversy for years. Although it was not included in the President's budget for 1980, the Congress appropriated $173 million for the purpose; the President's 1981 budget recommendation is once again to stop funding the CRBR.

The project aims to demonstrate that a commercial-scale liquid metal fast breeder reactor could be operated reliably and safely as part of a public utility electric supply system. Objections have been based on cost and safety grounds, on concern over proliferation of nuclear weapons materials, and on engineering and technical doubts. Some authorities assert that a French-designed breeder reactor is more highly developed and could be licensed in the United States with only minor design changes.

The five-year savings of almost $1.5 billion from a CRBR shutdown would be net, allowing an estimated $150 million for termination costs.

Accepting the President's recommendation with respect to fiscal year 1981 funding for the CRBR does not necessarily imply permanent rejection of the idea of having fast breeder reactors in the United States. In consequence, the savings achievable under this option might someday be overmatched by spending on more technologically advanced fast breeder reactors.

CLOSING THE CLINCH RIVER BREEDER REACTOR PROGRAM

GAO SUPPLEMENTARY DISCUSSION

GAO Views

The future of the Clinch River Breeder Reactor (CRBR) has been a matter of controversy between the executive branch and the Congress for several years. The surrounding issues are complex and are integrally tied to how the Nation views its future reliance on nuclear power.

Our primary concern is that CBO's analysis portrays the CRBR as an activity that can be shut off and then resurrected when the need arises. Similarly, the analysis implies that the CRBR is an isolated project having little relationship to other components of the breeder program. In this regard, it does not discuss the role CRBR or any demonstration plant has in an overall technology development strategy. A large portion of the underlying breeder reactor research and development program is geared to supporting the successful operation of a demonstration facility, in this case, CRBR. We believe that, without such a facility, the underlying technology program would not be adequately focused.

Moreover, there is a great deal of controversy and uncertainty surrounding if and when commercial breeder reactors will be needed in this country. Consequently, it is important that the United States be in a position to deploy this energy option if and when the need arises. The timing of the CRBR plant or any facility that might later replace it as the centerpiece of a U.S. breeder reactor program is crucial to our ability to commercially deploy this option if needed to meet long-term energy needs. Without such a plant to demonstrate to industry, utilities, and the public that breeder reactors can be operated safely, reliably, economically, and cleanly, the long-term ability of the United States to respond promptly to its electrical energy needs is threatened. In this regard, the CBO report does recognize that "savings achievable by terminating the CRBR might someday be overmatched by spending on more technologically advanced fast breeder reactors."

Over the past 5 years, we have reported to the Congress on various aspects of the CRBR and the entire breeder reactor program. Generally, these reports supported the need for the CRBR to continue. Our most current report, issued in May 1979, made the following observations:

--The CRBR is a logical and prudent step in developing breeder reactor technology.

--Eliminating the CRBR in favor of a larger plant at a later time may lead to increased costs to the Government and reduce public confidence in the safety of larger breeder reactor plants.

--If the CRBR is terminated, utilities may end active participation in breeder reactor development and the industrial capability to support a breeder technology may decrease significantly.

We are now reviewing the Department of Energy's management of the entire breeder reactor program and expect to issue a report to the Congress this summer. The report will address the effects of CRBR termination, among other things, on the overall breeder program.

Relevant GAO Reports

"The Clinch River Breeder Reactor--Should the Congress Continue to Fund It?," EMD-79-62, May 7, 1979.

"Comments on the Administration's White Paper: 'The Clinch River Breeder Reactor Project--An End to the Impasse'," EMD-79-89, July 10, 1979.

Modifications in Federal Compensation Practices — CBO Proposal

	Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
	1981	1982	1983	1984	1985	
Workmen's Compensation	5	14	27	44	63	153
Civil Service Disability	30	90	158	233	316	827
Civil Service Retirement	14	44	78	117	160	413
Total	49	148	263	394	539	1,393

In a series of reports, the General Accounting Office (GAO) has recommended stricter eligibility requirements for federal workmen's compensation and civil service disability, as well as certain technical changes that would reduce regular civil service annuities for future retirees. All the changes combined might reduce 1985 outlays for the affected programs by about 2 percent.

Federal Workmen's Compensation. GAO believes that this program is subject to abuse, both in the determination of initial eligibility and in the continuation of benefits. It recommends that the employing agency be allowed to appeal workmen's compensation awards and to require physical examinations by physicians chosen by the agency. GAO also recommends reinstating an initial three-day waiting period before any compensation is payable. These changes, according to some observers, would bring the program more in line with state workmen's compensation practices.

Civil Service Disability. A federal employee is eligible for civil service disability retirement if unable to perform one or more significant functions of his or her present job, whereas to qualify for Social Security disability the applicant must be unable to hold any gainful employment. The probability that males aged 30 to 50 will receive civil service disability is at least 50 percent greater than it would be if private sector standards were adopted. Outlay reductions resulting from stricter eligibility standards would not be large, since most disabled annuitants are also eligible for regular retirement; but there would be some general revenue increase, since fewer people would qualify for the tax advantage that accompanies disability retirement.

Civil Service Retirement. GAO notes that federal retirees benefit from cost-of-living increases that occur before they actually retire. Under current law, employees have the option of calculating their annuities as if they had retired before the previous cost-of-living adjustment. In addition, the first cost-of-living increase after retirement is not prorated to reflect the number of months in retirement status. The argument against changing this is that, because the retiree's benefit is based on the average of the three highest salary years, the practical effect in most instances is to make the penultimate year's salary the base, and consequently the present rules do not result in double adjustments for cost-of-living increases.

Modification in Federal Compensation Practices

GAO Supplementary Discussion

Federal Workmen's Compensation

GAO views. Employing agencies are presently not able to appeal any of Labor's Office of Workers' Compensation Programs (OWCP) decisions. During our review, agencies expressed concern over the present system. In many cases, the agencies stated in their administrative reports that the employee's injury was not incurred in the performance of his or her official duties, but OWCP later determined otherwise. Although OWCP clearly has the authority to make such a determination, employing agencies often believe that they have pertinent evidence which OWCP has not considered and that they should have the right to appeal OWCP's decision in such cases. In its comments, Labor stated that it is not true that OWCP ignores such evidence. Labor noted that OWCP procedures require that district offices explicitly take into account agency views and reconcile them with those of the claimant. Labor sees no need to alter the equity of the adjudication process by requiring employees to be subject to any undue evidentiary requirement, or to establish an adversary procedure among Federal agencies by providing the employing agencies with the right to appeal. We agree with CBO, and to help insure the quality of OWCP's determination of causal relation, we recommended that the Congress amend the Federal Employees' Compensation Act to place in the employing agencies the authority to appeal to the Employees' Compensation Appeals Board any finding of causal relation by OWCP or any OWCP decision continuing compensation benefits, which, in the employing agency's opinion, is inconsistent with or not supported by the available evidence.

Prior to the 1974 amendments to the Federal Employees' Compensation Act, employees had to wait 3 days before receiving compensation, but, under continuation of pay, this 3-day wait was moved to the end of the 45-day period. Removal of the waiting period, in conjunction with requiring employing agencies to automatically continue an employee's pay--except for nine specific reasons has encouraged employees to file claims for minor and frivolous injuries and for injuries of short duration. We randomly selected 410 continuation-of-pay claims--a statistically valid sample--from seven Labor district offices. Based on the duration of the injuries in this sample, a medical consultant's analyses, and other available factors, we believe that as many as 46 percent of all claims might have been eliminated by a 3-day waiting period. The evaluation showed that about 37 percent of the claims (149 of 410) were minor or frivolous and about 9 percent (38 of 410) were not considered minor or frivolous, but,

because they lasted only 4 to 7 calendar days, would probably have been eliminated if a waiting period had been in effect. We believe that reinstatement of the 3-day waiting period before continuation of pay would reduce the overutilization of the compensation system, thereby allowing claims examiners to expeditiously process more serious claims; significantly reduce compensation costs to the taxpayer; increase worker productivity; and raise worker morale.

The 1974 amendments also gave employees the option to select a physician of their choice for care and treatment. Our review of this provision showed that employing agencies need the authority, if there is a question about the initial diagnosis of an employee's injury or the length of disability resulting from that injury, to require an employee to be examined by a Federal medical officer or a physician designated by the Secretary of Labor. Employing agencies need to contact and work more actively with employees' private physicians. We believe that this would result in employees returning to work earlier. Our analysis of a random sample of 410 claims to determine the effect of the free-choice-of-physician provision showed that, without employing agency controls, the provision has contributed to abuse of continuation of pay. About 20 percent of the claims (80 of 410) appeared abusive either in occurrence, job relatedness, or duration. In about 20 percent (81 of 410) light duty could have been more effectively utilized in returning employees to work.

Relevant GAO Reports. HRD-78-119 September 28, 1978; HRD-79-80 June 11, 1979.

Civil Service Disability

GAO views. GAO reports on Civil Service disability recommend numerous changes to remedy shortcomings in the law, policies and administration of the program. While our recommendations often centered around eligibility, we have not recommended that private sector or Social Security qualification standards be applied to Federal disability retirees.

We do not have an estimate of the savings in outlays that would occur if our recommendations were adopted, but we believe they would be significant. Figures of the Office of Personnel Management showed that in 1978 only 29 percent of the 26,200 disability retirees were eligible for regular retirement. Based on our work it is highly doubtful that all disability retirees were incapable of further Government service.

Relevant GAO Reports. FPCD-76-61, November 19, 1976; FPCD-78-48, July 10, 1978.

Civil Service Retirement

GAO views. GAO believes that new Federal retirees' cost-of-living adjustments should be prorated to include only the increase that occurs after retirement. The present process overcompensates retiring employees since, by law, they can receive a higher starting annuity which reflects the preceeding cost-of-living adjustment granted while they were still employed and, depending on the timing of their retirement, they may be eligible for an additional adjustment immediately upon retirement. Such increases escalate the already high costs of Federal retirement by inflating the basic annuity upon which succeeding adjustments are applied and can encourage valuable, experienced employees to retire. We estimated that a change in law to require prorating would save over $800 million in annuity payments over the remaining lifespans of civil service employees retiring in 1978 along. This was a different approach of estimating savings than used by CBO, but their estimates appear reasonable.

If this change were adopted, the Federal cost-of-living adjustment process would still be more generous than those of non-Federal pension plans and more consistent with those provided by the social security program. Federal retirees are the only groups of which we are aware who receive unlimited cost-of-living adjustments automatically twice a year.

Relevant GAO Reports. FPCD-76-80, July 27, 1976; FPCD-78-2, November 17, 1977

Elimination of Farm Deficiency Payments

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
0	914	1,049	353	111	2,427

Since 1965, the level of price support for major export commodities--wheat, feed grains, cotton, and rice--has been gradually adjusted downward to world price levels. As part of a planned, gradual adjusment process, deficiency payments have been made to participating farmers whenever the market price of a commodity falls below its target price. In recent years, farmers have demonstrated a willingness and ability to supply the needs of consumers at prevailing world prices. Therefore, deficiency payments have largely fulfilled their function and some believe that they could now be eliminated without detriment to U.S. agriculture. Elimination of deficiency payments could result in savings of $2.4 billion over the next five years.

Those who support elimination of these payments argue that three other components of the agricultural programs--price support loans, a multiyear storage program, and acreage diversion payments--could probably hold farm production and income within reasonable bounds. Furthermore, they believe that deficiency payments concentrated in the hands of a few large-scale farmers tend to be capitalized into land values, making it more difficult to enter farming and resulting in higher food prices.

Proponents of deficiency payments argue that they are needed to induce farmers to take land out of use when surplus production threatens. In their judgment, price support loans, the storage program, and acreage diversion payments would not, by themselves, offer a sufficient incentive to farmers to participate in commodity programs and thereby help stabilize agriculture prices and supply.

Elimination of Farm Deficiency Payments

GAO Supplementary Discussion

GAO Views GAO has no view on whether farm deficiency payments should be eliminated. Because farm programs are very complex and have a significant impact on such a vital industry as agriculture, GAO believes that these payments should not be eliminated without a thorough study. In the last 15 years, the level of price supports for major commodities has been adjusted to world price levels resulting in a significantly larger export market for U.S. agricultural products.

Conversely, due to pervasive inflation, the increase in farmers' production costs has been proportionately greater than increases in farm commodity prices. Thus the farmer is often caught in a price-cost squeeze which may cause substantial financial difficulties in the agricultural sector unless some form of farm income assistance is available. It is questionable whether, in most years, the increases in production costs would be offset by the effects of production control programs, improved yields per acre, additional export markets, and the grain reserve program thus resulting in a strong and financially healthy agricultural sector without the need for a farm income support program.

GAO believes that deficiency payments can be reduced somewhat, without jeopardizing the economic viability of the farm structure, by effectively administering the deficiency payment programs and other farm programs, such as the payment limitation program and the set-aside program, which are related to the deficiency payment program.

Relevant GAO Reports CED-77-57, CED-77-77, CED-79-24, CED-79-31, CED-79-85, CED-80-9, CED-80-48

CBO Proposal

Reduction of Soil and Water Conservation Program

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
94	128	147	158	169	696

Total federal outlays in fiscal year 1981 on the construction of erosion control facilities and the channeling of streams will be about $585 million under current law; part of this spending is for obsolete programs begun in the days of the Dust Bowl and chronic Appalachian erosion. Today, most soil erosion problems result primarily from modern farming practices. Elimination of obsolescent soil and water conservation activities could result in savings of roughly $146 million in 1981 and $775 million over the next five years. These obsolescent activities, in particular the channeling of streams, destroy needed wetlands, which other federal programs attempt to preserve. Wetlands have become much more valuable to society in recent years because of their relative scarcity, their importance to wildlife and water quality, and their ability to store fresh water or maintain water tables.

In many cases, the value of incremental agricultural production from drained land probably does not justify the required public investment. Even in those cases where direct economic benefits can be shown, the total benefits of such projects may not outweigh the economic costs, plus the detrimental effects on wildlife, water storage, and water quality, according to some analysts.

Proponents argue that unquantifiable benefits to local residents and to future generations justify continuation of the challenged programs.

Reduction of Soil and Water Conservation Program

GAO Supplementary Discussion

GAO Views GAO cannot tell what obsolescent soil and water conservation activities and what specific channelization activities were considered and included in the savings estimate. GAO is therefore unable to give an opinion as to the validity of CBO's estimated savings or whether certain activities are, in fact, obsolete and should be eliminated.

However, GAO did issue a report to the Congress on February 14, 1977, which made recommendations to the Congress and to the Secretary of Agriculture aimed at improving the effectiveness of controlling soil erosion on agricultural lands. In that report GAO said that:

> "If the Congress wants to stop the shift away from needed soil conservation practices and prevent the widespread cost-sharing of practices that are oriented more toward stimulating agricultural production and financially benefitting farmers, it should place more emphasis on the funding of critically needed enduring conservation practices by limiting or prohibiting Federal spending for other kinds of practices currently authorized by law."

In consonance with that recommendation, the Department of Agriculture's appropriation acts for fiscal years 1979 and 1980 said that funds for the Agricultural Conservation Program "will not be used for carrying out measures and practices that are primarily production-oriented or that have little or no conservation on pollution abatement benefits."

Also, in a February 8, 1979, report to the Congress, GAO referred to the conflict between Federal programs to drain wetlands and those to preserve wetlands, pointed out the benefits of preserving wetlands, and concluded that wetland drainage is not necessary to meet the Nation's food and fiber needs.

Relevant GAO Reports CED-77-30, PAD-79-10

Modification of Indexation of Federal Programs

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
3,500	3,500	5,700	7,600	9,700	30,000

Some people contend that the Consumer Price Index (CPI) exaggerates the rise in the cost of living because of an inappropriate measurement of home ownership costs. If a different index, modified to correct for such distortions, were promptly adopted as the measure for adjusting federal benefits now tied to the CPI, outlay savings over the next five years could be about $30 billion. The affected programs would be Social Security, railroad retirement, Supplemental Security Income, veterans' pensions, and military and civil service retirement, with about 44 million primary beneficiaries plus their dependents.

If the modified index did not go into effect until the benefit adjustments due to be made in 1981, the switch could mean higher rather than lower federal outlays for several years. The reason for this is that, according to CBO projections, the CPI will increase at a slower rate than the modified CPI, while the reverse would hold for 1980 and the 1982-1985 period. Of course, such projections are subject to great uncertainties. If each index were to rise as projected, however, and if the CPI was used for 1980 benefit adjustments and the modified index for benefits in 1981 and later years, there would be higher costs until about 1984, compared to making no switch at all. If the switch were delayed until the adjustment due in 1982, the cumulative savings through 1985 would be reduced to about $10 billion.

The goal in indexing benefits is to permit beneficiaries to enjoy the same standard of living they could "buy" when they first became beneficiaries, despite subsequent rises in the cost of living. Consequently, the most accurate and representative indexing method should be used. But analysts disagreed as to the "best" index for the purpose. Furthermore, some analysts assert that use of the CPI has not meant overcompensating most beneficiaries for inflation. They argue that the combination of indexed benefits and unindexed other income has at best meant that the total standard of living for beneficiaries has stayed even, and that many have suffered a real decline in recent years.

Modification of Indexation of Federal Programs

"GAO Supplementary Discussion"

GAO Views. The contention that the Consumer Price Index (CPI) may contain an inappropriate methodology for measuring the costs of homeownership finds wide support among many economists. As it is now constructed, the CPI measures the effect of price change on the consumer, as if a consumer purchased a house every month. The basis for the criticism of this methodology is that it does not account for the fact that many homeowners have fixed monthly mortgage payments and thus are not affected by rising house prices and interest rates. This leads some people to conclude that the CPI overstates the effect of inflation on consumers purchasing power. It then follows that indexing Federal expenditures, such as Social Security benefits, to the CPI results in benefit recipients receiving larger increases than are necessary to maintain their standards of living. Unwarranted Federal expenditures are the result.

With respect to CBO's estimates of budgetary savings, several points should be emphasized:

First, the budgetary savings figures should be interpreted with great care. The projections and assumptions used by CBO make the resulting estimates highly conjectural. For instance, depending on the concept upon which the modified index is based, the figures can vary widely. The Bureau of Labor Statistics has recently published five alternative indexes based on different concepts of homeownership cost measurement. These figures show that, in a given year, the rate of price change measured by the different indexes can vary substantially.

Secondly, differences in the rates of price change measured by a modified index and the current CPI also vary over the course of the business cycle. For instance, when interest rates are rising the modified index might increase at a slower rate than the current CPI. Alternatively, when interest rates begin to fall, the modified index might not decrease at as fast a rate as the current CPI. If the timing of the index change occurs when interest rates are at a cyclical peak the budgetary savings may be short-lived. As interest rates fall the use of the modified index may actually result in increases in Federal expenditures beyond what would occur if the current CPI were maintained. It is entirely

possible that, in the long run, retaining the current CPI may result in smaller increases in budgetary expenditures compared with adopting a modified index.

