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**The Effects of Budget Enforcement Act
Discretionary Spending Limits in Fiscal
Years 1994 and 1995**

Statement of
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of the United States

Before the
Committee on the Budget
United States Senate



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Mr. Chairman, members of the Committee:

I am pleased to appear before you today to discuss the implications of the Budget Enforcement Act (BEA) discretionary spending limits for fiscal years 1994 and 1995. Before I turn to that discussion, however, I think it is important to put it in context.

THE BEA AND DEFICIT REDUCTION

The discretionary spending limits are part of a new set of procedures intended to guarantee that the budget savings of nearly \$500 billion over 5 years agreed to last year by the President and Congress are actually achieved. Enforcing that agreement will have significant benefits for our economy and will demonstrate to the American public, to the financial markets, and to the international community that there is a real determination to face up to the federal budget deficit problem.

It is also important, however, to recognize that complying with last year's agreement does not ensure that the deficit problem will be solved. Because of increases in programs such as Medicare, the huge costs of deposit insurance, and the effects of the recession, we are facing record high deficits (in nominal terms, though not as a percent of GNP) in fiscal years 1991 and 1992, despite the BEA controls on new legislation that would add

to the deficits. Because of the slow pace of Resolution Trust Corporation (RTC) resolutions and contributions from allies that offset expenditures for Operation Desert Shield, it now is likely that the 1991 deficit will not be as high as anticipated last January, but it is still likely to exceed \$275 billion. The 1992 deficit will probably be even higher, particularly if the costs of Medicare and deposit insurance continue to spiral out of control. In just 2 years, even if the BEA works as it was designed to work, we will accumulate more than a half trillion dollars in deficits and additional debt held by the public.

We recommended in a report issued last September¹ that total budget surpluses (including the off-budget Social Security and Postal Service expenditures and receipts) of 2 percent of GNP be achieved by the late 1990s. This target implies a rough balance in the general fund portion of the budget. The Social Security and other trust fund surpluses would then be available to boost national savings back up to the 1950-1980 average. These savings would finance the investments that are needed to spur growth enough to meet the demands that will be placed on the economy when the baby boom generation reaches retirement age early in the next century.

Notwithstanding the record deficits projected for 1991 and

¹The Budget Deficit: Outlook, Implications, and Choices
(GAO/OCG-90-5, September 12, 1990).

1992, last year's budget agreement represented a major step in the right direction, although it did not go as far as we suggested. Also, complying fully with the procedures in the BEA will not necessarily bring the overall deficit down as much as the authors of the law anticipated. The BEA, at least through fiscal year 1993, does not directly control the deficit, as the previous Gramm-Rudman-Hollings (GRH) approach attempted to do. Instead, BEA sets caps on discretionary spending -- the subject of this hearing -- and required that legislated increases in mandatory spending or cuts in taxes be offset by reductions in other mandatory programs or by tax increases. BEA does not require offsets for mandatory program increases driven by inflation, recession, growing numbers of people eligible for a program, or the many other external factors that influence mandatory spending programs.

It is widely recognized, for example, that our health care costs continue to soar. Overall health care spending absorbs 12 percent of GNP now and may rise to 15 percent by the end of the century. Last year's budget agreement provided for \$35 billion of savings over 5 years in Medicare, the largest federal health care program. Despite these savings, the Congressional Budget Office (CBO) expects Medicare costs to rise from \$127 billion in fiscal year 1992 to \$194 billion in 1996. Similarly, CBO estimates that federal Medicaid costs will increase from \$57 billion in 1992 to \$90 billion in 1996. A Department of Health

and Human Services and Office of Management and Budget task force recently estimated that federal Medicaid costs could exceed \$120 billion in 1996, with total state and federal costs of more than \$200 billion. And nothing in BEA would prevent Medicare and Medicaid costs from rising higher if health care cost inflation were to accelerate.

