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## CUTTING THE DEFICIT \$5 BILLION WITHOUT HIKING TAXES

### INTRODUCTION

The Congressional Budget Resolution negotiated by House and Senate leaders earlier this summer places the budget squarely on a collision course with the Gramm-Rudman-Hollings spending ceilings. The timid resolution leaves little margin for error. Back when congressional leaders put the budget blueprint together, they made only enough spending cuts to just squeeze below the Gramm-Rudman deficit target. This strategy now is coming back to haunt them: there is almost universal agreement that the Budget Resolution will miss the deficit target by a wide margin. Even the White House Office of Management and Budget, which is normally the most optimistic of forecasters, predicts a deficit for this year of just over \$230 billion--far above the congressional estimate. Even if Congress thus delivers on every budgetary promise made in the Budget Resolution, the Gramm-Rudman deficit target of \$144 billion is still likely to be exceeded.

Worse yet, the Budget Resolution may imperil U.S. national security by underfunding defense. Congress's Budget for the Pentagon is \$28 billion below the President's request. Reagan has charged that this cut could "cripple the combat readiness of our conventional forces."

Both of these shortcomings of the Budget Resolution--insufficient deficit reduction and a gutted defense budget--can be alleviated in part by making use of a special "contingency fund" contained in the Resolution. This provides additional funding for "unmet critical

needs," including defense, which may arise over the course of the fiscal year.

For the contingency fund to become operative, the President must submit a request to Congress for additional money to finance a critical budgetary need. This request may not increase the deficit; it must contain an equal amount of spending reductions in other programs, or it must provide for additional revenue to balance the new spending. In fiscal 1987, which begins this October 1, the President may request \$5 billion for the contingency fund, of which a maximum of \$3 billion may be used for defense. Reagan thus should declare immediately that defense and further deficit reductions are "unmet critical needs." This would bring defense spending in line with the President's agenda, while helping to avert automatic Gramm-Rudman cuts that would impair both the nation's defense and high priority domestic programs.

Many observers believe that Congress established the contingency fund option to force Ronald Reagan, who wants more money for defense, to hike taxes and accept more domestic spending. The President should not fall for this. Rather, he could find the extra \$5 billion by requesting that Congress raise user fees and invoke spending reductions originally contained in either the Senate or the House budget proposal. This would call the lawmakers' bluff, making it difficult for Congress to turn the package down.

By making this request, Reagan can reaffirm the Administration's solid commitment to strengthening the nation's military while complying with Gramm-Rudman. He also can put the big spenders in Congress back on the defensive by proposing a supplemental deficit reduction package, which election-minded Congressmen can reject only at great peril. Finally, this deficit reduction package can demonstrate to the public that the road to a balanced budget is to reach agreement on budget priorities, not to raise taxes.

#### FINDING \$5 BILLION FOR THE CONTINGENCY FUND

Money for the contingency fund can be raised by three means: 1) cutting existing programs; 2) imposing new user fees on government-provided services; and 3) raising fees for commercial services that the government currently provides businesses and individuals at subsidized rates. Selling federal assets in theory could raise extra money, but after voting for \$3 billion in sales from the federal loan portfolio and \$4 billion from the sales of Conrail and the Naval Petroleum Reserve, Congress seems unlikely to endorse further sales in the near future.

Each of the proposals below has been suggested by either the Senate or the House during budget negotiations this year. None of

them, therefore, is without significant legislative support. Many would bring in new federal revenue without raising taxes. And each would help to shift essentially commercial activities from the public sector to the private sector, where they belong.

#### USER FEES

##### 1) Coast Guard User Fees

Revenue = \$100 million.

The House budget resolution proposes \$150 million in Coast Guard user fees, but the Conference agreement raises just \$50 million. For no defensible reason, fees to be charged for routine towing and other services for recreational boaters were struck from the resolution. These should be restored. Wealthy yacht owners should pay for the federal services they receive.