Finally, it must be emphasized that any decision to change the CPI methodology or the index that is used to adjust expenditures should be based solely on grounds of technical merit.

Relevant GAO Report. PAD-79-22.

Better Targeting. Outlays could be reduced by targeting benefit payments and subsidies on those persons and jurisdictions that need them most, and by reducing or eliminating awards to others.

Modifications in Trade Adjustment Assistance

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
150	200	250	250	250	1,100

Workers who lose their jobs because of foreign competition, and thus qualify for Trade Adjustment Assistance (TAA) payments, currently receive both TAA and unemployment insurance benefits. The General Accounting Office has suggested that TAA payments be limited to those who have exhausted their unemployment benefits and be payable at the same level as the unemployment benefits. This approach could save almost half of current program expenditures, now projected to be $2.35 billion over the next five years.

Assuming continuation of past trends, those most likely to be affected by the change will be in blue-collar occupations in manufacturing industries, notably apparel, textiles, coal, leather, transportation equipment, electronics, and steel.

The argument for the change is that TAA recipients should not receive more generous payments because they happen to be unemployed for a specialized reason. The counterargument is that higher tariffs could prevent this type of unemployment, but would be costly to consumers generally. Special TAA benefits are therefore justified as compensation for those who must pay the price of the government's policy of lowering trade barriers.

Aside from budgetary savings, the proposed changes could well improve the functioning of labor markets. TAA, like other unemployment-based assistance programs, creates a disincentive for seeking work, an effect probably magnified in TAA's case by the greater relative size of the payments. The likely result is to deter workers from seeking jobs in other industries, thus bolstering their attachment to a single industry and vitiating the adjustment goals the program is intended to attain.

Modifications in Trade Adjustment Assistance

GAO Supplementary Discussion

GAO Views. GAO has issued several reports to the Congress on trade adjustment assistance to workers. The latest report, issued on January 15, 1980, assessed the worker adjustment assistance program nationwide and found that weekly cash payments have helped few import-affected workers adjust to the changed economic conditions during their layoff because the payments were received by most in the form of a lump-sum payment after they had returned to work. The various processing delays that caused late payments to a great extent are inherent in the design of the program. Furthermore, most workers indicated that they experienced no severe economic hardship as a result of their layoff--which for most was not permanent--and were able to rely on regular unemployment insurance benefits and other income sources to meet their financial needs.

This was not the case for all workers. Some remained unemployed even after exhausting their unemployment insurance benefits. In our opinion, the adjustment assistance program should be targeted to these workers. Such an approach would target program benefits to workers experiencing long-term unemployment or permanent job loss and, at the same time, save millions of dollars now paid--often retroactively--to workers who do not experience permanent unemployment, most of whom return to work before exhausting unemployment insurance benefits. In addition, this approach would provide a longer period of income protection for those who experience the most difficulty in finding employment.

GAO recommended that the Congress amend the Trade Act of 1974 to require that import-affected workers exhaust unemployment insurance benefits before receiving up to 52 weeks of cash payments under the Trade Act. To minimize the possibility that the additional weeks of income protection under this approach would provide a disincentive to employment, GAO also recommended that the act be amended to provide that Trade Act benefits be continued at an amount comparable to that received under unemployment insurance, rather than 70 percent of a worker's average weekly gross wage as now prescribed.

In the report GAO estimated that at least $165 million would have been saved if workers would have been required to exhaust unemployment insurance benefits before receiving Trade Act cash payments. That estimate was based on workers eligible for benefits under petitions certified by Labor as of December 1977. However, the universe of petitions from which GAO drew the sample excluded petitions covered by previous GAO reviews (petitions in various industries in the New England states, some petitions involving Pennsylvania apparel workers, and some petitions covering workers in the auto industry). The savings would have been somewhat more if also projected to these workers.

Recent Labor data indicates that the number of workers filing for benefits increased substantially during the past two years. Therefore it is reasonable to assume that potential savings which would result from adopting GAO's recommendations are substantially more than estimated in GAO's report. GAO has not formally projected potential savings through 1985, but we have no reason to dispute CBO's projections.

Relevant GAO Reports. HRD-80-11, HRD-78-153, HRD-78-53, HRD-77-152, ID-77-28.

Modifications in Child Nutrition Programs

CBO Proposal

	Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
	1981	1982	1983	1984	1985	
School Lunches	300	325	355	390	430	1,800
Food Stamps	1,180	1,312	1,400	1,460	1,530	6,880

Under current law, children from families with incomes of up to 125 percent of the Department of Agriculture's poverty guidelines may receive free school lunches, which the federal government subsidizes at $1.21 each. In fiscal year 1981, this means that a family of four with income up to $10,050 may receive an annual lunch subsidy of about $220 for each child enrolled in a participating school. Children from families with incomes between 125 and 195 percent of the poverty level pay 10 cents for their lunches, with the federal government contributing $1.10, or about $200 per child annually. For all those above 195 percent of the poverty level ($15,700), the government pays a subsidy of about 36 cents per meal, or $65 annually for each participating child.

This proposal would target subsidies more directly to low-income children, who also tend to benefit the most nutritionally. Free lunches would be available to families with annual incomes of up to $8,900; lunches priced at 10 cents would be available up to $14,090; and the annual federal subsidy to families with incomes above that amount would be reduced by $9 per child. Under the proposal, federal costs could be reduced by about $300 million in fiscal year 1981 and the five-year savings could reach nearly $1.8 billion.

While there would be some reduction in the numbers of children participating under the proposal, this would not be likely to have any significant nutritional impact. Studies have shown that participants in the income ranges that would be most adversely affected by the proposal have no better diets than nonparticipants.

Savings could be further increased, up to $1.5 billion a year by 1985, if the present duplication of school lunch and food stamp subsidies were ended. Food stamp benefits are calculated

on the assumption that all family members eat three daily meals at home. School lunch subsidies aim to meet one-third of a child's daily nutrition requirement. About 43 percent of the households benefitting from the food stamp program also participate in the school lunch program. The effect of the overlap is to subsidize four instead of three meals daily for about 6.8 million children.

MODIFICATIONS IN CHILD NUTRITION PROGRAMS

GAO SUPPLEMENTARY DISCUSSION

GAO Views

GAO has not made an independent cost analysis of the proposed modifications in the child nutrition programs so it cannot estimate the potential cost reduction. It agrees, however, that the potential cost reduction is significant. GAO did not confirm the evidence supporting the statement that the modifications will not be likely to have any significant nutritional impact on children dropping out of the program. GAO's research of available studies has shown that the school lunch program's nutritional impact has not been measured. The Department of Agriculture, however, is undertaking a broad-based evaluation study of this program which should lead to more conclusive evidence.

Regarding the possible $1.5 billion annual savings by eliminating the duplication between food stamp and school lunch subsidies, GAO agrees that substantial savings might be possible by eliminating this duplication. Based primarily on fiscal year 1976 information, GAO estimated in a June 13, 1978, report that the duplication would be about $111 million, but this estimate was intentionally conservative. All the assumptions on which GAO's calculation was based were made so as to avoid overstating potential savings; different assumptions would significantly increase the savings estimate. Other factors--growth in program participation and increased food costs and benefits--which have changed and will change dramatically between 1976 and 1985 would also increase the estimated savings. GAO has not evaluated the details behind CBO's estimated savings but believes that the general principle on which it is based--overlap between food stamp and school lunch benefits--is valid. Further overlaps--and potential savings--are available regarding the summer food service, child care feeding, free special milk, and breakfast programs. GAO has no estimates of what such potential savings might currently amount to.

Relevant GAO Reports CED-78-113, CED-79-5

Reduction of Funding for Youth Employment Programs

	Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
	1981	1982	1983	1984	1985	
Youth Conservation Corp	56	58	61	63	66	304
Young Adult Conservation Corps	227	292	318	344	374	1,545
Summer Youth Employment Program	264	424	463	501	543	2,195
Total	547	774	842	908	983	4,054

The Youth Conservation Corps (YCC) and the Young Adult Conservation Corps (YACC) in combination provide 25,000 year-around and 40,000 summer jobs to young people aged 15 to 23, irrespective of family income levels. The Summer Youth Employment Program (SYEP) provides an additional 750,000 summer jobs for young people who qualify as "economically disadvantaged." Youth in YCC and YACC work mostly on conservation projects involving state and federal lands, while those in SYEP undertake a variety of projects determined largely by Comprehensive Employment and Training Act (CETA) prime sponsors. Although the projects undertaken in these programs generally yield tangible benefits and give the young people an acquaintance with the demands of real work (promptness, for example), most of the activities would probably be classified as nonessential, and they generally do not include useful training.

If the YCC and YACC programs were completely eliminated, and if funding for the SYEP were cut by 50 percent, the cumulative five-year savings through 1985 would be about $4.1 billion.

The immediate consequence of funding cuts would obviously be a loss of jobs and income. While the year-around youth unemployment rate would rise by only 0.4 percentage point, the effects during the summer would be more serious, particularly in inner-city neighborhoods.

The argument for eliminating the YCC and YACC programs is that they are not targeted on people in financial need, and that the work performed through the programs, if it is worth doing, should be financed in the regular budgets of the state and federal agencies involved. The argument for reducing SYEP funding is that its apparent underlying purpose--averting urban unrest during summer school vacation periods--can be accomplished without such large federal expenditures. Furthermore, because they lack an organized training component, SYEP jobs provide few, if any long-term benefits for the participants.

Reduction of Funding for Youth Employment Programs

GAO Supplementary Discussion

GAO Views. GAO has not reviewed the Youth Conservation Corps (YCC) or the Young Adult Conservation Corps (YACC) and cannot comment on potential savings or problems that may arise from elimination of these two programs.

GAO's February 20, 1979, report evaluated the extent to which the 1978 summer youth program provided a meaningful work experience and was targeted to disadvantaged areas and groups at seven locations across the country. GAO found serious problems in the work experiences provided to youth especially at urban locations. Rural locations fared much better because the worksites were smaller and, thus, more manageable than the urban sites and because rural supervisors had a better understanding of program objectives. GAO did not recommend that the summer youth employment program be curtailed, but did recommend that it not be expanded until it had been improved. The program had grown steadily since 1975 when about $391 million was obligated to 1978 when $755 million was obligated. A very limited GAO follow up report on corrective actions taken by Labor for the 1979 summer program, as well as a report by Labor's Inspector General, showed that improvements had been made in program operations.

GAO's February 1979 report did not assess potential monetary savings or possible problems that may occur from reducing the size of the summer program. However, a potential source of savings not mentioned by CBO may be available from reducing the amount of unobligated funds carried over by prime sponsors from one year to the next. Labor estimated that unobligated carry-over from the 1979 to the 1980 program was $49 million.

Relevant GAO Reports. HRD-80-39, HRD-79-45, HRD-78-123, HRD-77-121, HRD-77-18.

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Termination of Certain Social Security Benefits

CBO Proposal

	Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year
	1981	1982	1983	1984	1985	Savings
Phase Out Student Benefits	200	800	1,400	1,900	2,100	6,400
Phase Out Survivor Benefits for Parents of Children Aged 16 and 17	25	90	500	525	535	1,675
Eliminate Minimum Benefit	65	135	160	205	225	790
Eliminate Lump Sum Death Benefit	165	190	220	250	290	1,115
Totals	455	1,215	2,280	2,880	3,150	9,980

Both the Ford and the Carter Administrations have recommended phasing out Social Security student benefits, which are payable to unmarried dependents between 18 and 21 if they are full-time students. (Dependent benefits otherwise stop at age 18.) The entitlement was created in 1965 legislation and is not based on need. The Congress has greatly expanded other forms of student assistance since 1965; phasing out the Social Security benefit would eliminate some duplication of payments.

In his 1980 budget, President Carter proposed phasing out the survivor benefits for parents of children aged 16 and 17, eliminating the minimum benefit, and eliminating the lump sum death benefit. None was enacted by the Congress.

Survivor benefits are paid the parent (typically, the mother) of children until they reach age 18. If the parent's benefit (but not the children's) was stopped when the dependent turned 16, annual savings would by 1985 exceed $500 million. The change is based on the assumption that the parent of a child aged 16 or 17 is not homebound and can join the work force.

The minimum benefit is usually paid to retirees who spent most of their working careers in noncovered employment, typically in government. Many of those eligible for the minimum benefit have earned pensions under other programs. Those actually in need could be directly protected by Supplemental Security Income (SSI) and other welfare programs.

This lump sum death benefit ($225) is paid to all surviving families. Where the need exists, the SSI program is an alternative method by which this support could be provided.

Termination of Certain Social Security Benefits

Eliminate Minimum Benefits

GAO Supplementary Discussion

GAO Views.

Congress can save the Social Security trust fund $695 million in fiscal years 1981 through 1985 by approving the President's proposal to eliminate the minimum benefit provision of the Social Security Act for new beneficiaries.

The minimum benefit provision, intended to help the poor, has in recent years mainly benefited retired government workers with pensions and homemakers supported by their spouse's incomes. Our study of beneficiaries who were awarded minimum benefits during 1977 showed approximately 44 percent of sampled beneficiaries received no additional income from the minimum provision because of offsets required in other Federal programs. More than half of the remaining 56 percent had income or support from other sources.

The need for the minimum benefit was greatly reduced in 1974 with the enactment of the Supplemental Security Income program. This program established a Federal minimum income level for the aged, blind, or disabled. Before the program, the minimum social security benefit may have been the only source of income for many people, but now most needy elderly are eligible for Supplemental Security Income.

A few minimum beneficiaries are not eligible for the Supplemental Security Income program even though they may be needy. This group includes individuals who selected early retirement and widows/widowers aged 60 through 64. They are not eligible for the Supplemental Security Income program because they are not aged, blind, or disabled. The President's proposal could be amended to authorize a limited Supplemental Security Income payment which would replace the lost portion of the social security benefit provided they are needy and otherwise meet the program's eligibility requirements except for age.

If the minimum benefit provision of the Social Security Act were eliminated, our work shows that the net savings to the Government would be $455 million for fiscal years 1981

through 1985 after a $240 million increase in Supplemental Security Income to replace the portion of the social security benefit lost.

Relevant GAO Reports.

Minimum Social Security Benefit: A Windfall That Should Be Eliminated (HRD-80-29, 12-10-79)

Termination of Certain Social Security Benefits

Phase Out Student Benefits

GAO Supplementary Discussion

GAO Views.

Congress should amend the Social Security Act to discontinue payments to post-secondary students and take the necessary steps to assure that the Office of Education will have sufficient financial resources to meet any increased demand for aid arising from discontinuance of these benefits.

This program is an unnecessary burden on the trust funds. During the 1977-1978 school year, it diverted $1.5 billion and is expected to divert $2.2 billion in 1979-1980, with estimates of greater costs in the future. Student benefits are being paid while, even after imposition of increased taxes upon Social Security contributors, there is doubt the system can fulfull its basic purpose without still further increases.

Our report also supports a phase out of the student benefits program because it:

--duplicates financial assistance provided by other programs paying education benefits, and

--gives many students more money than their school costs warrant, inequitably curtails--or bars altogether--benefits to other students, and deprives nonstudents.

Since the Social Security student benefits program was first enacted, many other forms of student assistance have been made available to students. These other student aid programs are a more appropriate method of providing assistance to post-secondary students.

We agree with the Congressional Budget Office that significant savings can be achieved if the student benefit program were terminated. Were student benefits to post-secondary students to be terminated effective fall 1980, our work shows that the estimated net first year savings to the Social Security taxpayers would be $1.4 billion, and the net savings to all taxpayers in that year would be about $1.1 billion.

If the program were to be phased out over a 5-year period--fiscal years 1981 through 1985--the estimated savings to the trust fund would be $4.8 billion. Net savings to the taxpayer for the same period would be $3.9 billion after an increase in cost to the Office of Education Basic Grant Program to meet any increased demand for aid arising from discontinuance of Social Security student benefits.

Relevant GAO Reports.

Social Security Student Benefits for Post-Secondary Students Should Be Discontinued (HRD-79-108, 8-30-79)

Termination of Certain Social Security Benefits

GAO Supplementary Discussion

GAO views. GAO has recommended that noncontributory social security wage credits for military service be phased out. Congress, in recognition of the low pay for first-term military members during the draft era, authorized a free social security wage credit of $1,200 per year for members whose social security taxable earnings were below the taxable earnings ceiling. Congress' intent when the credit was first enacted appeared to be to maintain adequate disability and survivor protection by making up for the decreased earnings and low social security contributions of the typical individual who was drafted and served one term before returning to civilian life and a higher paying job. Career members were not expected to receive the credit because their pay was expected to be more than the taxable earnings ceiling.

In recent years, however, the earnings ceiling has increased faster than military pay and now nearly all of the active duty force receives the credit. We conservatively estimate that these credits will eventually result in additional social security outlays of over $100 million annually as military retirees who entered the service after 1956 become eligible for old age benefits. In view of the fact that the noncontributory credits have outlived their usefulness we recommended that they be discontinued for future military service.

Relevant GAO Report. FPCD-79-57, August 8, 1979.

Reduction of Funding for EPA Construction Grants

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
0	420	732	973	1,030	3,155

The Environmental Protection Agency (EPA) makes grants to states and municipalities for the planning, design, and construction of wastewater treatment facilities. EPA usually provides 75 percent of the construction costs, and 85 percent if the project involves innovative technology. Because the states must use or lose their allocated funds within specified periods, the projects receiving funding are those "ready-to-go," rather than those higher up on the priority ranking but not yet ready. The result is that about 26 percent of all EPA construction grant money ($22.5 billion between 1973 and 1979) may have been used for lower-priority projects. If funding eligibility were limited to three project types--secondary treatment projects, advanced waste treatment projects, and new interceptor sewers--and if the use or lose period were lengthened, federal funds could be more effectively used, even with a 26 percent cut in the program.

The counterargument is that most of the lower-priority projects ought to be constructed eventually. The consequence of reduced EPA funding would be a stretching out of the period before "point sources" of pollution would be controlled. At the current rate of obligation, that period is about 40 years. While states and municipalities might still construct the projects no longer covered, they would have to bear the costs involved.

REDUCTION OF FUNDING FOR EPA CONSTRUCTION GRANTS

GAO Supplementary Discussion

GAO Views: We have serious reservations with CBO's position. CBO bases its cost estimate on the assertion that 26 percent of the projects funded are not yet ready for construction. We are not aware from our previous work that this situation is occuring. Also, it is not clear how CBO has estimated the five-year savings figures.