Similarly, BEA does not limit the cost of resolving failures in banks and thrifts. Total deposit insurance outlays this year are likely to be less than the \$115 billion that CBO estimated in January, reflecting the slower than anticipated pace of RTC actions. But that shortfall will be more than made up in future years. Funding of \$107 billion has already been provided since August 1989 to cover savings and loan losses,² and the administration has requested an additional \$80 billion. We believe that even this will not be enough. In addition, the RTC has been given authority to borrow \$100 billion for working capital, of which \$60 billion has been used, and the administration has requested that the total borrowing allowed be increased to \$160 billion. It is intended that this working capital be recovered by the sale of failed institutions' assets. However, the continuing weakness in the economy, the seriously overbuilt real estate market, and other factors are likely to reduce recoveries below the amounts expended to "purchase" the

²\$27 billion has been provided for Federal Savings and Loan Insurance Corporation losses and \$80 billion for RTC losses.

assets at resolution, thereby increasing total losses. The administration has also requested an infusion of \$70 billion in funding for working capital and losses of the Bank Insurance Fund.

It is quite likely that by the middle of the decade the federal government will have committed over \$400 billion to meet deposit insurance responsibilities. Much of those funds will be expended -- and will add to the deficit -- in the next few years.

If mandatory spending in these or other programs should rise above the current projections, as is likely, it will add directly to the deficit and debt. This will further increase the cost of interest on the public debt, which is already the second largest component of the federal budget. Even without further increases in the deficit, CBO estimates that interest on the debt will exceed defense spending in 1992 and will reach \$377 billion by 1996.

The ultimate goal of last year's agreement and the BEA is to eliminate federal deficits and restore our economy to a sound footing. Full implementation of the BEA is a necessary step toward that goal but, by itself, will not be sufficient. It will require additional steps to reduce the deficit, including major efforts to bring the spiraling costs of programs such as Medicare under control. It is not too early to begin thinking about these

next steps beyond last year's budget agreement.

BEA DISCRETIONARY SPENDING LIMITS

Now let me turn to the discretionary³ spending limits. As you know, the BEA provides limits on both discretionary budget authority and outlays in fiscal years 1991, 1992, and 1993 in each of three spending categories: defense, international, and domestic. In 1994 and 1995, however, the BEA provides budget authority and outlay limits only on total discretionary spending. The distribution of cuts required in 1994 and 1995 among the categories⁴ has been left for the President and the Congress to determine.

According to CBO, in nominal dollars, the total amount of discretionary budget authority allowed by the limits in 1994 is slightly below the total amount allowed in 1993, and the amount allowed in 1995 is slightly above the 1993 level.⁵ CBO

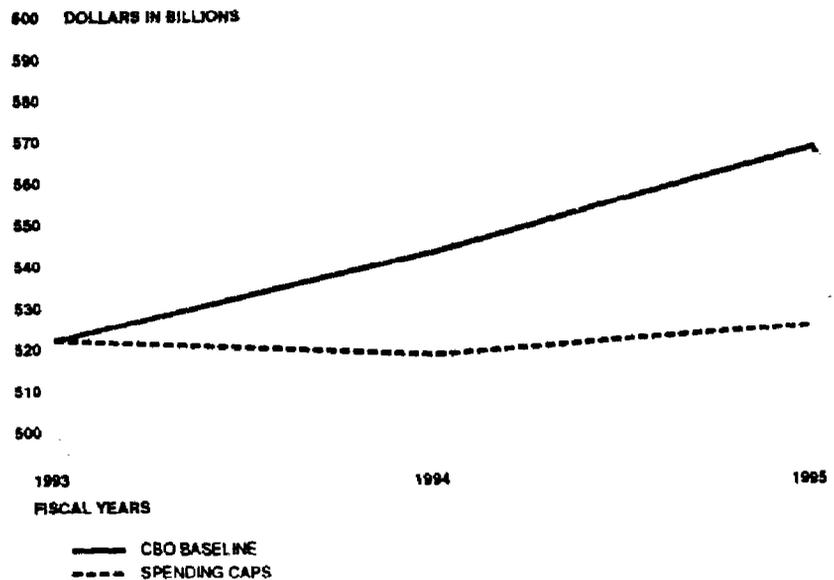
³The BEA states that "the term 'discretionary appropriations' means budgetary resources (except to fund direct-spending programs) provided in appropriation Acts." Spending for entitlement and other mandatory programs not controlled by annual appropriation acts is not constrained by the BEA discretionary spending limits, but is subject to the BEA pay-as-you-go controls.