##### 2) Agriculture User Fees

Revenue = \$100 million.

The House resolution proposes charging users a fee for a number of Agriculture Department activities, including grain inspections, market news services, and plant inspections. The cost of these programs ought to be borne by the user and those who consume the farmer's product and not by all taxpayers.

##### 3) Nuclear Energy Regulatory Commission User Fees

Revenue = \$200 million.

The Budget Resolution contains \$100 million in NERC user fees, down from the \$200 million recommended by the Reagan budget and the \$300 million by the House. These NERC activities include nuclear power plant safety inspections and issuance of licenses and operating standards for the construction of nuclear reactors. If the fees were set at \$300 million, the nuclear power industry and its users would pay most of the program's cost, as they should.

##### 4) Customs Service User Fees

Revenue = \$300 million.

This year's Budget Resolution contains \$200 million in new Customs Service user fees, far below the \$500 million endorsed by the Senate budget and the Reagan budget. The higher level of fees should be imposed. These fees would cover the cost incurred by the Customs Service in conducting border cargo inspections. A mere 500 major

importers are responsible for 90 percent of these costs. The Office of Management and Budget has computed that these fees would represent, on average, less than one-tenth of one percent of the value of the imported goods. Many other countries, including France and Spain, charge importers for such services.

5) License Fee for Sport Fishing in Coastal Waters

Revenue = \$100 million.

This proposal has won the support of the House and the Office of Management and Budget, but not the Senate. Sport fishermen place a high value on preservation of marine fisheries. The National Oceanic and Atmospheric Administration spends millions of dollars each year conserving the natural resources in federal waters and conducting other activities in support of recreational fishing. A \$10 to \$20 annual licensing fee paid by sports fishermen for the right to fish in federal waters would cover a small portion of this cost.

6) Raise the Price for Federally Produced Uranium

Revenue = \$100 million.

The Senate proposes raising \$100 million through the "accelerated recovery of federal investment" in uranium enrichment. This simply means that the federal government would start charging the market price for uranium produced at government plants. Currently, this taxpayer-subsidized uranium is sold at below market prices.

7) Raise the Price for Bureau of Reclamation Water

Revenue = \$200 million.

The Bureau of Reclamations' water projects in 17 Western states include dams and irrigation systems. The House called for 20 percent across-the-board spending cuts in the Bureau of Reclamations budget, which were not adopted in the final Budget Resolution. If the Senate refuses to enact these cuts, an alternative will be to require the Bureau to raise the price it charges on water and to raise the interest rates for repayment of Bureau projects to reflect the cost of long-term Treasury borrowing. Bureau of Reclamations water is typically sold for as little as one-sixth the actual cost to the government of delivering it.

8) Raise Federal Aviation Administration User Fees

Revenue = \$200 million.

The Budget Resolution increases Federal Aviation Administration spending \$200 million. This boost should be offset by raising aviation user fees, such as taxes on airline tickets and fuel taxes on

private aircraft. Airport costs, after all, should be paid by aviation users, not general taxpayers. The nonpartisan Congressional Budget Office has endorsed raising aviation user fees, maintaining that this would "encourage more efficient use of the nation's airports and airway system." CBO's analysis found that small private aircraft user fees now cover only 10 percent of their share of FAA expenditures.

9) Raise Fees on Export-Import Bank Loans

Revenue = \$300 million.

The Export-Import Bank should raise fees and interest rates \$300 million to recoup some of the \$1 billion annual cost to taxpayers of operating the bank. The Senate budget, in fact, implicitly cuts the Bank's budget by this amount.

10) Raise Fees to Make the Small Business Administration Loan Programs Self-Supporting

Revenue = \$300 million.

The Senate Budget Resolution proposes that the Small Business Administration raise interest rates on its loans to cover the program's default costs. This was dropped in Conference. While the measure would not reduce or restrict eligibility for SBA loans, it would nudge credit terms closer to market levels. It also would prod the agency to improve its poor performance in selecting the recipients of SBA loans--the default rate at the SBA is now between 20 and 30 percent.