CBO is proposing that EPA fund only secondary treatment projects, advanced waste treatment projects, and new interceptor sewers. If this were done, other projects which could have a significant impact on water pollution would not be funded. Such projects would include those to (1) correct infiltration/inflow problems, (2) rehabilitate sewers, (3) construct new collection sewers, (4) control combined sewer overflow problems, and (5) treat and control storm waters. These types of projects may represent a more cost-effective approach to pollution control than the construction of the three types of projects CBO is suggesting.

Our audit reports have addressed the question of savings potential and have suggested cost saving projects and practices. We have recommended that better planning data be obtained before the decision is made to construct costly treatment plants; that septic system be given more consideration during facility planning; that inexpensive best management practices techniques be used as alternatives to costly combined sewer overflow projects; and that some treatment plants not be built if they do not substantially improve water quality.

Relevant GAO Reports: CED-80-40, December 28, 1979; CED-78-167, December 11, 1978; CED-78-177, November 13, 1978; CED-78-168, November 3, 1978; CED-78-76, May 12, 1978; CED-78-6, December 20, 1977.

Reduction of Funding for Impact Aid

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
250	325	350	400	450	1,775

For many years, administrations and the Congress have argued over Impact Aid (also known as School Assistance for Federally Affected Areas); the principal controversy has been over whether to continue compensating local school districts for children whose parents either live or work on federal property, but not both. In recent years, the Congress has lowered expenditures for such children, but outlays on their behalf, about $250 million a year, still go to 4,100 school districts. If the payments were eliminated altogether, savings over the next five years would approach $1.8 billion, or about one-third of the projected outlays if the program were unchanged.

The case for the reduction is that the local school districts involved are not necessarily losing tax revenue or experiencing financial hardship because of the federal presence, since the parents either live or work on local taxable property. Indeed, areas with substantial numbers of highly paid federal workers may have their property values enhanced by the federal presence. Furthermore, in some states the infusion of federal dollars serves only to reduce the amount of state aid alloted under state equalization programs.

The counterargument is that termination of the program would cause financial and budgeting shocks in the affected districts, some of whom receive almost 7 percent of their education funding from this source (although for most the payment is 2 percent or less).

REDUCTION OF FUNDING FOR IMPACT AID
GAO Supplementary Discussion

GAO Views. In an October 1976 report to the Congress we presented an economic analysis of fiscal year 1973 impact aid data from 1,671 local education agencies. This analysis showed that without impact aid 48 percent of the agencies would need property tax increases of less than 5 percent and 18 percent would need increases of 5 to 10 percent. At the upper extreme, 15 percent of the local agencies without impact aid would need property tax increases of 25 percent or more. A 1977 updated analysis of fiscal year 1976 data showed similar results.

Relevant GAO Reports. Assessment of Impact Aid Program (HRD-76-116, Oct. 15, 1976). Letter report to Chairman and Ranking Minority Member, Subcommittee on Elementary, Secondary, and Vocational Education, House Committee on Education and Labor (HRD-78-132, July 13, 1978).

CBO Proposal

Elimination of Farm Disaster Payments

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
0	0	560	560	560	1,680

The Congress has provided disaster payments to producers of wheat, feed grains, cotton, and rice for several years. If pending leigslation is enacted, disaster payments will be made available through the 1981 crop year, while expansion of a subsidized federal crop insurance program is also underway. These programs are partly duplicative. Elimination of disaster payments after the 1981 crop could result in cumulative five-year savings of about $1.7 billion.

Disaster payments encourage crop production in high-risk regions that are not ideally suited to farming. They tend to be distributed to a very few producers, who often receive payments on a regular basis; and their availability discourages participation in crop insurance programs.

Elimination of disaster payments would have varied effects. Some farmers in high-risk producing regions would not be able to afford federal crop insurance, even at subsidized premium rates. Others would seek diversification, such as livestock production, as an alternative to specialized crop farming.

The savings that would accrue from the permanent elimination of disaster payments could be used to subsidize crop insurance premium rates, thus spreading the benefit over many more farmers than under the present arrangements. Alternatively, the savings could benefit taxpayers generally, with crop insurance premium rates set to spread overall costs to farmers rather than reduce them.

Elimination of Farm Disaster Payments

GAO Supplementary Discussion

GAO Views Legislation to expand the Federal crop insurance program and repeal the Department of Agriculture's crop disaster payment program would shift most of the disaster protection cost from the taxpayers to the primary beneficiaries--the producers. In 1976 the Department of Agriculture estimated that this would save the Government $259 million annually. In a May 4, 1976, report to the Congress, GAO said that it believed that such legislation had considerable merit. GAO recognized, however, that there were various options as to the Federal role in agricultural disaster protection.

The current Federal crop insurance program would provide little economic relief in the event of widespread crop failure. The program is ineffective primarily because guarantees and premiums, set on a county or areawide basis, are excessive for some producers and too low for others.

In a December 13, 1977, report to the Congress, GAO recommended that the Secretary of Agriculture and the Federal Crop Insurance Corporation's Board of Directors develop personalized rates and guarantees on the basis of individual producers' annual yield data.

GAO agrees with CBO that there is a potential for savings by replacing the disaster payments program with an insurance program but has no current estimate of the amount of such savings.

Relevant GAO Reports RED-76-91, FOD-77-7

Shifting Responsibility to State and Local Governments. Some of the activities of the federal government arguably could be better performed, or properly should be performed, at the state or even the local level, where there can be more responsiveness to particular situations and a more direct accounting to the electorate, and where there may also be more ability to foot the bill.

STRATEGY III: SHIFTING RESPONSIBILITY TO STATE AND LOCAL GOVERNMENTS

Limiting of Federal Highway Aid

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
200	900	1,600	2,000	2,100	6,800

Expenditures on the Federal Aid Highway System will ave $8.5 billion a year during the next five years. If fed responsibility were limited to the Interstate System, to primary road system (which with the Interstate System form integrated national network), and to bridge replacement, 1981-1985 savings would approach $7 billion, and savings woul future years exceed $2 billion annually.

The effect would be to shift back to the states the responsibility for a variety of highway programs, including secondary road system, urban roads, pavement marking, remova hazards, rail-highway crossings projects, and the 3-R prc (resurfacing, rehabilitation, and restoration).

One argument for such a change is that the states are able to decide for themselves the standard of convenience safety they wish to achieve on their local road systems well as to raise the funds to meet whatever standards they ch Each 1 cent in gasoline taxes applied nationwide raises abo billion. A uniform 2.5 cent increase in all states would ma for the loss of federal grant funding under this option.

A majority of all states—28—have not raised their gas tax rates since the OPEC price rises began in 1973. Their av tax rate per gallon is 7.7 cents. The average in the 23 j dictions that have had tax increases in the last seven yea 9.5 cents. Whereas state gasoline taxes accounted for abo percent of the price of gasoline in 1973, the current sha about 7 percent. One apparent effect of the federal hi grant program is to permit state legislators to avoid ra gasoline taxes to pay for the nonfederal highway programs favor.

An argument against such a change is that the nation's road network, from the interstate highways to the least-traveled back road, should be regarded as a whole, and that a loss of federal funding for the local parts of the whole will have adverse national effects in terms of transportation costs and lives lost.

LIMITING OF FEDERAL HIGHWAY AID

GAO Supplementary Discussion

GAO VIEWS

While we have issued no reports relating directly to limiting highway aid to specific programs and the related ramifications of such limitation, we have issued three reports (listed below) which indirectly relate in that they discuss the deteriorating highways and the States' abilities and efforts to preserve them.

The CBO report recommends limiting Federal responsibility to the interstate system, the primary system and bridge replacement. Would this responsibility be limited to the existing Federal responsibility--primarily, construction--or should it be increased to include preservation activities which are now the States' responsibility? If such responsibility is expanded, the savings would be reduced and perhaps eliminated. In fact, inflation might require an increase in the Federal revenue such as the gasoline tax.

The CBO report indicates that the States would be able to decide the level of service they wish to achieve and that they could fund this level. In our report on maintaining Federal-aid roads, we pointed out that our highways are deteriorating faster than they were being replaced and commented on the States' deteriorating financial ability to fund highway construction and maintenance. In another report on the effects of truck weights, we commented on the States' failure to regulate overweight trucks, which are a cause of highway deterioration. These reports raise questions on the States' abilities or willingness to generate the revenue or take other actions necessary to preserve our roads.

The rural, secondary, and urban roads (which would become the sole responsibility of the States) are of considerable importance to our national commerce. Will the level of service the States choose be adequate to maintain this commerce? Further, the Federal Government already has a considerable investment in these roads. Would the public be willing to risk this investment if the States choose not to maintain them?

Federal legislation is pending which would increase the weight limits for trucks and which would prohibit the States from establishing limits lower than prescribed by the Federal legislation. Increasing truck weights

which would increase deterioration of the States' highways while at the same time requiring the States to assume full responsibility for repairing this damage, seems inequitable.

The CBO report implies that States have not been active in generating revenue for highways because less than half have increased their gasoline tax since 1973. A review we have in process shows that a number of States are financing highway construction and maintenance from other sources such as their general fund and sales taxes and that some 28 States are actively considering increasing their gasoline taxes in 1980. Further, the Federal gasoline tax is only 4 cents and has not been increased since 1959. Because of inflation, the annual Federal highway contribution to the States represents only 50 percent of the purchasing power it had in 1967.

Relevant GAO Reports: CED-77-31; CED-79-94; and PSAD-79-10.

Elimination of the State Share of the Land and Water Conservation Fund

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
147	196	259	282	313	1,197

The Land and Water Conservation Fund (LWCF) has two ponents: 40 percent of the fund is for federal purchases of for parks, wildlife refuges, and recreation centers; the othe percent is allocated to the states on a 50-50 matching basis the acquisition and development of outdoor recreation facilit If the state share were reduced in 1981 and ended thereaf the annual savings would exceed $300 million by 1985.

Grants to state governments for state park land acquisi and similar purposes were not a federal responsibility until mid-1960s. With virtually no exceptions, the states have prov the required matching funds since the program's inception, the program enjoys wide support. In a sample of eight sta LWCF grants accounted for 18 to 37 percent of the state development and acquisition budgets.

The argument for ending grants to the states from the is that state recreation programs mainly serve state resid or vacationers from other states whose expenditures pro income in the host state. Thus, each state has the responsibi for deciding what program its own taxpayers are willing to port; it has no claim on taxpayers nationwide.

The case for continuing the federal grant program is pri ily on "quality of life" grounds. The quantity of land is f and, as the years go by, the expense of acquiring public rec tion areas will inevitably climb. If the land is not acqu now, future generations of Americans will have less recreati opportunity than the present generation. While the nation benefits accruing from any particular investment in state lands are not directly measurable, it is argued that such inv ments serve the national interest.

Elimination of the State Share of the Land and Water Conservation Fund

GAO Supplementary Discussion

GAO Views

We believe the five year potential savings CBO had identified could be increased by $853 million from the State share of the Land and Water Conservation Fund (LWCF). Substantial savings could also be realized—$401 million—with a 50 percent reduction of the Federal share of the LWCF.

We issued a report on December 14, 1979, which pointed out that at the present time, the Federal Government has no overall policy of how much land it should protect, own, and acquire. Federal agencies with major land management and acquisition programs have followed the general practice of acquiring as much land as possible regardless of need, alternative land control methods, and impacts on private landowners. Consequently, lands have been purchased that were not essential to achieving project objectives, and before planning how the land was to be used and managed.

Government acquisition of private lands is costly and usually prevents the land from being used for resource development, agriculture, and family dwellings. Agencies have bought land without adequate consideration of the impact on communities and private owners by viewing acquisition of full-title as the only way to protect lands within project boundaries. We recommended that the Secretaries of Agriculture and the Interior

—jointly establish a policy on when lands should be purchased or when other protection alternatives, such as easements, zoning, and Federal controls, should be used;

—critically evaluate the need to purchase additional lands in existing projects; and

—prepare plans identifying lands needed to achieve project purposes and objectives at every new project before acquiring land.

We also stated that congressional oversight in implementation of our recommendations is needed because of the

—large sums of money available from the Land and Water Conservation Fund for acquisition of private lands;

—practice followed by Federal agencies of acquiring as much private land as possible resulting in unnecessary land purchases and adverse impacts on private landowners;

—successful use of alternatives to full-title acquisition to achieve project objectives; and

—reluctance on the part of many agency officials to use less than full-title acquisition to achieve project objectives.

It is not possible to quantify the total benefits and measurable savings that would result if our recommendations are adopted although we believe them to be substantial. The Congress used our report as a contributing factor to cut about $41.5 million from the Departments of Agriculture and the Interior's 1980 appropriation request for land acquisition. Further, if the use of easements, zoning and Federal regulatory protection controls could reduce Federal expenditures by 50 percent, savings of about $180 million of the $359 million appropriated in fiscal year 1979 could have been realized.

Should the Federal share of LWCF be cut in half during the next five years, savings would be as follows:

50 percent cut in Federal share of the Land and Water Conservation Fund

Savings by Fiscal Year

(millions of dollars)

1981	1982	1983	1984	1985	Cumulative Five-Year Savings
49	66	87	94	105	401

On November 1, 1979, we issued a report on the State portion of the LWCF concerning the use of other Federal grant-in-aid programs to finance all or part of the local LWCF matching requirement.

We identified 500 recreation projects that received financial assistance through the LWCF and other Federal programs. The total cost of these projects amounted to about $144 million with the LWCF contributing about $66 million and other Federal programs contributing about $47 million for a total of $113 million in Federal funding. The Federal share therefore was 78 percent. If the State side of the LWCF were eliminated this additional Federal expenditure of $47 million would have been saved.

Through fiscal year 1979 about 25,000 State projects were funded with LWCF monies. We do not know how many other Federal dollars were used to help fund these projects. Should the 78 percent total Federal funding hold up for all projects, potential Federal savings for the five fiscal years would be $853 million more than $1,197 million estimated by CBO as follows:

Savings by Fiscal Year

(millions of dollars)

1981	1982	1983	1984	1985	Cumulative Five-Year Savings
252	336	443	483	536	2,050

Additional savings would be realized on the State side by elimination of the LWCF because Comprehensive Employment Training Act funds are used extensively to operate and maintain local recreation areas.

Relevant GAO Reports

The Federal Drive to Acquire Private Lands Should be Reassessed (CED-80-14) (December 14, 1979)

The Use of Other Federal Grant-In-Aid Programs to Meet the Local Matching Requirement of the Land and Water Conservation Fund (CED-80-23) (November 1, 1979)

CBO Proposal

Elimination of Urban Park Grant Program

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
9	58	111	153	166	497

The Congress in 1978 enacted a five-year grant program for the support of urban park and recreational facilities. The savings from ending the program (assuming that it would otherwise be renewed on expiration of the current authorization) would total almost $500 million during the next five years.

The argument for eliminating the urban park grant program is the same as that for ending the state share of the Land and Water Conservation Fund. In both cases, federal funds simply substitute for local funds. It is not clear that the national taxpayer should support a level of local recreational opportunity that local taxpayers are unwilling themselves to support.

The counterargument holds that there is a national interest in preserving or improving the "quality of life" for urban residents.

Elimination of Urban Park Grant Program

GAO Supplementary Discussion

GAO Views

CBO's argument for eliminating the urban park grant program can be extended to include the National Park Service's urban national recreation area program. The Park Service estimates expenditures of over $400 million to develop the first three recreation areas established under this program. Three additional recreation areas established in late 1978 have authorized expenditures of about $250 million for land acquisition.

On June 19, 1979, we issued a report to the Secretary of the Interior on our review of the urban national recreation area program. We made our review to assess whether the program was meeting its objectives of providing recreational needs of urban populations and protecting and preserving significant natural and scenic settings near large cities.

In the case of the urban national recreation area program, Federal funds are—like the urban park grant program—a clear substitute for local funds and most of the visitors come from the surrounding communities. The urban national recreation area program marked the beginning of the Federal Government's involvement in providing urban recreation to inner city residents.

Our June 1979 report pointed out that the urban national recreation areas were not being used very often by transit-dependent, low-income, inner city residents who need recreational opportunities the most. The report also noted that about 45 percent of the lands within the recreation areas were owned by State and local governments. Since less than half of these lands had been donated to the Secretary, we recommended that the Secretary examine ways to accomplish the recreation areas' objectives without Federal land ownership.

Relevant GAO Reports

Report to the Secretary of the Interior on the National Park Service's urban national recreation area program (CED-79-98, June 19, 1979)

Reduction of Funding for Criminal Justice Assistance — CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
74	320	488	560	606	2,048

The Justice System Improvement Act of 1979 revised and continued a 12-year-old program by which the federal government makes grants to state and local governments in connection with efforts to deal with crime and juvenile deliquency. If the federal government's role were reduced to maintaining a national research and statistics program, the annual cost would be about $50 million instead of nearly $600 million. Savings through 1985 would reach $2 billion.

There is some evidence that many ongoing programs now funded by the federal government would be continued even if federal assistance were phased out. Of 3,086 criminal justice projects ending in 1978 that were eligible or intended to be taken over entirely by state or local funding, 84 percent were continued.

It is less clear that new innovative projects would be started if federal assistance were no longer available. Judged by criteria adopted by the Law Enforcement Assistance Administration, however, fewer than 2.5 percent of the 1978 block grants supported innovative programs.

Proponents of the present program argue that elimination of federal grants would be a major threat to the progress that state and local governments have made in coping with crime and juvenile delinquency, and that the changes made by the 1979 legislation have addressed the deficiencies that marked earlier efforts. Advocates of a limited federal role argue that, after 12 years and more than $7.7 billion, the federal government and the states have had ample opportunity to experiment with innovative approaches; that there is no persuasive evidence that the rate of crime or the quality of criminal justice administration have been significantly affected by the federal program; and that, if states place a high priority on criminal justice programs, General Revenue Sharing funds are available for that purpose.

STRATEGY III - SHIFTING RESPONSIBILITY TO STATE AND LOCAL GOVERNMENTS

Reduction of Funding for Criminal Justice Assistance

GAO Supplementary Discussion

GAO Views

In January 1978, GAO, in a staff study prepared at the request of the Senate Committee on the Budget, stated that it would not be possible for it—or for any other group—to determine whether the LEAA program, overall, has had any measurable impact upon

—preventing, controlling, and/or reducing crime and delinquency; or

—improving the performance of the criminal justice system.

Thus, while the opportunity for savings exists by reducing the funding for criminal justice assistance, there is little solid information to use in assessing the merit of such a reduction. The CBO analysis states that 3,086 criminal justice projects ended in 1978 that were eligible or intended to be taken over entirely by State or local funding, and that 84 percent were continued. An unanswered question is whether projects of this nature would ever have been started or will be started in the future without the infusion of criminal justice funds.