⁴For purposes of the BEA, the categories cease to exist after fiscal year 1993. We use the term category in regards to fiscal years 1994 and 1995 to refer to the set of programs included in each category by the BEA.

⁵The BEA discretionary spending limits for each year are to be adjusted according to very specific rules contained in the BEA. Since the values of the factors specified in these rules

estimates that these limits would require budget authority cuts of \$24.9 billion in 1994 and \$42.8 billion in 1995 below the inflation-adjusted baseline projection of total discretionary spending allowed under the 1993 discretionary caps.

**TOTAL DISCRETIONARY BUDGET
AUTHORITY**



Cuts of this magnitude will be difficult, whatever the distribution among the categories and programs. Because of their implications for current discretionary spending decisions, Congress should begin now to consider the effects of alternative ways of conforming to the limits and begin planning that will allow the necessary cuts to be made in an orderly, rational

cannot be known in advance, the limits must be estimated. The actual limits will be calculated after the enactment of appropriations for each year.

manner. Making some of these hard decisions now could help avoid wasteful start/stop spending patterns and minimize the negative impact of the cuts required later by the BEA spending limits.

In order to provide some context for a discussion of possible increases and cuts we need to assume some distribution of spending among the discretionary spending categories in 1994 and 1995. One approach is to use the discretionary spending levels assumed in the budget resolution⁶ just adopted by the Congress on May 22. These levels represent simple extrapolations of the 1993 category limits set by the BEA. The conference report on the Budget Resolution notes that these assumptions do not represent final Congressional decisions about the appropriate distribution of spending among the categories in 1994 and 1995. For purposes of this analysis, however, they provide a neutral starting point for a discussion of possible effects of the required cuts.

⁶House Concurrent Resolution 121, Concurrent Resolution on the Budget - Fiscal Year 1992. See H. Rpt. 102-69, the Conference Report accompanying H. Con. Res. 121.

DISCRETIONARY BUDGET AUTHORITY BY CATEGORY

(DOLLARS IN BILLIONS)

<u>SPENDING CATEGORY</u>	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
DOMESTIC:			
CBO BASELINE	207.4	215.3	226.2
BUDGET RESOLUTION	207.5	205.6	209.4
DIFFERENCE	-0.1	9.7	16.8
INTERNATIONAL:			
CBO BASELINE	22.9	23.8	24.7
BUDGET RESOLUTION	22.7	22.8	23.0
DIFFERENCE	0.2	1.0	1.7
DEFENSE:			
CBO BASELINE	291.5	303.9	316.9
BUDGET RESOLUTION	291.5	289.7	292.6
DIFFERENCE	0.0	14.2	24.3
TOTAL:			
CBO BASELINE	521.7	543.0	567.8
BUDGET RESOLUTION	521.7	518.1	525.0
DIFFERENCE	0.0	24.9	42.8

SOURCE: CONGRESSIONAL BUDGET OFFICE

Actual funding levels for each category in 1994 and 1995 will very likely be different from those assumed in the 1992 budget resolution, but since the BEA discretionary spending limits create a zero-sum game within the discretionary spending category, any increase in funding for one category (or program) would require further cuts in at least one of the other

categories (or programs).

The President and the Congress will, of course, decide which programs should be increased and which should be cut. While we would not presume to tell them what level of funding is appropriate for each program, we would like to point out examples of areas where there are likely to be pressures for increased spending and areas where savings might be achieved. There will certainly be pressures to increase spending to meet new goals or to expand current benefits. Similarly, there are clearly savings available if the government eliminates or scales back some current goals or restricts current benefit levels.

Today, however, I want to focus on pressures for increased spending related to achieving current goals and providing current levels of benefits, and on savings that might be achieved without changing goals or benefit levels. I realize, of course, that this distinction is not always clear when goals are not clearly stated or agreed to by everyone. Nevertheless, we have tried to put our emphasis on the costs of achieving current policy goals.

One reason I want to focus on savings that come from more efficient pursuit of current goals is that the BEA rules create a new environment in which to evaluate and act on program choices and management issues. Under the old GRH procedures important management savings involving a few million dollars hardly seemed

worth the effort in the face of \$200 billion deficits and multibillion dollar "August surprises" in the GRH initial reports each year. The BEA rules have changed this environment. In the context of fixed limits on discretionary spending, achieving savings from improved efficiency is a critically important way of conforming to the limits while minimizing the degradation of services.