11) Increase Student Loan Interest Payments and Adopt More Stringent Debt Repayment Measures

Revenue = \$400 million.

The Senate budget proposes extensive reforms in the Guaranteed Student Loan Program, including increasing student interest payments and reducing yields to state agencies and banks that make the loans. This would yield a three-year savings of \$1.3 billion, but it was dropped in Conference. The Senate's proposal was sound. The current interest rate charged on student loans is 8 percent, far below the level the federal government reimburses the lender--the T-Bill rate plus 3.5 percent. Simply reducing this rate to the T-Bill rate plus 3.25 percent as the Senate suggests would save \$600 million over five years without chasing lenders away from the \$10 billion of new business the GSL program brings to the nation's banks. Congress should allow the Department of Education to be more assertive in collecting on delinquent loans. The default rate in 1985 was 11.7 percent, costing taxpayers over \$1 billion. Congress should permit

the Education Department to begin a pilot program of selling delinquent loans to banks and private debt collectors.

12) Sell Naval Petroleum Reserve Oil

Revenue = \$100 million.

The Conference agreement promises to sell the naval petroleum oil reserves to the private sector in 1988 for an estimated \$2 billion. While this is to be applauded, past experience teaches that the sale could take years. Until that time, Congress should require the Department of Energy to sell oil from those reserves at market levels, instead of at the \$4 a barrel below market levels mandated by law. The Department of Energy is expected to sell over 30 million barrels in 1986.

13) Raise Entrance Fees at National Parks

Revenue = \$100 million.

The Senate Budget Resolution proposes raising new revenue by charging higher entrance fees at the national parks. At least \$100 million could be raised with only a modest increase in admission charges. General taxes would still be required to pay the bulk of the cost of operating and maintaining the parks. A number of environmental organizations, who in the past have objected to raising these fees, now recognize that higher fees may help alleviate the chronic overcrowding at many of the more popular areas.

14) Raise the Medicare Supplemental Medical Insurance Program Premium Payment

Revenue = \$400 million.

The House budget proposal cuts fiscal 1987 Medicare expenditures by \$450 million more than the Conference agreement. These savings would be achieved by limiting payments to certain hospitals and physicians. After criticism from the medical community, however, the proposal was abandoned. Similar savings could be achieved by raising the monthly premiums of upper-income recipients for participating in the Supplemental Medical Insurance Program (SMI), as recommended in the Reagan budget. SMI is an optional supplement to the standard Medicare Hospital Insurance coverage. It is 75 percent financed from general tax revenue and 25 percent financed through the premium payments of recipients. Recipients' contributions should be raised to 35 percent of total program cost by a sliding scale so that higher-income recipients would pay up to 50 percent of the program's per patient cost, and lower-income elderly no more than they do at present.

15) Raise Fees for Filing Oil and Gas Leases on Public Lands and Waters and for Other Services

Revenue = \$100 million.

The House budget proposes doubling the noncompetitive filing fees for oil and gas leases from \$75 to \$150. This was rejected by the Senate despite mounting evidence that the leases are underpriced. Other user fees in the Natural Resources and Environment budget function were deleted from the Conference agreement. Example: the House rejected a Senate plan to raise \$25 million through raising fees for maps produced by the National Oceanic and Atmospheric Administration and for recovering the full cost of U.S. Geological Survey mapping and surveying. Both activities benefit primarily private industries, which should be charged for the services. Example: the House budget seeks to collect an extra \$10 million by raising public lands grazing fees paid by ranchers.

**SPENDING CUTS**

1) Reduce Federal Subsidies to the U.S. Postal Service

Deficit Reduction = \$100 million.