Relevant GAO Reports

Federal Crime Control Assistance: A Discussion of the program and Possible Alternatives, GGD 78-28, January 27, 1978

Reduction of Funding for Urban Development Action Grants

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
7	37	85	153	231	513

In 1979 the Congress authorized the use of up to 20 perc of Urban Development Action Grant (UDAG) funding in connect with "pockets of poverty"--deterioriated areas of otherw financially healthy cities. If this action were reversed and total program funding cut back by 20 percent, annual savings 1985 would approximate $230 million.

The UDAG program assists communities with commercial, industrial, and housing development. Communities use the gra either for public works or to provide loans or grants to priv firms or developers.

The southern and southwestern regions of the United Sta benefit most from the "pockets of poverty" eligibility conce and would bear much of the cost of its loss. The cities t would be eliminated, however, rank in the top half of all cit in terms of fiscal condition, and many would probably fund e nomic development projects from general revenues or other lc sources. But inevitably some UDAG projects would not go f ward, with consequent erosion of the local tax base and loss prospective jobs and housing.

The case for this reduction proposal is that the affec cities are in relative terms not distressed, and thus need no l from a program enacted in the first instance to assist "sever distressed" cities. The counterargument is that there is evidence that "pockets of poverty" grants are spent less ef ciently than other UDAG grants.

Reduction of Funding for Urban Development Action Grants

"GAO Supplementary Discussion"

GAO Views. CBO proposed eliminating the "pockets of poverty" program and cutting back the total program by 20 percent, resulting in annual savings of $230 million by 1985.

GAO believes the potential savings in the Urban Development Action Grants (UDAG) program could be greater if the cuts were made as outlined below. As indicated in testimony before the Congress on May 23, 1979, we found several problems with selected UDAG's. We did not testify on the "pockets of poverty" program because it was enacted later; however, we believe the program should not be eliminated without a trial period. It is new, untested, and could prove worthwhile.

Our alternatives to CBO's proposed cuts follow. Alternative 1 would yield savings of $1.65 million in budgetary authority by 1985; and Alternative 2 would yield $633 million in savings in budget outlays by 1985. Note that we include 1980 in our projections because the budget authority increased 69 percent between 1979 and 1980. Our projections would, in effect, maintain 1979 funding levels.

Alternative 1

Between FY 79 and FY 80, the budget authority for the UDAG program was increased by $275 million (from $400 to $675 million per year). If this 69 percent increase were rescinded, the following savings in budget authority would be realized.

	Fiscal Years					
	1980	1981	1982	1983	1984	1985
Incremental savings	$275	$275	$275	$275	$275	$275
Cumulative savings	$275	$550	$825	$1,100	$1,375	$1,650

Alternative 2

Alternatively, a 20 percent reduction in total program budget outlays would result in the following savings.

	Fiscal Years					
	1980	1981	1982	1983	1984	1985
Budget outlays (estimates)	$180	$365	$610	$660	$675	$675
20 Percent incremental savings	$36	$73	$122	$132	$135	$135
Cumulative savings	$36	$109	$231	$363	$498	$633

(Assumes budget outlays equal budget authority for FY 84 and FY 85, and budget authority in FY 84 and FY 85 is the same as for FY 83, which equals $675 million.)

Both Alternatives 1 and 2 above would result in greater cumulative savings in budget authority and budget outlays, and would be applied to the entire UDAG program, not only to the new "pockets of poverty" set-aside funding.

Relevant GAO Report. PAD-79-85.

CBO Proposal

Reduction in the General Revenue Sharing Program

	Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
	1981	1982	1983	1984	1985	
Eliminate States	2,440	2,660	2,900	3,150	3,420	14,570 a/
Limit Local Units	240	260	290	310	340	1,440

a/ These savings are estimated against the CBO baseline projection. Against the Administration's proposal, the savings would be $11,425 million.

General Revenue Sharing (GRS) payments to state governments have been steadily declining in real terms and were only about 2 percent of state general fund expenditures in 1979. Eliminating states from GRS would, therefore, have only a small overall impact, but the effects would be unevenly distributed since states vary considerably in their financial positions and in the proportion of GRS funding passed through to local units of government.

Rather than prohibiting GRS aid for all jurisdictions of a given type, eligibility might be based on relative need. The example used here eliminates local units in which the per capita personal income exceeds 125 percent of the national average. It is to some extent arbitrary, for income is not a wholly adequate measure of either the needs or the capacities of governments. (The estimated savings are based on limited data; actual savings may be less.)

General Revenue Sharing was originally viewed as a vehicle to shift some of the national tax burden from regressive state and local taxes onto more progressive federal taxes, while allowing state and local officials broad discretion over the use of the funds. The issue now arises whether increases in the progressivity of state and local taxes and increased competition for federal dollars warrant continuation of the program in its current form.

Reduction in the General Revenue Sharing Program

GAO Supplementary Discussion

GAO Views

We have had, and still retain, reservations about the Revenue Sharing Program. We believe that funds raised by the Federal Government should be used for more clearly identified national purposes or objectives, and have been concerned by the lack of accountability that is inherent in a program of general, undirected assistance. On several occasions we have voiced our concern of the dangers inherent when spending and taxing responsibilities are separated.

We are currently nearing completion of an assessment of the nature and extent of the impact of eliminating State governments from the Revenue Sharing Program. The States we visited were Arkansas, California, Idaho, Mississippi, New York, North Carolina, Vermont, Wisconsin, and West Virginia. Our assessment focuses on these nine States but is supplemented by nationwide data when available.

The results of our assessment lead us to conclude that the generally sound current and projected fiscal health of the States we visited would enable them to withstand the loss of revenue sharing funds without undue hardship.

Relevant GAO Reports

No prior reports that deal specifically with elimination of the States from the Revenue Sharing Program. However, we are scheduled to testify on the results of our ongoing review on March 20 and 25, 1980, before the Senate Subcommittee on Intergovernmental Relations and the House Subcommittee on Intergovernmental Relations and Human Resources, respectively.

Increase of States' Share in Cost of Army National Guard

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
190	210	230	250	275	1,155

The 344,000 members of the Army National Guard serve two functions. They are part of the nation's reserve military forces; and they are used by the states to keep order when other police and security forces are inadequate, for assistance after natural disasters, for holiday traffic patrols, and for other state purposes. The states pay salary costs only when the Guard is actively performing a state mission; they pay nothing else toward the cost of the insurance role the Guard fulfills. This option would require the states to pay 10 percent of the total cost of maintaining the Guard.

The argument in favor of the change, aside from the federal savings that would occur, is that it is reasonable to ask state governments to bear at least a part of the ongoing costs of state military units; and that, if the states had to pay some part of the costs, they would examine more carefully the needed size and capability of their Guard units. Opponents might well argue that the Guard's size is determined by federal mobilization requirements and that its state functions are simply auxiliary duties.

Increase of States' Share

In Cost of Army National Guard

GAO Supplementary Discussion

GAO views. GAO believes there is merit in CBO's proposal to increase the states' share in the cost of Army National Guard and it further believes the same proposal could be applied to the Air National Guard as well. There are benefits in addition to the unconfirmed savings identified by CBO.

Basically GAO has reported that the readiness of the Army and Air National Guard and Reserves could be significantly improved if

--duplicate capabilities were eliminated,

--inefficient headquarters were reorganized,

--peacetime structures were brought more in line with wartime structures,

--unnecessary and unsupportable units were eliminated, and

--the reserve units were better integrated with active forces.

If the states had to pay more of the cost for their National Guard forces, they would have more of an incentive to aline their forces with identified state requirements. Units not required by the states could be eliminated or transferred to the Reserves wherein consolidations could foster further efficiencies. A serious question the states need to consider is the need to retain their Air National Guards.

The end result of increased state funding could be improved efficiency and readiness of the reserve components. GAO believes the potential savings from Air National Guard realignment and more economic logistic stationing of units that would mirror the mobilization needs would be sizeable in terms of aircraft and related support costs. If the states had to compensate the Federal Government for the cost of inefficient operation and stationing, they might be more inclined to release the units or accept the more logical combination and consolidation of units and logistic support.

Relevant GAO reports. LCD-79-404
LCD-80-11

Phasing Out of Funding for Vocational Education

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year
1981	1982	1983	1984	1985	Savings
20	213	457	708	966	2,363

Federal support accounts for about 10 percent of national expenditures for vocational education. Since the program is funded in advance, first-year outlay savings would be modest if it were gradually phased out; they would grow rapidly in the later years, however, reaching nearly $1 billion in 1985.

While some vocational education programs might be jeopardized if federal support stopped, it is likely that states and localities would increase their own support for such programs to make up for at least part of the difference. In 1980, 29 percent of total federal budget authority for vocational education ($226 million) was targeted on programs for handicapped, minority, economically disadvantaged, and non-English-speaking students. Historically, states and localities have not made a major effort to provide vocational education services to the population groups that might be most affected by a loss of federal funding.

The basic argument for ending federal support for vocational education is that such education entails relatively high costs per student, while the available evidence suggests that most vocational education graduates do not command higher wages or enjoy lower unemployment rates than similar high school graduates without such training. Supporters of the program contend that it encourages some students to complete high school, that the training does improve the earnings potential of some participants, and that if some aspects of the program are ineffective the remedy is to improve the training, not end federal support for it.

PHASING OUT OF FUNDING FOR VOCATIONAL EDUCATION
GAO Supplementary Discussion

GAO Views. In a December 1974 report to the Congress we stated that nationwide, State and local dollars directed to vocational education had increased. The national ratio of approximately five State and local dollars for every Federal dollar had been maintained since fiscal year 1970, indicating that State and local governments had recognized the need for expanding vocational education opportunities. To the extent that States are able to sustain such a ratio of State and local support to Federal support, the ultimate objective of the act--providing vocational training for all who need it--stands a better chance of being met.

The report pointed out that some States, however, found it increasingly difficult to maintain or increase their ratio of State and local support for every Federal dollar. Our analysis of OE statistics showed that in some States the rati of State and local support under State vocational education programs had been declining. In fiscal year 1973, one-third of the States (17) spent fewer State and local dollars for every Federal dollar than they did in fiscal year 1970. In contrast, only one State in fiscal year 1970 had expended fewer State and local dollars for every Federal dollar than it had in fiscal year 1965. From fiscal year 1972 to fiscal year 1973, States with a declining State and local to Federal funding ratio numbered 18. Included were 3 States which rank among the top 10 States receiving Federal vocational funds. This downward trend may indicate that a plateau had been reached as far as the salutory effect of the Federal dollar in enticing State and local dollars.

Although we did not analyze the reasons for this declinir ratio, the National Advisory Council on Vocational Education and State directors of vocational education advised us that economic factors at the State and local level, such as budget constraints and decreased outlays for construction, have made it more difficult for States to maintain their ratio of State and local dollars to Federal dollars.

Relevant GAO Report. What is the Role of Federal Assistance for Vocational Education? (MWD-75-31, Dec. 31, 1974).

Shifting Responsibilities to the Private Sector. Over the years, the federal government has increasingly subsidized activities in the private sector. Now may be an appropriate time to consider transferring the costs of such subsidies back to private firms and individuals.

Shifting Responsibility to the Private Sector
"GAO Supplementary Discussion"

GAO Views. In commenting on this section we wish to highlight problems regarding present budget treatment of revenue from the public for business-like services performed by the Federal Government. We do not disagree with CBO on the potential for increased revenue in the specific areas mentioned. Our concern relates to a possible false impression regarding the effect these revenues have on the size of the Federal budget, because they are not presently treated in a manner consistent with other types of Federal revenue.

The current method of presenting certain offsetting collections and offsetting receipts, and not presenting off-budget Federal entities (which are reimbursed for business-like services performed for the public) in the Federal budget makes it difficult to readily identify total Federal revenues and outlays. For example, offsetting collections from non-Federal sources are currently deducted from budget authority and outlays in expenditure or appropriation accounts and are not counted in revenue totals. Budget authority and outlay figures at the account level are reported net and do not fully reflect Federal activity. In accounts with large offsetting collections, there is serious distortion of budget authority and outlay figures—they are not included in totals.

We have stated on several occasions that adequate congressional control over budget amounts and totals may be impaired if there is incomplete, inaccurate, or confusing reporting on budget requirements and related matters. The Congress requires informative and accurate budget information for purposes of comparing programs, setting budget priorities, and exercising fiscal control. We have therefore recommended that revenue from the public for business-like Federal activities be included in the budget totals on a gross rather than net basis. We have also recommended that Government owned off-budget entities be included in the budget totals.

Relevant GAO Reports. "Revolving Funds: Full Disclosure Need for Better Congressional Control" (PAD-77-25) August 30, 1977.

"Federal Budget Outlay Estimates: A Growing Problem" (PAD-79-20) February 9, 1979.

STRATEGY IV: SHIFTING RESPONSIBILITY TO THE PRIVATE SECTOR

User Charges for Coast Guard Activities

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
600	650	700	760	820	3,530

The Coast Guard provides short-range navigational aids--such as buoys and other channel markings--without which commercial shipping in U.S. inland and coastal waters would be substantially more hazardous, difficult, and costly. The capital and operating costs of these navigational aids could be recovered from the shipping industry, just as highway users pay for the cost of highways.

The Coast Guard also engages in search and rescue operations for private mariners who are lost or otherwise in trouble. About 70 percent of such missions involve recreational boaters. With 10 million recreational boats of all kinds, an annual registration fee of less than $25 would recover the search and rescue costs attributable to recreational boaters.

The argument for charging the shipping industry for navigational aids is that efficiency is enhanced when users of various modes of transportation pay the costs of each mode. The argument for charging recreational boaters is simply that it would be fair for the beneficiaries of this special service to bear the cost rather than the average taxpayer.

An argument against imposing such user charges is the likely disruptive impact on the shipping and boating industries and the difficulty of establishing fair cost allocations among the various kinds of users.

USER CHARGES FOR COAST GUARD ACTIVITIES

GAO Supplementary Discussion

GAO Views: In a soon to be released report, GAO recognizes that funds would be available to the Treasury if the Coast Guard were to charge the users of the services provided. The draft report also notes that the Coast Guard is currently developing a fee schedule for examination of U.S. vessels. The fee schedule is to be completed in about one year.

Our draft report also recognizes certain disadvantages or difficulties in implementating a user charge system:

--Vessel owners and masters may try to avoid vessel inspections so as to save the inspection charge, thereby reducing vessel safety.

--Mariners requiring assistance at sea may hesitate to contact the Coast Guard if they know they are to be charged for services performed. As a result, mariner safety may be jeopardized.

--The users of some Coast Guard services--radio navigation services, aids to navigation, law enforcement, etc.--may be difficult to identify and it may be difficult to establish equitable charges for some services.

--Costs to implement and administer a user charge system (billing and collection, rate revisions, etc.) could be costly. Also, collection of charges may be a protracted and difficult task.

We have no comments on the cost estimates.

Relevant GAO Reports: Draft report entitled "The Coast Guard--Expanded Role But Limited Resources" (CED-80-76; to be issued about March 25, 1980)

Increased User Charges for Army Corps of Engineers Waterway Projects

Savings by Fiscal Year (in millions of dollars)					Cummulative Five-Year Savings
1981	1982	1983	1984	1985	
980	1,010	1,070	1,120	1,200	5,380

During the next five years the Army Corps of Engineers will spend about $5.7 billion for construction and operating costs in connection with the nations's network of inland waterways, and to help maintain deep-draft ports. Under a recent enactment, an inland waterway user charge in the form of a 4 cents per gallon fuel tax will take effect in 1981 and rise to 8 cents in five years. The estimated 1981-1985 collections of that user tax will cover about 6 percent of the relevant federal expenditures in the same period.

Full recovery of costs would require an increase of 64 cents per gallon in the tax paid by inland waterway users, and could result in five-year taxpayer savings of almost $5.4 billion. In all likelihood, the threat of such a large tax increase would cause marginal navigation projects to be dropped, thus reducing the size of the required tax.

The argument for increasing waterway user charges turns on both efficiency and equity. More efficient use of the country's resources will be achieved if the rates for barge transportation reflect the economic costs of that mode. Shippers choose modes in part on the basis of rates, and when the rates for one mode are much more heavily subsidized by taxpayers than the rates for other modes, some traffic is diverted from more efficient to less efficient modes. The equity argument is that it is unfair to ask the taxpayer to subsidize a profitable and growing private industry.

The argument against full-cost waterway user charges is that they would disrupt the barge industry, at least in the short term, and that most of the higher costs would be passed on to shippers and ultimately to consumers in the form of higher prices.

INCREASED USER CHARGES FOR ARMY CORPS OF ENGINEERS WATERWAY PROJECTS

GAO SUPPLEMENTARY DISCUSSION

GAO Views. GAO identified the following issues that the Congress will need to consider in establishing a national policy for funding inland waterways improvements and operations and in considering proposals for imposition of waterways user charges.

—The Federal Government has covered virtually the entire cost of developing and maintaining the inland waterways and has paid for it through taxes on the general public.

—The expansion of the waterway industry has reached a point where some main waterway arteries are becoming overcrowded.

—The Federal Government has always permitted free use of the waterways for industrial transportation and recreation.

—Environmental groups are generally opposed to increasing waterway traffic and are adamantly opposed to any projects which enlarge waterway facilities.

—Waterway traffic volume has reached a point where a relatively nominal user charge would allow for recovery of the annual operating costs.

—Operation and maintenance costs have increased due to inflation, more stringent dredging requirements and higher maintenance and repair needs for aging locks.

—If waterway carriers were assessed a user charge, all or a large part of the cost probably would be passed on to the shippers or receivers, causing some to seek alternative shipping modes.

—Diversion of waterway traffic to pipelines or railroads, caused by the imposition of waterway user charges, has some potential for energy savings and more efficient transportation but does not appear to be a major factor in establishing waterway user charges.

GAO did not make any recommendations; however, GAO pointed out that if user charges were kept at a rate that would not exceed 10 percent of existing barge rates—a rate sufficient to recover the

waterways' 1973 operation and maintenance costs—some traffic diversion could be expected but most of the inland waterways shippers we interviewed did not believe this would result in any major diversion.

GAO does not have the information to verify whether CBO's projection of potential savings is accurate.

Relevant GAO Reports. "Factors to be Considered in Setting Future Policy for Use of Inland Waterways" (RED-76-35, November 20, 1975).

Increased User Charges for Army Corps of Engineers Waterway Projects

"GAO Supplementary Discussion"

GAO Views. GAO agrees with the principle of full recovery of future expenditures on inland waterways, since this would be both equitable and efficient, as CBO states.