Before I turn to a discussion of likely pressures for increased spending and potential savings in each of the three discretionary categories, I would like to point out some reasons why it is important today to consider possible levels of spending for each category in 1994 and 1995.

IMPLICATIONS FOR NEAR-TERM DECISIONS

Now is the time to begin considering the allocation of spending among the three categories, and among programs within the categories, in fiscal years 1994 and 1995. While it is possible to ignore the issue of those allocations until at least mid-1993, expectations about the funding levels available for each category in those years is an important element in determining appropriate funding for programs in 1992 and 1993. In addition, current funding decisions may limit the realistic choices that are available when decisions do have to be made about 1994 and 1995 funding. Careful planning now will allow

required spending cuts to be made in a way that minimizes the impact of the cuts.

In defense budget planning, for example, a decision about the appropriate mix of reserve and active forces to meet U.S. security needs is both influenced by expectations of future defense funding and will affect the options available to meet the spending limits in later years. The lower cost of reserves versus active forces makes a greater reliance on reserves an inviting option in a tight funding environment, although this must be balanced by the fact that reserves cannot always be substituted for active forces. A decision on the appropriate force mix should be made with due consideration of such factors as lessons learned in the Persian Gulf and changes in Eastern Europe. Delaying the decision will only make the cuts more difficult and painful later on. The President and the Congress need to reach an agreement on this issue now so that a rational drawdown of forces acceptable to all parties can proceed in the most cost-effective manner.

Overly optimistic planning tends to obscure defense priorities and delay tough decisions and trade-offs. For instance, decisions to begin production of a major new weapons system should include consideration of whether funds can be reasonably expected to be available in the future to purchase enough of the weapons to make that system an effective part of

our nation's arsenal and to ensure that the unit cost of the weapon is reasonably low.

Similarly, realistic planning on the domestic side will facilitate the most effective use of available resources. For instance, it makes sense to fund a major domestic program like the space station only if funding will be available in the future to ensure timely completion. In addition, it might be harmful to increase grants to states in 1992 and 1993 and encourage states to gear up their programs at higher levels if lower domestic spending in 1994 and 1995 would cause those grants to be eliminated or drastically reduced.

A steady predictable level of funding is important to many federal agencies with major capital programs. For example, the Federal Aviation Administration's Capital Investment Plan to modernize the air traffic control system contains a number of major interdependent parts. For the total system to work properly, a carefully planned installation schedule must be followed. Steady funding is needed to allow the pieces of the system to be developed, produced, and installed in a rational manner.

In addition, if it is clear that an agency's funding will be constrained in future years, that agency may be able to take steps today to reduce the effect of outyear funding shortfalls.

For instance, the Environmental Protection Agency's (EPA) funding has been essentially the same in constant dollars for over a decade while the agency's responsibilities grew enormously as a result of requirements of major amendments to the Resource Conservation and Recovery Act, the Safe Drinking Water Act, the Clean Water Act, the Federal Insecticide, Fungicide, and Rodenticide Act, Superfund legislation, and the Clean Air Act.

If EPA's funding to carry out these responsibilities continues to be constrained, we believe there are several changes to current policies and program management that could better enable the nation to achieve environmental goals with limited resources. For instance, we have recommended that EPA work with the Congress to identify opportunities to shift resources from problems of less severe risk to problems whose risks are greater, and that it undertake activities to better educate the public about relative environmental risks. In addition, we have suggested that measuring changes in environmental conditions instead of levels of regulatory activities is necessary to assess the effectiveness of programs and make decisions about resource allocations. It is important to begin to implement changes such as these now if funding will not be available for EPA to fully carry out all of its responsibilities.

Now let me turn to the possible pressures for increased spending and potential savings in the three discretionary

categories.

DEFENSE DISCRETIONARY SPENDING

CBO estimates that the fiscal year 1993 discretionary spending limit on defense budget authority will be \$291.5 billion, an increase of \$2.8 billion over the \$288.7 billion appropriated for fiscal year 1991 (excluding emergency amounts provided for Operation Desert Shield), but \$23.6 billion below CBO's baseline projection of the inflation-adjusted amount required in 1993 to equal the 1991 defense funding level.