The House \$100 million reduction in Postal Service outlays was dropped by the Conferees. Direct federal subsidies to the USPS will cost taxpayers about \$600 million in 1987. Indirect subsidies, which include taxpayer contributions to the postal workers' retirement and health plans, bring the total subsidy to well over \$1 billion. The taxpayer should not be required to subsidize the cost of mailing Newsweek, Vogue, Playboy, and other commercial magazines. And postal workers, who receive average salaries and benefits of \$19.00 per hour, should contribute a greater share of their pension and health plans.

2) NASA Commercial Research and Development

Deficit Reduction = \$200 million.

The House and the President requested a 50 percent cut in funds for NASA's civilian aeronautical research and development program. The Senate demanded full funding and won in conference. Yet research projects are simply a subsidy to the civilian aircraft industry. Halving this subsidy still would allow NASA to fund projects with military applications.

3) Cap Federal Civilian Federal Employee Pay Increases at 2 Percent

Deficit Reduction = \$300 million.

The Senate approved a 2 percent cost of living increase for civilian federal employees, but the House insisted on a 3 percent pay hike. The Grace Commission on reducing federal spending found that the vast majority of federal employees are paid more than their private sector counterparts. And when job security, health benefits, and pensions are considered, the disparity is even wider. Taxpayers should not be supporting inflated salaries; the pay raise should be only 2 percent.

4) Reduce Federal Matching of State Medicaid Administrative Expenses

Deficit Reduction = \$300 million.

The Senate endorses an Administration proposal to limit Medicaid costs by reducing federal reimbursement of state administrative expenditures. This was dropped in conference. The current Medicaid reimbursement system, requiring the federal government to pay half the states' Medicaid overhead costs, predictably rewards bureaucratic inefficiency and discourages states from trying innovative cost cutting. It also costs federal taxpayers approximately \$1.2 billion annually. A reduced federal contribution to the states for administrative costs would create a stronger incentive for creative management and consolidation of state welfare programs.

5) Reform the Federal Employee Health Benefits Program

Deficit Reduction = \$200 million.

The Senate budget plan recommends a \$300 million reduction in federal employee health benefits program (FEHBP) outlays by changing the method by which health care providers are reimbursed. This was whittled down to a \$100 million savings in the House-Senate Conference. The higher savings level should be restored. The current FEHBP benefit structure is a model of inefficiency. It discourages employees from choosing low cost health plans, rewards physicians and hospitals for raising their prices and does not capture cost savings that result from competition among health care providers. The Office of Management and Budget estimates that over \$1 billion could be saved over four years by opening the door to greater competition and encouraging federal workers to enroll in Health Maintenance Organizations.



6) Eliminate Increases for Child Nutrition Programs

Deficit Reduction = \$100 million.

The Senate calls for keeping spending on the Women, Infants, and Children (WIC) Program at 1986 levels plus an inflation adjustment. But in Conference the House won an extra \$75 million for WIC. At the Senate spending level, the child nutrition program would have ample funds to serve its intended constituency: pregnant mothers and children under five from low-income families. The House also won a \$50 million increase in the school lunch program, on which the Senate had sought to freeze spending. There is no reason to increase spending on a program that still includes children from middle- and upper-income families.

7) Reduce Outlays for Congressional Newsletters

Deficit Reduction = \$100 million.

The Senate Budget proposes a \$100 million reduction in outlays for congressional newsletters. The item was shelved in Conference. These constituent mailings are paid for wholly by the taxpayers; there are few restrictions on volume or content for this franking privilege. In many cases these mass mailings are simply taxpayer subsidies of Congressional campaign material.

8) Limit Growth in New Subsidized Housing Units

Deficit Reduction = \$200 million.

The Senate recommends authorization for 71,000 new subsidized housing units each year through 1989; the House version calls for funding of 95,000 units. In Conference the Senate agreed to the House totals. The federal government has spent over \$85 billion during the past twelve years on subsidized housing for over 13 million Americans. Since the federal government already finances about 6 million subsidized housing units, there is little justification for adding almost 100,000 new units annually. The Senate's lower number of new additions should be adopted.