Efficiency in the use of inland waterways can be increas however, by changing the form of the charge from the present fuel tax, and by the use of congestion charges. Charges for waterways that cost more to construct and operate should be higher than charges for less expensive waterways. A fuel tax cannot accomplish this. However, segment charges which vary from one waterway to another can accomplish this.

In some cases, the operating costs of a waterway may be quite low relative to initial construction costs. In such cases, efficiency in waterway use can be enhanced by using a two-part tariff, which imposes a (commonly annual) fixed charge for access to the waterway, and a lower charge for each use of it. The fuel tax is, again, less efficient in these cases.

Finally, congestion charges should be used when demand for the use of a waterway exceeds its capacity. Such charges will even out demand, reducing or eliminating peak loads. Congestion charges may have to take the form of a tax, since they would not be associated with any cost incurred by the government. The legal restrictions on implementing congestio charges should be fully explored prior to implementation.

GAO agrees that waterway user charges could disrupt the barge industry. Some economically marginal operations could be put out of business. However, the exact incidence of increased user charges is not obvious, and thus warrants care ful study. It could be the case that the charges would large ly be passed along to the ultimate consumers of barge service GAO does not believe that this constitutes a valid reason for not implementing such charges. It is equitable that consumer who benefit from use of the waterways bear the associated cos

Relevant GAO Report. PAD-80-25 (In final processing.)

Increased User Charges for Airports and Airways

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
910	980	1,060	1,120	1,200	5,270

The Federal Aviation Administration (FAA) spends over $3 billion a year, mostly on operating the airport and airway system, on grants-in-aid for airport construction, on purchases of facilities and equipment, and on research and development. Some of these expenditures are funded through user charges (primarily an 8 percent tax on passenger tickets) paid into the Airport and Airway Trust Fund.

The FAA estimates that in 1978 commercial users paid 88 percent of their share of the costs while general aviation users paid 14 percent of their share. Having all users of the airway system more nearly pay their own way would encourage more efficient use of airports and airways, and would be more fair as well. Increased user charges would probably permit budget savings of about $5.3 billion over the next five years. User charges on general aviation would increase seven-fold, by an average of over $3,000 per plane. This is equivalent to about a 15 percent increase in average operating costs. Little change would be required in commercial aviation charges. The general taxpayer would continue to subsidize the roughly 25 percent of FAA expendiures that represent public interest costs and other nonattributable costs.

An argument against this proposal is that greatly increased taxes might disrupt the general aviation industry. This disruption could be minimized by using the trust fund surplus (now around $3.5 billion) to introduce increased user charges gradually.

INCREASED USER CHARGES FOR AIRPORTS AND AIRWAYS

GAO Supplementary Discussion

GAO VIEWS

In 1977, aircraft delays cost U.S. airlines over $800 million; detained the traveling public over 60 million hours; and caused the airlines to use an additional 700 million gallons of fuel, over 8 percent of their total consumption. Generally, aircraft delays result from excessive air traffic and bad weather. Many major U.S. airports have peak, congested periods when air traffic exceeds runway capacity and aircraft delays occur.

To reduce aircraft delays at major airports, GAO recommended that the Congress authorize and direct the Secretary of Transportation to shift air traffic from peak to off-peak periods or to other airports. This shift could be accomplished by the Federal Government's assessing user charges--which the report calls "peak surcharges"--on commercial and general aviation aircraft landings and take offs at major airports during peak, congested periods. As such, peak surcharges could be used to increase the general aviation users share of the cost of operating the airport and airway system. Because peak surcharges may lead to the better use of existing airport capacity, Federal expenditures to build additional capacity may not be needed.

Although the trust fund's surplus could be used to introduce increased user charges gradually, the fund's surplus would be reduced by Senate bills 1649 and 1648. Senate bill 1649 would reduce the passenger ticket tax paid into the trust fund from 8 percent to 2 percent, thus reducing the fund's revenues. In contrast, Senate bill 1648 would increase the levels of funding for trust fund supported activities.

Relevant GAO Reports: CED-79-102

Reduced Spending for Large Airports

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
100	200	300	400	500	1,500

The Federal Aviation Administration budget could be reduced by eliminating large and medium hub airports from the airport and airway development grant program. These airports are close to financial self-sufficiency already, and could replace the lost funds through user fees on commercial and general aviation. Commercial airlines are the most important users of these airports, and they would pay most of the increased fees. This change would reduce federal outlays by about $100 million in 1981 and over $500 million in 1985 for a total five-year savings of about $1.5 billion.

The Senate Commerce Committee has reported a bill (S. 1648) proposing this change. In addition, the bill would use the resulting federal savings and the existing surplus in the Airport and Airway Trust Fund to reduce the 8 percent ticket tax to 2 percent. The loss in revenues from the decreased ticket tax proposed by this bill would be greater than the projected budget savings.

REDUCED SPENDING FOR LARGER AIRPORTS

GAO Supplementary Discussion

GAO VIEWS

The elimination of large and medium hub airports from the airport and airway development grant program is consistent with GAO's past recommendation that Congress establish priorities and use them to distribute airport development grants, considering among other things the financial resources of airports. The large and medium hub airports that would be defederalized under Senate bill 1648 were entitled to over $150 million in Federal grants for fiscal year 1979 thus the defederalization of these airports woul result in considerable savings.

According to an FAA August 1977 report on "Airport Land Banking," airports could be expected to break even on operating expenses when annual passenger enplanements reac ed 97,000. When annual passenger enplanements reached 275,000 airports were generally able to meet their debt se vice requirements from operations without local contributi head taxes, or other extraordinary income. The large and medium hub airports to be defederalized under Senate bill 1648 had annual passenger enplanements in 1978 ranging fro a low of 700,000 to a high of about 22 million; thus they should be self-sufficient without Federal assistance.

One rationale presented for defederalizing the large and medium hub airports covered by Senate bill 1648, is th these airports receive a lot less in grant funds than the funds they contribute to the Airport and Airway Trust Fund through the 8 percent passenger ticket tax. Thus a reduction in the ticket tax from 8 percent to 2 percent as provided in the companion bill (S. 1649) to Senate bill 1648 should result in substantially less revenues. This loss i revenues could more than offset any savings realized throu the defederalization of large and medium airports. Furthe savings would also be reduced by the increased funding lev proposed in Senate bill 1648.

Relevant GAO Reports: CED-79-17

Elimination of Solar Demonstration and Application Projects

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
85	141	206	227	250	909

Projected expenditures for solar demonstration and application projects for fiscal years 1981-1985 total $1,026 million. After allowing $117 million for the costs of terminating programs prematurely, elimination of the solar demonstration and application projects could result in five-year budget savings of $909 million.

Some of the technologies financed by this program, notably solar (nonphotovoltaic) generation of electricity, have been criticized as being so costly as to be uneconomical, relative to other technologies, under all foreseeable circumstances. Critics of the demonstration and application program have argued that more basic research on materials, such as corrosion resistance in solar heating and cooling and silicon production in photovoltaics, would provide a more effective method for the government to stimulate development of these technologies in commercial application. Recent moves by the private sector into solar power suggest that, once the basic research has been provided, the private sector develops promising technologies rapidly, without public demonstration programs.

The argument against elimination of the solar demonstration and application projects is that the cost and performance of many technologies is so speculative that private industry will avoid them, even though some may ultimately prove economically viable. Such technologies, which could not be developed by the private sector in the near term, could be significantly delayed or permanently overlooked unless the government underwrites the risk through demonstration projects. In addition, the criteria by which the private sector might evaluate investments in solar technology could be narrower than those implied by national energy policy.

ELIMINATION OF SOLAR DEMONSTRATION AND APPLICATION PROJECTS

GAO SUPPLEMENTARY DISCUSSION

GAO Views

For a number of years the Federal Government has been spending millions of dollars to develop solar energy systems. Demonstrating such systems is a critical part of the overall development process. Among other things, demonstrations would provide actual operating experience which could not be obtained via research alone. Such demonstrations would also give industry experience in constructing and operating such energy systems. As a result, demonstrations have been the principal means by which the Federal Government helps transfer the energy technology to the private sector.

Over the past few years, GAO has examined Federal efforts to demonstrate various solar energy systems. Specifically, we have looked at Federal efforts to demonstrate solar heating, combined solar heating and cooling, and photovoltaic energy systems. We also examined some proposed solar demonstrations such as solar power satellites. Based on our work, we would agree that substantial savings could be realized by elimination of certain solar demonstration projects. However, we are concerned that indiscriminate reduction of solar demonstrations would seriously, if not fatally, jeopardize the overall success of developing solar energy systems.

In our view, because of the wide variety of solar energy systems and their potential application, any reduction in funding solar demonstrations must be done on a case-by-case basis taking into consideration the potential benefits as well as drawbacks. This has been GAO's approach in the area over the last few years. For example, in an April 1979 report, we found that within the Federal solar photovoltaic program, the Department of Energy had over emphasized commercial sector demonstrations and needed some residential demonstrations. These demonstrations could provide a early market for selling photovoltaic devices. In an October 1979 report we stated that solar cooling systems should not be demonstrated because the technology was not yet reliable or economical. Similarly, we stated in an April 1978 report that we thought any demonstration of solar power satellites in the near future would be premature.

Our work does not enable us to agree or disagree with CBO's estimate of the potential savings in this area. While we agree that dollar savings could be achieved by elimination of solar demonstration, such decisions should be made on a case-by-case basis. Based on our work, substantial reductions could be made in such areas as (1) elimination of repeated demonstrations of similar solar demonstration systems and (2) developing more cost-sharing arrangements with private industries.

Relevant GAO Reports

"Solar Demonstrations on Federal Residences--Better Planning and Management Control Needed," EMD-78-40, April 14, 1978.

"Views on the Proposed Solar Power Satellite Research, Development, and Demonstration Program Act of 1978," EMD-78-61, April 13, 1978.

"Opportunities to Improve Program Planning for Photovoltaic Research and Demonstration," EMD-79-40, April 19, 1979.

"Federal Demonstrations of Solar Heating and Cooling On Private Residences--Only Limited Success," EMD-79-55, October 9, 1979.

"The Solar in Federal Buildings Demonstration Program," EMD-79-84, August 10, 1979.

"Planned Contract Award for the Fort Hood Solar Project Should Be Reconsidered," EMD-80-37, December 7, 1979.

"Views on the Hydrogen Fuel Development and Use Act of 1979," EMD-80-83, February 21, 1980.

ELIMINATION OF SOLAR DEMONSTRATION AND APPLICATION PROJECTS

GAO SUPPLEMENTARY DISCUSSION

GAO Views

GAO has issued a report that addresses how federally financed research and development spending could be measured, and discusses the potential for using alternative incentives for the development of research and development projects and discusses the photovoltaics program in particular. This report could aid the Congress in deciding whether R&D projects should be started or continued. The report contains a list of questions that should be asked of such programs.

Relevant GAO Report

"Assessing the 'Output' of Federal Commercially Directed R&D," PAD-79-69, August 27, 1979.

CBO Proposal

Establishment of Fees to Cover Costs of Food Product Inspections

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
310	320	331	343	356	1,660

The Federal Grain Inspection Service is supported in part by fees, but its administration and field supervision costs are not covered by the collections. The Food Safety and Quality Service provides inspection and grading services principally for the nation's meat and poultry products. The government makes no charge for such meat and poultry inspections. If the costs of both services were fully charged to shippers and processors, the savings to the general taxpayer would exceed $350 million annually by 1985.

The argument in favor of the charge is that the cost of inspection is like any other cost of complying with the law and should be borne by the food industry, especially since the users of the service are readily identifiable and collection costs would not be great.

Opponents might well contend that, since the charges would be passed on to the general public, they would contribute to inflation and be regressive in the distribution of inspection costs.

Establishment of Fees to Cover Costs of Food Product Inspections

GAO Supplementary Discussion

GAO Views In a February 12, 1976, report on the national grain inspection system, GAO recommended that the Congress establish an essentially all-Federal grain inspection system and that the system be operated on a reimbursable basis. The Grain Standards Act of 1976, which was enacted in October 1976, greatly increased Federal responsibility for grain inspection and created an official weighing system. The act required the Federal Grain Inspection Service to charge and collect inspection and weighing fees sufficient to cover the costs incident to the performance of these services. Because of protests by the grain industry, however, the Congress amended the act in September 1977 to provide that the cost of Federal field supervision of inspection and weighing programs be financed with appropriated funds.

The Service also provides inspection and grading services for rice and grain-related products that are covered by the Agricultural Marketing Act of 1946, as amended. All costs incident to providing these services, other than for standards work, are recovered through user fees. If the grain inspection and weighing services under the Grain Standards Act were similarly funded, which in part would require reversal of the Congress' September 1977 action, the Service would be able to reduce its 1981 request for appropriations by $23.4 million.

The Food Safety and Quality Service's meat and poultry inspection program provides for inspection of meat and poultry products moving in interstate and foreign commerce. Inspection is essential to protect the health and welfare of consumers and is carried out at slaughter and processing plants.

Title V of the Independent Offices Appropriation Act, 1952, and Office of Management and Budget Circular No. A-25 dated September 23, 1959, set forth the Government's policy for charging fees for special services and property. Essentially, the two documents state that fees for Government services and property shall be charged to identifiable recipients who receive direct benefits above and beyond those which accrue to the public at large. GAO questions whether meat and poultry inspection services fit under the above policy because these activities are provided, for the most part, for the protection of consumers.

The Service also provides food grading services to industry upon request. These services are supported primarily by user fees.

Related to Agriculture's food product inspection and grading services are its cotton classing and tobacco grading services which are provided free to users. In an August 2, 1977, report to the Congress, GAO concluded that providing such services free was inconsistent with the Government's

general policy noted above. GAO recommended that the Congress amend the Cotton Statistics and Estimates Act of 1927 and the Tobacco Inspection Act of 1937 to authorize the Secretary of Agriculture to charge for cotto classing and tobacco grading services. Fiscal year 1981 budget estimates for cotton classing and tobacco grading, including standardization costs, totaled $22.5 million.

Relevant GAO Reports RED-76-71, CED-77-105

Reimbursement of Veterans Administration by Third-Party Insurers

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
200	250	280	330	380	1,440

Virtually all health insurance policies now contain a clause excluding reimbursement for covered services performed in Veterans Administration (VA) health care facilities. If a pending legislative proposal to prohibit the inclusion of such clauses is enacted, the outlay savings would approach $400 million by 1985.

Under the proposal, the VA would remain responsible for the full cost of treatment for service-connected conditions; but for treatment of a non-service-connected condition, the third-party insurer would have to reimburse the VA on the same basis as it would a private-sector hospital.

About 88 percent of the cost of treatment for 6 percent of VA patients would be shifted to insurance carriers under this proposal. Inasmuch as health insurance premiums are actuarially established, the effect over time would be a slight increase in premium rates. The general public would still be paying for the care of veterans, but partly through higher health insurance premiums instead of entirely through taxes.

Reimbursement of Veterans Administration by Third-Party Insurers

GAO Supplementary Discussion

GAO Views

The issue of reimbursement by third-party insurers for health care provided by the Veterans Administration has not been the subject of any specific GAO report. However, GAO's periodic discussions on the subject with VA personnel have indicated that the VA recognizes the opportunity identified by the CBO for additional health care recoveries. Legislative proposals have been consistently introduced on the VA's behalf in the past sessions of Congress. In the 96th Congress, the VA has submitted a legislative proposal to bring about this change and a provision to extend the exclusion prohibition to workmen's compensation insurance. The savings estimated by the VA for the adoption of the provisions in the first year are $45.2 million with increases to $359.7 million in the fifth year. During the first five years, an estimated $1.45 billion in total would be saved.

GAO has made a review of the manner in which the Defense Department could improve its program for recovering the cost of medical care provided to certain beneficiaries who also have other insurance coverage. In addition, GAO has reviewed the Department of Health, Education, and Welfare's Medicaid recovery program from third parties and provided comments on proposed legislation to prohibit placing Medicaid in the position of being primarily liable when a patient has insurance coverage.

GAO found that DOD could improve its recovery program by revising its strategy and first seek recovery from the injured beneficiary's insurance coverage for, among other things, medical care costs for service-connected disabilities. Under the current Federal Medical Care Recovery Act provisions, the DOD's recovery process is cumbersome and time-consuming. DOD is opposed to the recommendations made by the GAO to take advantage, where possible, of existing avenues of recovery before pursuing claims under the Federal Medical Care Recovery Act.

GAO has reported to the Secretary of HEW that some states allow Medicaid to be placed in a position of primary liability when individuals have insurance coverage which would otherwise pay for medical services. In adopting

GAO's recommended changes to a legislative proposal introduced in the 95th Congress to correct this problem, Congress enacted section 11 of Public Law 95-142. This section provides that Federal funds cannot be used to pay for services under Medicaid which an insurer would have been liable for except for an exclusion in its contract of services covered by Medicaid. On a related matter, H.R. 934 is under consideration to make Medicare payment liability secondary to accident insurance policies. If enacted, this provision is estimated to save substantial amounts. For example, $187 million is expected to be saved in fiscal year 1984.

Relevant GAO Reports

HRD-77-73
HRD-77-132
HRD-80-6

Revising Judgments as to What Can Be Afforded. Every year the Congress rejects worthwhile new claims on federal resources on the general ground that the government cannot afford to do everything asked of it. But the Congress does not systematically go back and review programs already on the books to see if there are some that should be cut back on the grounds that they can no longer be afforded.

Revising Judgment as to What Can Be Afforded
"GAO Supplementary Discussion"

GAO Views. In reviewing this section we noted additional potential for savings not mentioned by CBO. As we reported in earlier reports, unobligated balances of budget authority have been growing in recent years. The 1981 budget projects over $297 billion in unobligated balances, for the end of fiscal year 1981. There are legitimate reasons for large unobligated balances, including the need for full-funding of Federal programs to be undertaken during the budget year. However, during an analysis of Department of Defense unobligated budget authority, we noted a means of eliminating a buildup of unneeded unobligated balances within DOD programs would be to promptly identify recoupments (i.e., funds in excess of program needs) so that the funds could be made available for application where most needed. 1/ During the course of the review, we questioned representatives within DOD and the services, both at the headquarters and the field levels, to determine whether there was a systematic and regular process by which recoupments were promptly reported to higher authority. We found that excess funds were identified by program managers at command levels in the course of the continual management review, but that such excess funds were not systematically reported to higher levels. The services apparently could report excess funds sooner. During our review we identified instances of possible excess obligational authority which could have been recouped for use by DOD for higher priority projects or used to reduce future budget authority requests.

Relevant GAO Reports. "Analysis of Department of Defense Unobligated Budget Authority" (PAD-78-34) January 13, 1978.