This year's Budget Resolution assumes defense discretionary budget authority of \$289.7 billion and outlays of \$291.9 billion in fiscal year 1994, and budget authority of \$292.6 billion and outlays of \$292.8 billion in 1995. These budget authority amounts represent cuts of \$14.2 billion in 1994 and \$24.3 billion in 1995 below the inflation-adjusted 1993 defense discretionary spending limit.

While a consensus exists that the reduced Soviet threat will allow substantial savings in defense, there are certain to be disagreements about the level of defense funding that is appropriate in fiscal years 1994 and 1995 and about how any required reductions should be achieved. In considering the appropriate level of funding and making decisions about

individual programs, it is important to consider both pressures that are likely to exist for increases in certain areas, as well as opportunities for savings in other areas.

Upward Pressures on Spending

Even with a significant scaling down of the military force structure there are a number of areas in which pressure for increased spending or delays in accomplishing planned savings may interfere with or offset the expected "peace dividends." I would like to mention at least some of them.

Major Weapons Systems

It would be difficult to sustain the major weapons systems being planned at the level of defense funding assumed in the budget resolution for fiscal years 1994 and 1995. There are over 100 major acquisition programs in various stages of development and procurement. The estimated acquisition cost of these programs is over \$1 trillion, with well over half that amount yet to be spent. There are also many other smaller programs. Weapons systems developed in the 1980s are now being scheduled to go into the more costly production phase in upcoming years.

Small ICBM Production

The Administration as well as some in the Congress have indicated support for a Small Intercontinental Ballistic Missile. Currently this program is limited to research and development. If a decision is made to start production to support initial deployment in 1997, additional funding would be required in future years' procurement and military construction budgets.

Modernization of DOE's Nuclear Weapons Complex

Many Department of Energy (DOE) facilities used for making materials for nuclear weapons and the weapons themselves were originally constructed in the 1950s and do not meet today's safety standards. Key facilities have been shut down for various safety problems. We reported in 1990 that it could cost as much as \$50 billion to upgrade and modernize the complex. More recently, however, DOE issued a January 1991 reconfiguration study that envisions a smaller, more consolidated complex. That means that the total cost of modernizing is likely be somewhat less than \$50 billion, but it will still require increased appropriations.

Defense-related Environmental Cleanup

Past practices at DOE's nuclear weapons complex have left a legacy of environmental problems such as soil and groundwater contamination by nuclear and hazardous wastes. We have estimated

that it could cost over \$100 billion to resolve these problems. DOE's environmental restoration and waste management programs have increased from almost \$2 billion in fiscal year 1990 to approximately \$3.7 billion requested for 1992, and could exceed \$6 billion by fiscal year 1995.

In addition, funding will be required to clean up hazardous waste sites at Department of Defense (DOD) facilities. For fiscal year 1991, \$1.06 billion was appropriated for cleanup activities. Last month the House Appropriations Committee increased funding to \$2.15 billion for 1992 and stated its concern that "not enough progress is being made in actual cleanup."

Overstated Savings from Base Closures

The DOD Five-Year-Defense-Plan (FYDP) submitted to the Congress this past February projected net savings of \$6.3 billion over 6 years from base closures, based on an estimate of gross savings of \$6.9 billion minus \$600 million of costs related to the closures. However, DOD's April 12, 1991 base closure report estimated that it would cost \$5.7 billion through fiscal year 1997 to close bases (a portion of these costs is included in the already mentioned costs of cleaning up hazardous waste sites at DOD facilities) while savings from reduced operating costs during that period would be \$6.5 billion, for net savings of \$800

million. Consequently, according to DOD, the FYDP overstates base closure savings by \$5.5 billion.

Destruction of Obsolete Chemical Weapons

Public Law 99-145, enacted in 1985, directed DOD to destroy the U.S. stockpile of obsolete chemical munitions and agents. DOD's estimate of the cost of destruction has increased from about \$1.7 billion in 1985 to \$6.5 billion in 1991, although the stockpile has not increased in size. We believe that additional problems we are currently documenting will increase the costs even further.