9) Reduce Spending on U.S. Forest Service Operations and Maintenance Costs

Deficit Reduction = \$100 million.

The House recommends spending \$350 million less for "Natural Resources" than does the Senate. In Conference, the Senate's higher levels were chosen. A major spending reform that was dropped was a \$100 million reduction in the U.S. Forest Service's road construction program. If the Senate does not reconsider the House reform, it

should find an equivalent savings. Such popular programs as the maintenance and operation of the National Parks and the U.S. Forest Service, meanwhile, would not be endangered by potential Gramm-Rudman cuts if Congress would permit the sale of a small fraction of federal land reserves. The federal government owns 400 million acres, about one-fifth of the nation's land area. The Grace Commission identifies about 12 million acres of this as "excess acreage." If Congress were to allow the sale of less than one-tenth of these excess holdings, about \$100 million could be raised. No parks, no wilderness areas, and no environmentally sensitive land areas would be touched by these sales.

10) Freeze Social Security Administrative Costs

Deficit Reduction = \$100 million.

The Senate budget freezes Social Security administrative costs at 1986 levels; the House has rejected this. The Social Security program constitutes over 20 percent of the federal budget, and taxpayers contribute about \$5 billion each year just to support the pension system's army of bureaucrats. Unlike most federal agencies, Social Security is exempt from Gramm-Rudman sequestration. As such, no fiscal austerity measures were imposed upon it this past year. Yet the Social Security Administration would benefit from belt tightening as much as have the bureaucracies subject to Gramm-Rudman.

11) Freeze Spending on the Low-Income Energy Assistance Program

Deficit Reduction = \$100 million.

The House secured a \$70 million budget increase for the Low-Income Energy Assistance Program despite the Senate's call for a budgetary freeze at 1986 spending levels. At a time when energy and home heating costs are falling, cutting program outlays would seem more rational than adding funding.

12) Consolidate Federal Transportation Grants into a Single Ground Transportation Block Grant

Deficit Reduction = \$200 million.

The House budget for Transportation is \$350 million below the amount set by the Conference. Much of the higher spending adopted in the final report is due to the insertion of a \$200 million reserve fund for "unspecified increases in appropriated transportation programs above the House passed assumptions." If the House is willing to live without such a fund, the Senate should do so as well.

If this additional spending is not deleted, Congress should cut outlays elsewhere in the transportation function. In particular, the President's proposal to consolidate dozens of transportation grant

programs into a single Ground Transportation Block Grant ought to be considered. The current system of discretionary grants provides cities with little incentive to weigh the benefits and costs of newly constructed transit systems with that of alternative systems. The Congressional Budget Office has recommended consolidating discretionary grants.

#### CONCLUSION

Over the past three months Congress has conjured up a number of ingenious ploys to prod Ronald Reagan into accepting new taxes. In each case he has kept his 1984 campaign promise and steadfastly refused to play ball with the pro-tax lobby. The \$5 billion contingency fund is Congress's desperation move to tempt Reagan into accepting new taxes. Again he must refuse, and instead, call for financing the fund through the revenue from user fees and reductions on the spending side of the budget equation.

The budget cuts in the Congressional Budget Resolution are timid at best. They will not bring the deficit within sight of the Gramm-Rudman target. The implications of this failure are disturbing: a 1987 sequestration would likely be deeper and more painful than the \$12 billion 1986 cuts. And half the Gramm-Rudman automatic cuts would fall on defense spending, jeopardizing American military preparedness.

Reagan must keep legislators' feet to the fire on the budget if the Gramm-Rudman automatic cuts are to be avoided. Through skillful lobbying, the White House should be able to push the proposed reforms through Congress. Many have already passed the Democrat-controlled House--normally the major stumbling block to budgetary reforms. And the President must remind Senators and Representatives that, if they refuse to enact this new set of reforms, he has but one alternative left--to pull out his veto pen.

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