An Overview of Unobligated Balances in Civil Agencies" (PAD-78-48) April, 1978.

"Budget Authority for Foreign Military Sales is Substantially Understated" (PAD-78-72) July 27, 1978.

"Further Implementation of Full Funding in The Federal Government" (PAD-78-80) September 7, 1978.

1/Our analysis of unobligated balances in civil agencies did not address the identification of recoupment process within civil agencies.

STRATEGY V: REVISING JUDGMENTS AS TO WHAT CAN BE AFFORDED

Adjustment of Social Security Cost-of-Living Increases: 85 Percent of CPI Instead of 100 Percent

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
2,700	4,800	7,600	10,600	13,900	39,600

Every July, Social Security benefit payments are adjusted upward by amounts equivalent to the percentage rise in the CPI during the preceding year. If the law were changed so that the July 1, 1980, increase and all subsequent annual increases were limited to 85 percent of the inflation rate instead of 100 percent, the outlay savings would be very large--nearly $14 billion a year by 1985.

One argument for such a limitation is that Social Security benefits are not subject to income or payroll taxes, so that a 10 percent cost-of-living adjustment provides greater after-tax protection for a Social Security beneficiary than it does for a person whose income is the same, but taxable. While this reasoning supports some limitation on Social Security cost-of-living adjustments, it does not lead to a specific limitation; an 85 percent limit was chosen as being within a plausible range of limits.

Opponents of any such change point out that the average total incomes of Social Security beneficiaries are below those of persons still in the work force, so that thus they are already less able to cope with the escalating cost of living. Furthermore, the suggested change would mean abandoning the commitment made by the Congress in 1972 legislation to protect fully the elderly and the disabled from the impact of inflation.

The issue ultimately comes down to the question of whether, when nationally real personal incomes are level or falling, some groups in the population should be given greater protection against the effects of inflation than other groups. Current law gives greater protection to Social Security beneficiaries.

If the decision should be that the government cannot afford to continue to give such protection, then consistency would require imposing limits on the cost-of-living increases paid under other federal programs, such as civilian and military retirement. Whether an identical or a different limit would be appropriate would depend on further analysis of specific programs and proposals. But extension of the limiting principle to the other programs could lead to further annual savings in excess of $4 billion in 1985.

Adjustment of Social Security Cost-of-Living Increases: 85 percent of CPI Instead of 100 Percent

"GAO Supplementary Discussion"

GAO Views. The issue of lowering the rate at which Social Security benefits are indexed is closely related to the issue of whether the Consumer Price Index (CPI) is an appropriate index for use in indexing these payments. (See GAO supplementary discussion: Modification of Indexation of Federal Programs.) Some analysts feel that the use of the present CPI overcompensates beneficiaries for the effects of inflation. Modifications of the index have been suggested. The use of an alternative index could potentially achieve budgetary savings closely approximating those estimated for the 85 percent limit. However, modifications of the CPI or arbitrary substitution of a different index raises serious questions concerning the credibility of our statistical system. In addition substitution for, or modification of the CPI, could just as easily achieve an effect, over the long term, that is the opposite of what is expected.

The imposition of an 85 percent limit, as CBO notes, suffers from two major drawbacks: 1) it is arbitrary, and 2) it requires a judgment as to who should be fully protected from inflation, and who should bear the burden. However, if one is interested in reducing budgetary expenditures by reducing Social Security benefit payments, the imposition of a limit on the rate of indexing has at least two advantages. First, it makes clear the purpose of the reduction (unlike reducing expenditures by changing price indexes). Secondly, it provides greater assurance that the estimated reductions will actually be achieved, as opposed to the uncertain effects of changing price indexes.

Relevant GAO Report. PAD-79-22.

Once-a-Year Cost-of-Living Adjustments for Federal Retirees

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
803	1,044	1,086	1,141	1,212	5,286

The monthly benefits of federal civilian and military retirees are adjusted twice a year to reflect current changes in the CPI. Both Budget Committees have recommended that the cost-of-living adjustments for federal retirees be made only once a year, as is the practice for Social Security benefits. If this were done effective July 1, 1980, the annual outlay savings (based on the CBO projection of future inflation rates) could exceed $1.2 billion by 1985.

The cost of such savings would, of course, fall on retired federal personnel, both military and civilian. The argument for the change is that it would bring about consistency of treatment, at least with respect to the frequency of inflation adjustments, for all federal retirement programs. Retired government workers would no longer receive greater protection against inflation-caused erosion of their benefits than that accorded Social Security retirees. But the federal retirees could argue that their pay while in active service was kept below comparability with the private sector by limits imposed for budgetary reasons, and that the twice-a-year inflation adjustment they now receive is a proper, though rough, recompense for the pay caps imposed on them during their working lifetimes.

Once-a-Year Cost of Living Adjustments for Federal Retirees

"GAO Supplementary Discussion"

GAO Views. The impact of inflation on expenditures for civil service and military retirement programs was analyzed in a recent GAO report cited below (PAD-79-22). This report emphasized that indexing was not the only source of growth in spending for these programs during the period 1970 to 1977. Increased participation and higher real benefit levels were found to be just as important in contributing to the growth of spending on these programs. This report cited two earlier GAO reports which addressed more directly the issue of cost-of-living adjustments.

Another GAO report cited below (FPCD-76-80) maintained that the Federal annuity adjustment processes were far more generous than the processes used by most non-Federal employers to adjust pensions. GAO recommended that the law be changed to provide for annual adjustments based on the percentage rise in the CPI during the preceding year. It also recommended that Congress repeal the provisions which permit retiring employees to receive higher starting annuities because of changes in the CPI before their retirement. GAO further recommended that new retirees' initial cost-of-living adjustments be prorated to reflect only CPI increases after their effective dates of retirement. In the last report cited below, information in support of this latter recommendation is provided.

Relevant GAO Reports. PAD-79-22, FPCD-76-80, FPCD-78-2.

Capping of Pay Raises for Federal White-Collar Employees

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
950	760	710	630	380	3,430

In the CBO baseline cost projection, salary levels for federal white-collar employees are assumed to rise 10.3 percent in 1981 and an average of 8.6 percent annually in the next four years. If, instead, the increases were capped at 7.5 percent, the savings would exceed $3.4 billion over the five-year period.

White-collar federal workers' salaries are, by law, adjusted annually in order to maintain comparability with compensation paid for similar work in the private sector. In recent years, the annual adjustment has for budgetary reasons usually been held below the level that surveys indicate is necessary to maintain comparability. The Administration has proposed legislation that would, if enacted, significantly alter the policies and procedures for determining comparability, particularly in the consideration of fringe benefits, and could lead to lower annual adjustments. Pending enactment and full development of the Administration's proposed reforms, the Congress could continue the practice of accepting an arbitrary cap on white-collar pay raises.

Federal workers would argue that repeated pay caps destroy the principle of comparability and threaten the ability of the government to maintain a qualified and competent work force. Although federal benefits may differ from those available in the nonfederal sector, opponents of arbitrary limits on white-collar pay increases believe that further caps would be both unfair and unwarranted.

Capping of Pay Raises for Federal White-Collar Employees

GAO Supplementary Discussion

GAO views. GAO believes the credibility and equitability of the white-collar comparability process has suffered because of repeated use of Presidential alternative plans, or pay caps. One of the objectives of the Federal Pay Comparability Act of 1970 was to provide periodic adjustments to Federal pay through administrative rather than congressional action. Normally, the Congress is to become involved only if the President believes that a full comparability adjustment is not warranted because of "national emergency or economic conditions affecting the general welfare," whereupon the President can send the Congress an alternative plan. Although the system has resulted in annual pay increases, the President has used the alternative plan authority for 6 of the 10 adjustments under the act.

Also, even though the act requires that comparability be based on levels of work, only 3 of the 10 adjustments have varied by grade level. Five graduated comparability determinations have been adjusted to reflect uniform increase. This results in overpaying and underpaying certain grade levels and affects the overall equity and credibility of the pay process

Because of the 1978 and 1979 pay caps, Federal white-collar workers have lost ground to their private sector counterparts, particularly at the higher levels--a comparability adjustment in 1979 would have required an increase of 15.43 percent for GS-15 employees.

Various problems in the white-collar pay process have created a problem with both taxpayers and Federal employees. We and others have made several recommendations to correct these problems and we support the thrust of the proposed legislation which, for the white-collar system would

--compare benefits as well as pay with private sector compensation,

--include State and local governments in the annual surveys, and

--establish salary schedules that are more in line with locality pay practices.

The proposed legislation, however, does not clarify the conditions under which an alternative plan may be proposed and makes it more difficult for the Congress to overturn a plan.

Currently either House of the Congress may reject an alternative plan by a majority vote, after which the comparability adjustment goes into effect. Under the proposed legislation both Houses would have to disapprove an alternative plan. If the President disapproved of the joint resolution a two-thirds vote in each House would be required to override the alternative plan.

We realize that the President needs and should have alternative plan authority to confront unusual situations. We believe, however, the process would be more credible if the President used the alternative plan authority only in those instances where specific information demonstrates that a national emergency or economic conditions affecting the general welfare exist and that use of the alternative plan is part of an overall policy of fiscal restraint.

We recommend that the Congress amend the law to further limit the President's use of alternative plans to insure that they will be used in situations which are more indicative of national emergencies or economic conditions affecting the general welfare.

This could be accomplished in a number of ways. We provided the following options in order of preference:

1. Require a majority vote of both Houses of Congress in order for the President to implement an alternative plan.

2. Require the President to demonstrate how the plan contributes to remedying the national emergency or severe economic conditions and to insure that Federal employees are treated consistently with private sector employees.

3. Specify in the law what constitutes a "national emergency or economic conditions affecting the general welfare" in justifying alternative plans.

Relevant GAO Reports. FPCD-80-17, November 13, 1979.

Reduction of Funding for Community Development Block Grant Program

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year
1981	1982	1983	1984	1985	Savings
25	140	290	420	530	1,405

NOTE: The estimated year-by-year and cumulative savings are based on six-year old data, and are thus subject to severe qualification.

Outlays for the Community Development Block Grant (CDBG) program could be reduced by eliminating assured funding for the one-third least-needy large cities, or about 200 out of nearly 600.

The loosely restricted CDBG funds are currently used by cities for a large number of purposes, making it difficult to estimate the precise effect of any loss of funds. But program regulations require some targeting on neighborhoods with concentrations of needy persons, with a large share of all CDBG spending going to housing rehabilitation and neighborhood upgrading programs. If funding were eliminated, such services could be cut back.

The CDBG program is second only to CETA as a source of relatively unrestricted federal funds for those cities that are eligible, and for some of these cities CDBG funding accounts for more than half of all federal grants received.

There is no evidence that the almost 200 least-needy beneficiary cities spend their CDBG funds less wisely or efficiently than the other beneficiary cities. The argument for a funding cutback must therefore rest on the general ground that the federal government cannot afford to continue all programs at current levels.

Reduction of Funding for Community Development Block Grant Program

GAO Supplementary Discussion

GAO Views:

Deficiencies in the Department of Housing and Urban Development processing of applications for nonmetropolitan discretionary block grant funds have caused funds to be given to some communities which did not have the most promising programs, thereby decreasing the effectiveness of these funds. GAO recommended that the Department of Housing and Urban Development strengthen its procedures for processing applications from nonmetropolitan communities.

Relevant GAO Reports

CED-78-157

Reduction of Support for Health Professions Programs

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
50	250	350	450	500	1,600

Eliminating capitation grants to all medical and other health professions schools would save about $600 million over the next five years. If the schools chose to increase tuition to offset the lost revenues, tuitions would increase by $140-$230 for nursing students and as much as $780 for medical students. Students might choose to cover such tuition charges through increased borrowing, which already averages about $18,000 (over four years) for medical students. While the debt load is high in absolute terms, it is low in relation to the beginning net income of physicians, now over $50,000 a year.

Another $1 billion could be saved over the next five years by phasing out the National Health Service Corps (NHSC) scholarships and the NHSC itself. The scholarships now average about $12,700 a year for each recipient and are given to 6,660 students, including 9 percent of all medical students. Eliminating the scholarships would probably not affect total medical school enrollments, but the students would increasingly come from higher-income families. Ending the NHSC and the NHSC scholarship program would reduce access to medical care for people in underserved areas. In 1979, 870 areas and 818,000 people were served by the National Health Service Corps.

The basic argument against the NHSC is that it represents excessive federal involvement in the direct delivery of medical care. The federal government pays the full cost of the health care providers. The presence of such federally paid practitioners diminishes the attractiveness of the area for private practitioners, and thus may preclude long-run marketplace solutions to the problem.

Reduction of Support For Health Professions Programs

GAO Supplementary Discussion

GAO Views

The elimination of capitation grants to all medical and other health professions schools could save millions of Federal dollars over the next five years. However, we would question the potential savings of $600 million projected by CBO and point out that there are certain negative consequences to a comprehensive reduction in such support.

According to a GAO staff study (HRD-78-105), withdrawal of Federal capitation support may have serious consequences for some medical schools, particularly those with only limited access to resources from other Federal, State, and private sources. Moreover, increases in tuition to offset loss of Federal capitation funds could bring marked change in the socioeconomic characteristics of their student body.

The phasing out of the National Health Service Corps (NHSC) scholarships and the NHSC itself could result in substantial savings of Federal funds. However, the NHSC is an integral part of the Federal effort for providing health care to several hundred thousand people throughout the Nation who would otherwise be unable to obtain such care. We would not support this proposal.

However, although not mentioned by CBO, GAO believes it is doubtful that a separate loan repayment program is still needed to attract physicians to HEW-designated shortage areas (HRD-77-135; chapter 4, page 46) in view of the (1) expanded Corps scholarship program and number of physicians expected to be available for shortage area service and (2) discretion available to the Secretary of HEW under the Health Professions Educational Assistance Act of 1976 to repay the newly authorized federally insured health professions student loans. Therefore, consideration should be given to whether the loan repayment program for physicians needs to be continued since

—it has not induced substantial numbers of physicians to enter shortage area practice and

--many physician participants apparently received windfall repayment of their education loans by the Federal Government since they would have established their practices in those shortage areas anyway.

Relevant GAO Reports

HRD-77-135
HRD-78-105

Reduction of Funding for CETA Public Service Employment Title VI

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year
1981	1982	1983	1984	1985	Savings
523	572	630	689	758	3,172

By the end of fiscal year 1980, approximately 200,000 public service employment (PSE) jobs will be funded under Title VI of the Comprehensive Employment and Training Act (CETA). If average PSE enrollments were reduced to 150,000 during each of the next five fiscal years, the total outlay savings in Title VI would equal approximately $3.2 billion.

The stated aim of the Congress in reauthorizing CETA in 1978 was to provide Title VI jobs for 20 percent of the number of unemployed in excess of 4 percent of the total labor force, and for 25 percent of that number if the national unemployment rate is above 7 percent. Funding for fiscal year 1980 finances approximately 40 percent of the statutory goal, while fiscal year 1981 funding for an average of 150,000 jobs would fulfill about 15 percent of the statutory goal.

Reducing the number of Title VI jobs would cause an increase in unemployment; however, the size of this increase depends on the extent of fiscal substitution--that is, on how many PSE jobs would have been created anyway by state and local governments or community-based organizations. The federal government is likely to bear some of the costs of increased unemployment through other federal programs, including unemployment compensation, Social Security, food stamps, public assistance payments, Medicaid, and veterans' benefits. Those increased costs would offset some of the direct job cost savings. The size of the offsets would depend on the extent of substitution, but expenditures would be likely to increase by $100 to $300 million in fiscal year 1981. Recent changes in CETA in 1978--increased targeting and PSE wage restrictions--decrease the likelihood of substitution in comparison to prior, less restricted PSE programs.

Reduction of Funding for CETA Public Service Employment Title VI

GAO Supplementary Discussion

GAO Views. We have not reported on the effect that a reduction in Public Service Employment (PSE) funding would have on State and local governments operating the PSE programs or on the Federal budget. GAO reports have addressed such issues as participant eligibility, enrolling the most qualified applicants and the transition of participants into jobs not supported by CETA. GAO has stressed the importance of moving participants out of the program and into unsubsidized employment in order to provide the maximum number of eligible applicants the opportunity to benefit from the title VI program.

CETA requires that not less than 80 percent of the funds allocated under title VI are to be expended only for wages and employment benefits to people employed in public service jobs. It would follow, therefore, that a reduction in enrollment for fiscal years 1981 through 1985, as presented in the CBO report, would result in reduced outlays for CETA's title VI program for this period. The net reduction in Federal outlays would depend on the extent of fiscal substitution and the probable increase in Federal expenditures in other areas such as public assistance payments.

Relevant GAO Reports. HRD-79-101, HRD-78-57, HRD-77-53.

Reduction of Funding for Lower-Income Housing Assistance Program

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
100	100	200	500	900	1,800

Every year, the federal government increases the number o lower-income families for which it makes long-term rent subsid commitments. About 240,000 families will be added during 198 to the 2.8 million households for which such commitments ar currently outstanding. The Administration has requested fundin sufficient to aid what it estimates will be an additional 300,00 families in 1981. Maintaining the 1980 increment of 240,000 i 1981 and thereafter would result in annual savings of $500 millio by 1985. Raising tenant rent payments in subsidized housin from the current maximum of 25 percent of family income to 3 percent of income would result in additional savings and woul reduce outlays even relative to current policy, rising to $90 million in 1985.

Lowering the number of new subsidy commitments would, o course, reduce the number of additional families receiving housin assistance. The 1980 increment of 240,000 represents one of th lowest program growth rates in recent years; even so, it is an percent increase in the number of lower-income persons receiv ing aid.

Raising tenant rent payments would cost assisted families a average of about $25 extra a month; but their out-of-pocke housing costs would still be well below the 39 percent of incom that the typical unassisted lower-income renter now pays.

Long-term funding requirements could also be reduced i more reliance were placed on existing housing instead of o new construction or substantial rehabilitation. The Administra tion's proposed program mix in fiscal year 1981 is 40 percen existing housing and 60 percent new construction or substantia rehabilitation. If instead the mix were 50-50, outlays would b about $350 million more during the five-year period (because o the shorter lead time required to lease existing units), bu savings would begin to appear in 1986 and would amount to severa billion dollars over the 30-year life of the subsidy commitments To the extent that the program also serves to bolster the housin construction industry, this change would mean somewhat les support for that purpose.