Sealift Requirements

Operation Desert Shield/Storm underscored the importance of sealift capabilities in responding to regional contingencies and has raised questions about the adequacy of current sealift capabilities. The current FYDP does not provide for an increase in sealift capacity. A DOD Joint Strategic Requirements Mobility Study that must be presented to Congress later this year will likely be used in determining whether budget requests for future years will call for significant increases in funding for sealift capacity.

Impact of Higher Progress Payment Rate

The government traditionally provides progress payments on fixed-price contracts to assist contractors in financing work in progress. DOD increased the progress payment rate by 5 percent in July 1991, to 85 percent of costs incurred. This increase will not increase total budget authority, but it will entail an earlier expenditure of funds and thereby increase defense outlays in 1991 and subsequent fiscal years. DOD estimates an increase in outlays of \$75 million in 1991, \$450 million in 1992, \$731 million in 1993, and \$169 million in 1994. The long term results will be reduced payments at the time of delivery.

Replacement of Military Facilities in the Philippines

The Navy and Air Force are currently assessing the damage to U.S. facilities in the Philippines caused the recent eruption of Mt. Pinatubo, but it is anticipated that the costs of repairing the damage would be substantial. Navy and Air Force rough estimates indicate that the replacement value of the buildings and structures is approximately \$2.9 billion -- \$1.4 billion for Clark Air Force Base and \$1.5 billion for the Subic Bay Naval Facility. Of course, actual costs will depend on decisions whether to fully repair or replace all damaged facilities and equipment.

Potential Savings

We have identified a number of areas in which we believe savings that will make it easier to stay within the discretionary spending limits might be achieved.

Force Structure

Despite the significant reduction in forces, we believe there are still potential savings in this area. For example, justification for retaining a large number of old, rusty ships in the National Defense Reserve Fleet seems questionable. If the ships were not in sufficiently good condition to be used in support of the Gulf war, the likelihood of them ever being used seems low.

Amalgamation of Similar Systems

DOD could potentially save billions of dollars by preventing unwarranted proliferation of electronic warfare systems among the services. For example, the Air Force and Navy have at least 13 different radar jammers costing over \$7 billion to protect tactical aircraft against a common threat. The Congress and we have for the last decade emphasized the need for DOD to promote systems that can be used by more than one service. Such common systems can save funds by avoiding duplicative development costs, achieving lower unit production costs through larger quantity

buys, and reducing logistical support costs. Despite DOD's stated commitment to promote common electronic warfare systems and prevent proliferation, little progress has been made.

Inventory Management

In testimony last year, we highlighted the long-standing problems of excessive inventory and limited inventory control. DOD reported that it had \$34 billion in unrequired inventory last year, but work we have underway indicates that the size of the inventory and the magnitude of the problems are even greater than previously reported. DOD often buys more than it needs and does not maintain accurate records on its stock in storage or in transit. We believe that to solve these problems, DOD needs to emphasize economy, efficiency, and accountability in the inventory system.

Management of Unserviceable Inventories

As of September 1989, the Army's inventory of spare and repair parts that needed to be repaired totaled about \$5.1 billion. This inventory has increased by about 59 percent from fiscal year 1985 to 1989. Repairing assets is often less costly and less time-consuming than purchasing replacements to support operational and combat-readiness requirements. Based on our 1989 survey of a sample of items at three Army inventory control

points, we believe that repairing unserviceable assets would enable the Army to reduce costs by about \$21 million to \$36 million a year. In many cases repaired items would have been available to units more quickly than newly purchased items were.

Allowing Foreign Selling Costs on Government Contracts

Since 1979, government regulations have provided that the cost associated with selling and marketing products to foreign customers should not be allowed on U.S. defense contracts, but should be recovered instead from the foreign sales. In 1988, Congress authorized a 3-year trial period of allowing the reimbursement of foreign selling costs on government contracts. Our analysis of contractor data led us to conclude that continuing that policy could cost the U.S. government an additional \$80 million to \$300 million a year.

Allied Burden Sharing

It is in the U.S. interest to maintain a forward presence in key places around the world, but this presence also benefits our allies, as was most recently demonstrated in the Gulf. Even with a reduced defense budget, the U.S. spends considerably more on defense than does any of our allies. For example, the U.S. outspent Japan and Germany together by about \$239 billion in 1989, the latest year for which comparable data were available.

In 1989, the U.S. spent 5.7 percent of its GNP on defense, Germany spent 2.3 percent, and Japan spent 1.0 percent. The planned force drawdowns in Europe and the Pacific will reduce defense outlays, but significant costs will continue to be incurred to keep U.S. forces there. Increasing the allies share of the burden of common defense would reduce our net defense spending.

INTERNATIONAL DISCRETIONARY SPENDING

The Budget Resolution assumes international discretionary budget authority of \$22.8 billion and outlays of \$21.8 billion in fiscal year 1994, and budget authority of \$23.0 billion and outlays of \$22.5 billion in 1995. The budget resolution amounts represent a budget authority cut of \$1.0 billion in 1994 and \$1.7 billion in 1995 below the inflation-adjusted 1993 spending level.

Again, it is important to consider both pressures for increased spending in the international category, as well as opportunities for savings.

Upward Pressures on Spending

The cuts that would be required by the international discretionary spending levels in the budget resolution would not be easy to achieve at a time when dramatic changes in Eastern

Europe and the Soviet Union, turmoil in the Middle East and Africa, and efforts to reduce the supply of illegal drugs from Latin America are likely to bring added pressures for increased international discretionary spending over the next several years.

Economic Assistance to Eastern Europe and the Soviet Union

The United States will spend an estimated \$400 million for economic assistance to Eastern European nations in fiscal year 1992. Pressure for higher levels of economic assistance may be expected until reform efforts begin resulting in increased foreign investment, employment generation, and foreign exchange earnings. While the types and amount of U.S. economic assistance to the Soviet Union are not yet clear, there will undoubtedly be pressures for the U.S. to join the Europeans in assisting the Soviet transition to a market oriented economy. Given the state of the Soviet economy, the amount of required assistance could be very large.

Economic Support in the Middle East

The unsettled nature of peace negotiations in the Middle East, coupled with the current situation in Iraq, could bring additional pressures to increase Economic Support Fund levels. (Israel and Egypt together received more than half the U.S.

Economic Support Funds appropriated for fiscal year 1991).

Refugee Assistance

Recent events in the Middle East and Africa dramatize the rapid growth in the number of refugees around the world and the special problems of those refugees. The Kurdish refugee relief effort alone, spearheaded by the U.S., is estimated to have cost the U.S. over \$500 million. As in the past, the U.S. will be looked to for a significant share of the continuing burden of refugee assistance in the Middle East, Africa, and elsewhere.

International Drug Programs

Drug interdiction efforts in South America and elsewhere are vital components of our national drug control strategy. U.S. military, economic, law enforcement, and Drug Enforcement Administration support assistance to Colombia, Peru, and Bolivia (known as the Andean Strategy) represents a 5-year (through fiscal year 1994) program designed to assist those countries to strengthen and diversify their legitimate economies to compensate for the loss of drug-related income. This \$2.2 billion program will cost an estimated \$500 million in fiscal year 1994 alone. Depending upon the impact that the program is having, the costs could grow in 1995 and beyond.

Potential Savings

We believe that there are areas in the international discretionary category in which savings may be possible without sacrificing policy goals.

Agency for International Development

At the end of fiscal year 1990, AID had obligated but unexpended funds totalling nearly \$9 billion. Our review of about a third of these obligations revealed \$8 million in obligations for expired projects and an additional \$296 million in obligations that AID did not plan to spend during the ensuing 2-years. These funds, and potentially more that we did not review, could possibly be made available for other purposes. Of course, to the extent that no expenditures of these funds are assumed in fiscal year 1994 or 1995, a rescission would produce budget authority savings but no outlay savings in those years.

Economic Assistance to Panama

In April 1991, we reported that of the \$420 million appropriated to "jump start" the Panamanian economy, only \$377.5 million had been obligated by AID, and even less -- \$41.8 million -- had actually been spent. Despite this the Panamanian economy appeared to be making a quick recovery. Currently it appears

that about \$36 million of the amount appropriated may not be needed for the original purpose.