Reductions of Funding for Lower-Income Housing Assistance Programs

"GAO Supplementary Discussion"

GAO Views. The possibility of savings from greater use of existing housing instead of new construction or rehabilitation is far less assured than the CBO writeup would indicate. Although the per unit yearly subsidy now being experienced for existing housing averages less than that for new starts, there is no assurance that the cost of subsidizing existing units will not escalate much faster in later years than would the subsidy for new units which once started give the Government some control over rents for the term of the subsidy contract. Existing units have much shorter contracts. Calculations included in PAD 78-13 showed that under certain circumstances existing housing could prove much more expensive over a 20 year period. With a generally tight rental market which can be expected to continue through the next decade the potential for rapid escalation of existing rents and higher subsidies seems quite likely.

Another opportunity for savings not mentioned by CBO would be to shift a certain number of units from section 8 to public housing which cost analysis contained in PAD 78-13 and recently updated shows to be a much cheaper alternative. Public housing is cheaper in the short run and also when off budget costs such as tax expenditures are considered for the long term. Direct yearly subsidy savings per unit would be in the area of 20% for each unit shifted from one program to the other and total subsidy reduction over a 20 year period would be in the range of 5 - 10% per unit. The potential savings for shifting only 50,000 units could approach $66 million per year in the short run.

The CBO discussion does not appear to include consideration of the full range of subsidized and/or guaranteed housing programs operated by the Farmers Home Administration. In our FmHA report (PAD-79-15) we identified for each program the annual expected costs for each $100 million in additional lending authority.

We estimated that a reduction of $100 million in section 502 subsidized homeowners loans would result in savings of $8 million in the first year and $28 million after five years. We estimated that a reduction of $100 million in section 515 & 521 - rural rental housing loans would result in savings of $6.8 million in the first year and $31 million after five years. The 1981 budget calls for a lending authority of $2.2 billion for section 502 subsidized housing and $800 million for section 515 & 521 rural rental housing. Because the loans themselves are off-budget, a reduction in their amount would not appear as a saving in the budget.

Relevant GAO Reports.

PAD-78-13

PAD-76-44

PAD-79-15

Relaxation of Davis-Bacon Wage Requirements

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
134	144	153	160	168	759

The 1931 Davis-Bacon Act and 77 related federal statutes require that wages paid on most federal and federally assisted construction projects equal the prevailing wage in the local area of the project. Where there is no majority of workers paid at an identical rate, the wage scale paid to at least 30 percent of local workers is used. The practical effect, particularly in urban areas, is that workers on federal projects receive union scale, instead of an average locality rate. Repeal of Davis-Bacon might result in outlay savings of more than $160 million a year by 1985 in just the three largest federal construction programs: military, Environmental Protection Agency construction grants, and ground transportation construction.

The estimated cost of the Davis-Bacon requirement, as given above, is based on recent studies by the General Accounting Office and the Council on Wage and Price Stability. Those studies have been criticized for using limited data and failing to adjust for asserted productivity differences. To the extent that higher-paid workers are more productive, higher wages may not translate directly into higher costs.

Defenders of Davis-Bacon argue that it saves the government money by excluding unqualified contractors and by preventing labor relations problems at construction sites. They also contend that the law's requirements add stability to the construction industry, thereby making less difficult the recruitment, training, and maintenance of skilled labor.

It is probable that repeal of Davis-Bacon would lead not only to some reduction in construction costs on federal projects, but would also tend to reduce upward pressures on wage rates at nonfederal projects in the same localities. While there would probably be some offsetting costs of the kind claimed by the critics of repeal, their magnitude cannot be calculated.

RELAXATION OF DAVIS-BACON WAGE REQUIREMENTS

GAO SUPPLEMENTARY DISCUSSION

GAO Views. We strongly agree with, and support, CBO's comments that repeal of the Davis-Bacon Act and removal of its wage determination requirements would result in substantial savings on Federal or federally financed construction costs.

As stated in our report to the Congress, we believe that the Congress should repeal the Davis-Bacon Act because (1) significant changes in economic conditions, and the economic character of the construction industry since 1931, plus the passage of other wage laws, make the act unnecessary, (2) after nearly 50 years, the Department of Labor has not developed an effective program to issue and maintain current and accurate wage determinations; it may be impractical to ever do so, and (3) the act results in unnecessary construction costs of between $200 and $500 million annually and has an inflationary effect on the areas covered by inaccurate wage rates and the economy as a whole.

In addition, the Davis-Bacon Act, along with the weekly payroll reporting requirement of the Copeland Anti-Kickback Act also result in substantial unnecessary administrative costs (between $100 and $200 million annually) for contractors--which are ultimately passed on to the Government--and for agencies to administer and enforce the act's requirements.

Critics of our report, such as OMB and the Secretary of Labor, contend that the Davis-Bacon Act is still needed to protect the construction workers and that the problems in implementing the act could be resolved through administrative action including, where appropriate, modification of Labor's regulations.

We disagree. The Davis-Bacon Act covers less than one-fourth of the estimated 4 million construction workers. The fact that the remaining 3 million workers who work on projects not covered by the act are among the best paid workers in the country indicates to us that construction workers do not need the "special protection" the critics deem essential.

Also, in our opinion, the problems and inadequacies we have identified--over almost 20 years of reviews--cannot be corrected or improved significantly by any administrative action, modifying regulations or applying additional resources to the program. Obstacles, inadequacies and problems continue

to hamper Labor's attempts to develop and issue accurate wage rates based on prevailing rates in localities. In our view, the act is impractical to administer--it cannot be effectively and efficiently administered.

Further, improving the administration of the Davis-Bacon Act prevailing wage determinations may slightly lessen or dampen, but not eliminate, the act's inflationary effect. Only the repeal of the act would return the determination of labor costs on federally funded or assisted construction projects to the forces of the competitive marketplace and eliminate the act's inherent inflationary effect.

In conclusion, we believe that the concept of issuing prevailing wages as stated in the Davis-Bacon Act is fundamentally unsound. We do not believe the act can be effectively, efficiently, and equitably administered. The act should be repealed.

Finally, an increasing number of congressional members are advocating repeal of the act. This is evidenced by a recent House bill introduced in the 96th Congress for repeal which had about 75 cosponsors. Others seeking repeal, in addition to GAO, include, but are not limited to, the Association of General Contractors, Associated Builders and Contractors, Inc.; the American Farm Bureau Federation; many leading economists, such as Arthur Burns; many contractors, and a number of State legislators. They believe, as GAO does that the law has outlived its usefulness, is inflationary, is impossible to administer and should be repealed.

Relevant GAO Reports. HRD-79-18, April 27, 1979, "The Davis-Bacon Act Should Be Repealed."

Reduction of Spending by the Small Business Administration

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
50	125	160	195	230	760

The Small Business Administration (SBA) provides management, technical, and financial assistance to small businesses. If its projected spending were cut back by 20 percent, the outlay savings during the next five years would be over $750 million.

Several different measures would permit a reduction in SBA expenditures. A 20 percent cut in both the direct and the guarantee loan programs would lower outlays for loans, losses, guarantee repurchases, and administrative costs. If SBA borrowers were charged the government's cost for the capital loaned—instead of about 2 percent less—annual savings after several years would exceed $40 million. Another measure to limit SBA spending would be to revise the definition of a small business. Under the current definition, about 96 percent of all nonfarm businesses now qualify for SBA assistance.

Reduction of Spending by the Small Business Administration "GAO Supplementary Discussion"

GAO Views

Obviously, any cutback in direct and guaranteed loans would reduce outlays, etc., but since SBA is the lender of last resort any cutback in direct loans and guarantees would prevent some small businessmen from starting a new business or expanding their business. Such a cutback could also cause some existing businesses to go out of business if working capital loans could not be obtained from SBA.

But, as we pointed out in two reports, SBA simply does not have the resources to effectively analyze and service loans approved in its major loan program. Short of realigning its current personnel or requesting additional staff from the Congress, one option we suggested would be for SBA to limit the number of loans it approves.

The definition of a small business needs attention. We pointed out in one report that SBA's size standards, which control eligibility for SBA assistance, have been developed without apparent consideration of the size of businesses most in need of Federal assistance. We recommended that SBA's size standards be reviewed which could, under given circumstances, result in reducing the number of small businesses eligible for SBA assistance.

In another report, we pointed out that small business investment companies, funded by SBA, are providing clients with loans similar to SBA's major business loan program, and concluded that continued Federal participation in this program was questionable. We suggested that the Congress take a hard look at this program and require SBA to fully justify its continuing need.

Relevent GAO Reports

GGD-76-24
CED-79-103
CED-78-149
CED-78-45

CBO Proposal

Reduction in Procurement of Aegis Cruisers

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
25	155	356	651	877	2,064

The CBO baseline projection used in estimating 1981-1985 spending assumes that 11 Aegis cruisers will be procured in that period. If the number were cut back to one a year, the five-year outlay reduction would exceed $2 billion. (The Administration has recently proposed 1981-1985 procurement of 16 Aegis cruisers.)

The Navy contends that carrier strikes near the Soviet homeland would be an important means of gaining control of the seas during a major European conflict. The Aegis cruiser would have sophisticated missile-defense systems that, the Navy argues, are necessary to protect U.S. carriers within the range of Soviet land-based airpower. In peacetime, the existence of such highly capable ships in the fleet could increase the credibility of a U.S. naval presence, wherever the fleet is deployed.

Proponents of a slowdown in Aegis procurement point out that the sophisticated systems involved have yet to be proved in sea trials. They also argue that the combat scenario for which the Aegis cruiser is ultimately designed is an unlikely one, and that it would be better to keep up procurement of less-expensive (though less-capable) ships, thereby making it easier to sustain the widespread deployments that may be required of the Navy.

REDUCTION IN PROCUREMENT OF AEGIS CRUISERS

GAO SUPPLEMENTARY DISCUSSION

GAO Views

CBO states that the 5-year outlay could be reduced by $2 billion if construction of Aegis cruisers is slowed down. This position is based on (1) Aegis has yet to prove itself in sea trials and (2) the combat scenario (operating in high threat areas) for which the Aegis cruiser is ultimately designed is an unlikely one, and that it would be better to keep up procurement of less-expensive (though less-capable) ships, thereby making it easier to sustain the widespread deployments that may be required of the Navy.

GAO agrees that a slow down in construction rates would reduce outlays; however, GAO has pointed out in previous reports that low production rates are one of the major factors contributing to increased weapon systems costs.

In several reports, GAO has raised questions on survivability and expressed the opinion that it is highly questionable whether the Navy will be able to survive when operating in high threat areas such as attacking the Soviet homeland.

GAO has recommended that, rather than assuming the carrier to be the centerpiece of future forces, the Navy's missions should be prioritized and analyses of alternative ways to fulfill its missions be made. If this were done and/or if operations in high threat areas were modified, GAO believes that additional potential savings could be achieved in the procurement of other sophisticated weapon systems such as carriers, aircraft, and submarines.

The Secretary of Defense has stated in his FY-1981 annual report that our priorities for use of naval forces--including carrier battle groups--in a NATO war are scenario dependent.

RELEVANT GAO REPORTS

Impediments to Reducing the Costs of Weapon Systems, PSAD-80-6, November 8, 1979.

Elimination of Procurement of the KC-10 Tanker

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
14	147	245	145	72	623

This option would end procurement of all 14 KC-10 tankers assumed in the CBO baseline projection for fiscal years 1981-1985. (The Administration recently increased its procurement objective for this period to 20.)

The KC-10 is a wide-bodied jet (the DC-10) modified to accomplish aerial refueling. Its purchase is justified by the need to refuel cargo and tactical aircraft during long, nonstop transits associated with Persian Gulf and other Third World contingencies. Because of its large size and range, the KC-10 is much better suited to long-range deployments than the existing, smaller KC-135 tankers. The fleet of about 600 KC-135s is primarily committed to refueling strategic bombers in the event of a nuclear war.

The long range of the KC-10 is much less important for a faraway conflict, however, if the United States secures overflight and landing rights at intermediate stops, as it has in most previous airlift operations. Furthermore, even without overflight and landing rights, KC-135s could refuel U.S. cargo and tactical aircraft in a Third World mission. The KC-135s devoted to this effort would not, however, then be immediately available for stratgic bomber refueling, were a nuclear war to occur with little warning.

Elimination of Procurement of the KC-10 Tanker

GAO Supplementary Discussion

GAO views. Having studied tanker requirements to support wartime plans, the Air Force has concluded that its tanker assets are inadequate. However, GAO believes that the Air Force aerial tanker studies did not adequately address some pertinent issues affecting aerial refueling requirements, left a number of uncertainties as to the scope of wartime aerial refueling missions unresolved, and, in some cases, contained inadequate data. As a result, the requirements appeared to be overstated. GAO concluded in August 1979 that the Air Force must make a realistic determination of the minimum amount of aerial refueling capability it must have and will be able to use effectively before further increasing its aerial refueling capabilities. A key factor that must be considered is the potential for individual tankers to support more than one mission's requirements.

The Air Force has implemented programs to modernize its tanker force and increase its capabilities by installing larger and more efficient engines on the KC-135s and buying new and larger tankers, the KC-10. Generally, acquiring the KC-10 appears to be the more efficient and economical method for providing additional fuel storage capacity. There may be a need, however, for operational flexibility which is attainable by reengining the smaller but more numerous KC-135s. The optimum mix of these alternatives is uncertain.

The current Air Force program to procure the KC-10 advanced tanker cargo aircraft, a derivative of the DC-10 commercial freighter, shows that DOD has agreed with the Air Force on its need for the KC-10. However, there does not appear to be a firm DOD position or underlying justification concerning the total quantity needed. The number needed still seems uncertain and elusive.

The need for the KC-10 tanker is contingent on the Air Force (1) realistically determining its additional tanker requirements, if any, and (2) determining the proper mix between alternatives for meeting those requirements. Until the Air Force does this, the extent it needs the KC-10 remains uncertain.

Termination of MX Missile Program and Expansion of Sea-Bas Deterrent

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
873	1,507	1,574	2,035	3,905	9,894

If the MX missile program were halted, and if a portion the savings were shifted to the more rapid development of t Trident II missile and to the procurement of eight Trident s marines during the next five years (instead of the five assumed the CBO baseline projection), the 1981-1985 savings could appro $10 billion. Some of these savings would be offset in the long by the higher operating costs of a sea-based system and, if Trid procurement were limited to an additional eight submarines, United States would have less strategic capability than is c rently planned.

The case for and against the MX is too complex to be th oughly summarized in a page. The points below merely highli some of the issues.

Advocates of the MX believe that the United States sho maintain a triad of strategic forces--consisting of bombe ballistic missile submarines, and land-based missiles--each capa of surviving a Soviet first strike. The MX missile system, t argue, is needed because existing land-based missiles could vulnerable to a Soviet strike by the mid 1980s. The MX could a provide other advantages, including the capability for more re able command and control links and an increased capability attack such "hard" targets as missile silos and command bunke

Opposition to the MX missile system has centered on hard-target destruction capabilities, and the potential cost insuring that a reasonable number of missiles could survi Soviet first strike. Without the restraints of the Salt II trea the Soviets could expand their arsenal of missiles aimed at the system, which could substantially increase the costs of a surv able MX missile system. These costs, and environmental probl associated with the MX, have led some to think that, if fede spending must be reduced, development and deployment of the m accurate Trident II missile aboard additional Trident submari might provide sufficient capability.

TERMINATION OF MX MISSILE PROGRAM AND EXPANSION OF SEA-BASED DETERRENT GAO SUPPLEMENTARY DISCUSSION

GAO VIEWS

During the course of GAO audits of the MX weapon system we reviewed many studies which analyzed different techniques for enhancing the survivability of our intercontinental ballistic missile (ICBM) force. Final decisions on the basing mode remain to be made and will be based upon military judgment as to what is needed to provide survivability to our ICBMs in view of the future threat. Our report issued on February 29, 1980, did point out that the high estimated cost of at least $56 billion for the MX system raises a serious question regarding its affordability. We also noted that there are many cost and schedule uncertainties and, while the basing mode has been selected by the Executive Branch, the Congress has requested that other alternative be studied.

The CBO report on the other hand questions whether the United States needs to continue with a strategic Triad force--intercontinental ballistic missiles, submarine launched ballistic missiles (SLBM), and bombers--or whether the latter two would suffice. This issue goes beyond a comparison of cost. The implications of the Strategic Arms Limitation Talks treaty verification requirements, the possibility of a loss of accuracy with SLBMs, and the future survivability of land-based versus sea-based systems are important considerations. A TRIAD versus DYAD strategy for deterrence has been studied by the DOD. GAO has not challenged the decision to maintain the TRIAD concept because:

--the DOD has addressed this issue on several occasions with Congressional Committees, and,

--the need for a TRIAD versus DYAD is a military policy decision. It is not GAO's policy to make judgment on military strategy.

GAO has no basis for commenting on the cost savings that CBO cites by terminating the MX and expanding Trident.

RELEVANT GAO REPORTS

"The MX Weapon System--A Program With Cost and Schedule Uncertainties" (PSAD-80-29, February 29, 1980).

CBO Proposal

Elimination of the Military Assistance Program

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
0	110	120	130	150	510

The Military Assistance Program (MAP) provides military equipment and services to support the military forces of U.S. allies. Today eight countries receive significant amounts of MAP funds, with the Phillipines and Portugal receiving the most. The Administration has greatly reduced MAP in favor of credits and foreign military sales backed by U.S. guarantees. This option would eliminate MAP entirely beginning in fiscal year 1982.

The Administration has supported the elimination of MAP, apparently on the judgment that the U.S. allies can retain strong forces without this aid. On the other hand, the high cost of importing petroleum, coupled with the weak world economy, has created serious problems in some countries of strategic importance to the United States (Turkey, for example). Thus, it may be necessary to continue providing equipment and services to some countries, either through MAP or through other means.

Elimination of the Military Assistance Program

"GAO Supplementary Discussion"

GAO Views

Over the years we have examined the efficiency and effectiveness of the Military Assistance Program and in cases where a country's economic position improved we recommended elimination of the program. We have not performed any recent reviews of the Military Assistance Program primarily because of the declining program levels. Some reductions in this program are possible, however, we question whether the program should be eliminated in view of the flexibility it gives the U.S. Government in carrying out sensitive foreign policy matters. The recent events in South Asia and the U.S. response either to provide assistance to certain countries or seek access to facilities illustrates the need to have a program which can be used to quickly respond to such problems. Also, we believe the critical world economic situation and its effect on key allies such as Turkey and Portugal argues against eliminating the Military Assistance Program.

Hospital Cost Containment

CBO Proposal

Savings by Fiscal Year (in millions of dollars)					Cumulative Five-Year Savings
1981	1982	1983	1984	1985	
370	1,400	3,000	5,000	7,200	16,970

Federal outlays for Medicare and Medicaid would be reduced by an estimated $370 million in 1981, increasing to $7.2 billion in 1985, if the Congress were to enact the Administration's legislative proposal for limiting hospital revenue increases from 1979 levels. Other payers, such as state governments, private insurers, and individuals, would benefit proportionately. Total savings, public and private, are estimated at $40 billion over the next five years. The impact of the proposal would be large enough to lower the estimated 1985 CPI by 0.6 percentage point.

The rationale for the proposal lies in the nature of the market for hospital services. The role of physicians in medical decision making, combined with extensive third-party payment arrangements, eliminates much of the pressure to contain costs that is found in markets for other services.

Opponents of the measure allege that the limitation on revenue growth would force hospitals to cut down on essential services and expose them to increased deficits or reduced surpluses. Physicians might suffer a reduction in hospital-provided resources available in their practices. Patients might lose access to some services, and could find the quality of care not improving as much as it otherwise would have (although they would pay less for care).

The advantages of the approach include substantial savings in expenditures, a relatively small amount of red tape for a regulatory proposal, and the opportunities provided for states to substitute their own cost containment programs. Disadvantages include a brake on investment by hospitals in new technologies and unequal treatment of similar hospitals.

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Hospital Cost Containment

GAO Supplementary Discussion

GAO Views

There is significant potential to reduce hospital costs and a limit on revenues may be a good temporary measure to encourage hospitals to operate more efficiently.

In a draft report just sent to HEW and others for comment, we point out that hospitals are not making extensive use of proven cost-effective management techniques. These techniques included preadmission testing, admission scheduling, nurse staffing systems, use of generic drugs and drug formularies, energy conservation measures, and sharing services and equipment. A limit on revenue may make it advantageous for hospitals to make greater use of these techniques.

The draft report points out the considerable impact that some State prospective ratesetting programs (for example, Maryland, New Jersey, Connecticut, State of Washington) have had on restraining the rate of hospital cost increases compared to the national average. We therefore would support a proposal allowing those States whose programs are successful to continue them. We also suggest that other States be encouraged to adopt prospective ratesetting programs using the successful programs as a model.

Relevant GAO Reports

Rising Hospital Costs Can Be Restrained By Regulating Payments and Improving Management. (Report in draft status. Sent to agency for comment on March 6, 1980).

SAVINGS ON THE REVENUE SIDE: REDUCTIONS IN TAX EXPENDITURES AND TIGHTER ENFORCEMENT OF EXISTING LAW

Private Hospital Bonds

	Revenue Change by Fiscal Year (in billions of dollars)					Cumulative Five-Year Revenue Increase
	1981	1982	1983	1984	1985	
Revenue Loss Under Current Law	0.5	0.6	0.6	0.7	0.8	
Revenue Increase from Repeal of Tax Exemption on New Issues	0.1	0.1	0.2	0.2	0.3	0.9

The use of tax-exempt bonds to finance private hospital construction has increased significantly in recent years. A total of $3.4 billion in tax-exempt hospital bonds was issued in 1979, accounting for about 8 percent of all long-term tax-exempt financing in that year. Over half of all new hospital construction in 1979 was financed with tax-exempt bonds.

The argument for repealing the tax exemption for private hospital bonds is that most evidence indicates that there is a surplus of hospital beds in the United States, and that excess hospital beds contribute to increases in hospital prices. As a result, direct federal subsidies for hospital construction have been sharply cut back in recent years.

The argument against repealing the tax exemption for private hospital bonds is that, even though there may be an excess of hospital beds nationally, some areas still lack adequate hospital facilities. But tax-exempt bond financing may not be the best way of assisting such areas, since the local governments may not have the financial strength to obtain favorable bond ratings and thus gain access to tax-exempt bond markets.

Private Hospital Bonds

GAO Supplementary Discussion

GAO Views

While we have not done specific audit work in this area we support the proposal to repeal the use of tax exempt hospital bonds because of the current excess hospital beds in most parts of the country.

The resulting slowdown in new hospital construction could better enable local health planning agencies to identify the health service needs (including hospitals) for their areas, and to possibly alter existing services to meet identified needs. While this may not be possible in all areas, many health service areas have excess capacity of some services and inadequate capacity in others. Through appropriateness reviews and other techniques, health planning agencies may be able to exert pressure to modify existing facilities and alter services to accommodate health needs without new construction.

In summary, the proposal could have a beneficial financial impact, and could give health planning agencies greater leverage and a more positive role in improving health services in these geographic areas of responsibility.

Relevant GAO Reports

None.

CBO Proposal

Repeal of Home Insulation Tax Credit

	Revenue Change by Fiscal Year (in billions of dollars)					Cumulative Five-Year Revenue Increase
	1981	1982	1983	1984	1985	
Revenue Loss Under Current Law	0.4	0.4	0.4	0.5	0.5	
Revenue Increase from Repeal	0.4	0.4	0.4	0.5	0.5	2.2

In the Energy Tax Act of 1978, the Congress established a 15 percent tax credit, up to a maximum of $300, for home insulation and other energy conservation devices.

The argument for repeal of the credit is that it generally does not provide an effective incentive to marginal purchasers of insulation, but instead is a windfall to those who would have purchased insulation in any case. The credit has been used primarily by higher-income taxpayers who, in response to a near tripling in home heating costs, probably would have insulated without the credit. The credit may also have contributed to artificial increases in the cost of insulation.

The argument for the credit is that, although many of the beneficiaries would have insulated sooner or later without the credit, the subsidy may accelerate their purchases by a few years, thus reducing short-term U.S. dependence on foreign oil.

REPEAL OF HOME INSULATION TAX CREDIT

GAO SUPPLEMENTARY DISCUSSION

GAO Views

GAO has, in past reports, generally supported the concept of providing consumers with tax credits for installing insulation and other energy conservation devices. GAO has not, however, specifically discussed the effectiveness of the 15 percent tax credit established by the Energy Tax Act of 1978.

In reports and testimony dating back to 1975, GAO has supported the use of tax credits to encourage consumers to purchase and install energy conservation devices in their homes. In 1975 testimony before the House Ways and Means Committee, the Comptroller General presented alternative energy proposals developed by GAO. One such proposal was for programs of tax credits and low interest loans to encourage installation of energy saving measures such as storm windows and doors and insulation. GAO reaffirmed its support for tax credits for homeowners who install energy conserving devices in a 1977 report which evaluated the Administration's April 1977 National Energy Plan and in a 1978 report which evaluated the Federal Government's energy conservation efforts.

In a recent report which assessed the nature of reported problems involving the availability, safety, and effectiveness of insulation materials, GAO did not assess the effectiveness of the tax credit in causing consumers to install insulation. The tax credit was discussed only from the standpoint of being one of several Federal programs which encourage the installation of insulation.

We have not performed any work which would enable us to agree or disagree with CBO's estimates of the potential savings or revenue increase in this area. We would like to point out however, that we continue to support energy conservation as a very significant part of national energy policy. The Congress may wish to consider the impact repealing the tax credit may have on the public's perception of the seriousness of the Federal Government's commitment to energy conservation.

Relevant GAO Reports

"Federal Efforts to Ensure the Effectiveness and Safety of Thermal Insulation Can Be Improved," EMD-80-4, November 26, 1979.

"The Federal Government Should Establish and Meet Energy Conservation Goals," EMD-78-38, June 30, 1978.

"An Evaluation of the National Energy Plan," EMD-77-48, July 25, 1977.

"National Standards Needed for Residential Energy Conservation," RED-75-377, June 20, 1975.

Taxation of All Unemployment Insurance Benefits

	Revenue Change by Fiscal Year (in billions of dollars)					Cumulative Five-Year Revenue Increase
	1981	1982	1983	1984	1985	
Revenue Loss Under Current Law	3.1	2.9	2.5	2.1	1.8	
Revenue Gain from 1978 Act (compared to old Law)	0.3	0.3	0.3	0.3	0.3	
Additional Revenue Increase from Full Taxation of Benefits	3.1	2.9	2.5	2.1	1.8	12.4

Before 1979, a series of Internal Revenue Service rulings served as the basis for exempting from taxation unemployment compensation paid under most government programs. The Revenue Act of 1978 altered this treatment by partially taxing benefits received by individuals with incomes over $20,000 and married couples with incomes over $25,000.

The revenue gain from the 1978 law change will amount to about $300 million a year over the next five years. Because the income limits specified in the provision were set so high, however, the 1978 act did not affect the majority of taxpayers. If unemployment payments were made fully taxable for all individuals, the additional revenue gain would be about $3.1 billion in 1981.

Expanding the current taxability of unemployment payments to include all workers would remove any differences in the tax treatment between privately paid unemployment compensation and government benefits. Supplementary unemployment benefits from private employers have always been considered fully taxable income because they are intended to replace lost taxable earnings. Removing the tax exclusion for unemployment benefits would also reduce the current law's incentives to low- and middle-income individuals to remain unemployed; the level of payments made to unemployed workers is now frequently close to the after-tax income they could receive from working.

Taxation Of All Unemployment Insurance Benefits

GAO Supplementary Discussion

GAO Views. GAO recommended in an August 1979 report that the Congress consider including unemployment compensation in taxable income. Doing this has merit both in increasing equity and in providing recipients with a better financial incentive to seek work.

When compensation is nontaxable, recipients in a high tax bracket benefit more from the tax-free nature of unemployment compensation than recipients in a lower tax bracket. Furthermore, recipients with working spouses benefit most from this inequity. As one of two workers in the family, these recipients would normally be in a higher tax bracket than if they were sole wage earners.

Taxing compensation would reduce the percentage of income replaced during unemployment. However, this would increase many recipients' financial incentive to seek employment. In the August 1979 report, GAO pointed out that interviews with 3,000 persons receiving unemployment compensation showed that compensation, either alone or combined with other income, replaced an average of 64 percent of a recipient's net income before unemployment. About 25 percent of these persons replaced over 75 percent of their net income and about 7 percent replaced over 100 percent.

The Revenue Act of 1978 revised the tax exempt status of unemployment compensation. Compensation will now be taxed if adjusted gross income exceeds certain levels. However, because the income limits were set so high, only a small percentage of those who collected unemployment compensation should be affected. The act became effective in 1979, and it will be reflected in tax returns filed by April 15, 1980.

GAO did not estimate the additional revenues to be gained from taxing all unemployment compensation but agrees with CBO that the potential exists for substantial revenue in this area in addition to the other benefits cited above.

Relevant GAO Reports. HRD-79-79.

ADDITIONAL WITHHOLDING AND BETTER ENFORCEMENT

Institution of Withholding on Interest and Dividend Income

	Revenue Change by Fiscal Year (in billions of dollars)					Cumulative Five-Year Revenue Increase
	1981	1982	1983	1984	1985	
Revenue Increase from 15 Percent Withholding on Interest and Dividends	6.5	3.3	3.7	4.2	4.6	22.3

It has been estimated that as much as $14 billion in interest and dividend income goes unreported by taxpayers each year, resulting in billions of uncollected tax dollars. If 15 percent of such income were withheld at the source, more revenue would be collected, and tax evasion and fraud could be reduced. The revenue gain would result from a one-time speed-up of receipts in the initial year of enactment, and the collection of taxes on previously unreported income. While some taxpayers would undoubtedly continue not to report all of their interest and dividend income (and thus only 15 percent of it would be collected as a tax), many others would probably be induced into a full disclosure and would be taxed at an average marginal rate of 25 percent.

The proposal has been consistently and strongly opposed by the financial community on the grounds of excessive administrative costs and inconvenience. Yet banks, savings and loan associations, and dividend payers are already required to file annual information reports for all taxpayers who receive over $10 in interest or dividend income, and the additional chore of withholding should not be unduly burdensome. The Internal Revenue Service would also incur additional administrative and compliance costs.

Institution of Withholding on Interest and Dividend Income

"GAO Supplementary Discussion"

GAO Views. CBO proposed a revenue increase of $22.3 billion over 5 years by withholding 15 percent on interest and dividends. GAO strongly supports this proposal.

Our research for a 1977 report on the withholding tax on wages convinced us that the tax system would be both more efficient and more equitable if withholding were required on as many forms of income as possible. The overwithholding we found in the withholding tax on wages would be only a very minor problem for interest and dividends if the withholding rate is kept as low as 15 percent, as CBO suggests. Provision might also be made for additional voluntary withholding on dividends and interest; some persons with significant amounts of this income might prefer to pay their full tax through withholding and avoid the need to file a declaration of estimated tax.

As CBO points out, several proposals for withholding on dividends and interest have been rejected because of the administrative burden it would impose on the payers. It is worth remembering, however, that the same concern was expressed when the withholding tax on wages was proposed in the early 1940's. Payers of wages adjusted then, and now handle a far more complex withholding system apparently without excessive discomfort.

Relevant GAO Report. PAD-78-5.

Institution of Withholding on Independent Contractors

	Revenue Change by Fiscal Year (in billions of dollars)					Cumulative Five-Year Revenue Increase
	1981	1982	1983	1984	1985	
Revenue Increase from 10 Percent Withholding on Independent Contractor Income	0.6	0.6	0.7	0.9	1.1	3.9

Recent studies have indicated substantial underreporting of income by so-called "independent contractors." These include realtors, insurance agents, construction workers, truck drivers, and others whose relationship with those from whom they receive income is not as close as the normal employer-employee relationship. A 1979 study by the Internal Revenue Service suggested that almost 50 percent of all workers who are currently treated as independent contractors by the IRS do not report any of their compensation.

The Administration has proposed legislation that would require that 10 percent of payments to independent contractors be withheld at the source for taxes. A subcommittee of the House Committee on Ways and Means reported a bill (H.R. 5460) late last year incorporating this Administration proposal, and action by the full committee is expected this year. The Administration estimates that 10 percent withholding would result in a revenue increase of at least $600 million a year.

INSTITUTION OF WITHHOLDING ON INDEPENDENT CONTRACTORS
GAO SUPPLEMENTARY DISCUSSION

GAO Views Studies have shown and our work supports the fact that compliance with the tax laws is generally greater among those categories of taxpayers whose income is subject to withholding. Self-employed persons, which includes independent contractors, as a group have lower compliance rates than those employed by others. For example, our July 17, 1979, report to the Congress showed that there were relatively more self-employed persons in the nonfiler population than in the filer population. We estimated that in 1972 self-employed persons made up 17 percent of the nonfiler population and only 8 percent of the filer population.

In July 17, 1979, testimony we concluded that while no statistically accurate study on independent contractors as a group was available, the results of various studies indicated that noncompliance among self-employed taxpayers may be serious enough to consider the use of withholding to collect part of the taxes they owe. In this regard, we supported the Administration's proposed legislation that 10 percent of payments to independent contractors be withheld at the source for taxes. Further, we supported the bill (H.R. 5460) incorporating this proposal and other provisions to deal with the overall problem of defining employees and independent contractors, which is a problem we discussed in a November 1977 report. While we have not developed projected figures, the withholding requirement, if enacted, should result in increases in revenue to the Government.

Relevant GAO Reports GGD-77-88; November 21, 1977.
GGD-79-69; July 11, 1979.
Testimony of Richard L. Fogel on Independent Contractors before House Ways and Means Subcommittee on Select Revenue Measures; July 17, 1979.

Increase in IRS Audit and Collection Resources

	Revenue Change by Fiscal Year (in billions of dollars) 1981	1982	1983	1984	1985	Cumulative Five-Year Revenue Increase
Increase in Tax Revenues	0.3	0.8	1.2	1.7	2.1	6.1
Increase in IRS Resources (Outlays)	0.1	0.1	0.2	0.2	0.3	0.8
Net Revenue Increase	0.2	0.7	1.1	1.5	1.9	5.3

Note: Details may not add to totals because of rounding.

According to the Internal Revenue Service, every additional dollar appropriated for tax examination purposes generates $4 to $5 of tax revenues, and every additional dollar appropriated to collect unpaid accounts generates $18 to $20. On the basis of these estimates, an increase in IRS appropriations of $50 million (5 percent of the current budget) in each of the next five years could provide net budget savings of about $0.2 billion in 1981, growing to $1.9 billion in 1985, with a five-year cumulative savings of $5.3 billion. This option entails no increase in tax rates but only the more efficient collection of sums already owed the government under current law.

INCREASE IN IRS AUDIT AND COLLECTION RESOURCES
GAO SUPPLEMENTARY DISCUSSION

GAO Views: While we have not developed specific projections, our work in the audit and collection area support the view that increased resources in the audit and collections areas, as well as other compliance enforcement areas—if efficiently employed—should result in (1) substantial increases in revenue to the Government and (2) increased compliance with the tax laws.

In our July 11, 1979, report to the Congress on IRS' efforts to detect and pursue individual nonfilers we concluded that the nonfiler problem was serious and made numerous recommendations for improving IRS' efforts against nonfilers. IRS claimed that it lacked the resources to implement an effective nonfiler effort. We agreed that additional resources might be needed to make IRS' nonfiler efforts fully effective, but that other important compliance enforcement efforts, such as examinations and collections in general, should not suffer. We concluded that given (1) the amount of resources the Administration wants to direct at nonfiling versus other noncompliance problems; and (2) the size of the nonfiler population, and its potential adverse effect on the Nation's voluntary tax assessment system, the Congress should determine whether IRS' nonfiler efforts are being funded at a level sufficient to cope with the magnitude of the problem.

In testimony in July and September 1979 on the overall unreported income problem, we concluded that IRS needs an overall compliance strategy which allocates compliance resources based on a consideration of the type and extent of noncompliance problems and the effectiveness of the various compliance enforcement efforts—examinations, collections, criminal investigations, and withholding and document matching—in dealing with those problems. We concluded that (1) IRS should assess the need for additional resources to close the noncompliance gap for each type of unreported income and (2) Treasury, OMB and the Congress should be involved in deciding how to best allocate IRS' compliance dollars to insure that the Government deals with the unreported income problem in the most effective way.

In our September 1979 testimony, we expressed concern over the cuts in IRS' compliance enforcement resources and the proposed reduction in the percentage of taxpayers to be audited by IRS. Subsequently, in conferring on Treasury's FY 1980 Appropriations bill, congressional conferrees expressed extreme concern about "the burgeoning subterranean economy estimated to be in excess of $100 billion and the declining trends of voluntary compliance with the U.S. tax laws that this situation may imply." The conferees directed the IRS to maintain quality audit coverage of 2.24 percent in fiscal year 1980 and allowed an additional 750 positions for the program. In addition, they approved the Administration's appropriation's request for IRS' investigations and collections activities.

Relevant GAO Reports: GGD-79-69, July 11, 1979.
Testimony of Allen R. Voss on IRS efforts to detect and pursue nonfilers and underreporters; July 16, 1979.
Testimony of Richard L. Fogel on Subterranean Economy; September 6, 1979.