DOMESTIC DISCRETIONARY SPENDING

The Budget Resolution assumes domestic discretionary budget authority of \$205.6 billion and outlays of \$223.9 billion in fiscal year 1994, and budget authority of \$209.4 billion and outlays of \$227.8 billion in 1995. The budget resolution amounts represent a budget authority cut of \$10.0 billion in 1994 and \$16.8 billion in 1995 below the inflation-adjusted 1993 spending level.

In contrast to the diminished Soviet threat that has allowed reductions in defense spending, there have been no dramatic developments in the domestic area that are likely to produce a consensus on significant cuts in domestic discretionary spending. Indeed, there is strong pressure in the opposite direction, to increase spending in the domestic area, for items ranging from the space station and the Superconducting Super Collider to the Head Start program.

It is not obvious how reductions in federal spending in the domestic area similar in magnitude to the cuts planned in defense could be achieved, short of a major restructuring of the respective responsibilities of the federal, state, and local

governments, or a significant scaling back of the policy goals of the federal government.

If the cuts implied by the budget resolution assumptions were applied across-the-board to all domestic discretionary appropriation accounts, budget authority for every program would have to be cut by 4.6 percent below the inflation-adjusted 1993 level in 1994 and by 7.4 percent in 1995. The President and the Congress, however, will probably want to protect some programs from cuts. In fact, even though it will be hard to find funding for any major new initiatives, it is likely that the President and Congress will decide to provide increases for some domestic discretionary programs.

I will now turn to examples of areas where there is likely to be pressure for increased discretionary spending and to examples of user fees and potential savings in discretionary programs that could offset such increases and help stay within the discretionary spending limits. Our work has also identified potential savings from greater efficiencies in a number of mandatory programs and in tax collections, such as savings from giving states greater authority to recover Medicaid costs from third-party insurers. But since this hearing is on the discretionary spending limits, we do not address possible savings in mandatory programs or tax collections.

Upward Pressures on Spending

In his 1992 budget submission, the President called for significant increases in 1992 above the 1991 spending levels for the National Science Foundation; the National Aeronautics and Space Administration; the Superconducting Super Collider; the Conservation Reserve; the Securities and Exchange Commission; the Special Supplemental Program for Women, Infants and Children (WIC); the Federal Prison System; the Federal Bureau of Investigation; the Internal Revenue Service; and a number of other programs.

The House and Senate Budget Committee reports on the fiscal year 1992 budget resolution also called for increases in a number of domestic discretionary programs, including elementary, secondary, and higher education programs; Head Start; WIC; the Food and Drug Administration; and the National Science Foundation. While these same programs may not be considered high priority in 1994 and 1995, it is almost certain that both the President and Congress will have similar lists of programs that they believe require spending increases, even if total domestic discretionary spending must be cut.

We have identified a number of areas in which there is likely to be pressure for increased spending in fiscal years 1994 and 1995.

Transportation

The nation's surface transportation system -- highways and bridges -- is suffering from increasing deterioration and congestion. In its 1991 biennial highway and bridge needs report to the Congress, the Department of Transportation estimated that over \$700 billion would need to be spent, by all levels of government, through the year 2009 to maintain the nation's highway system at its 1989 condition and to meet backlogged and accruing bridge needs.

Last month, the Senate passed a surface transportation bill that would authorize more than \$123 billion over the next 5 years. Much of the funding for surface transportation is not subject to the BEA domestic discretionary budget authority caps since Federal-Aid Highways spending is provided in the form of contract authority. The outlays resulting from the contract authority, however, are subject to the BEA outlay caps.

Superconducting Super Collider

The Superconducting Super Collider will be the world's largest particle accelerator. The Department of Energy's current estimate is that the project, which is currently in the early stages of construction, will cost over \$8 billion to complete.

The project received \$260 million in federal funding in fiscal year 1991 and the President's budget requested \$534 million for 1992. Planned funding for the project increases each year until it peaks at about \$852 million in 1997.

Federal Buildings

The failure to invest sufficiently in existing federal buildings has resulted in some being neglected and gradually allowed to become deteriorated, antiquated, and in a few instances, unsafe. One building alone, the 50-year-old Pentagon, needs a billion-dollar renovation to overcome years of neglect. We reported recently that, though their condition is not as bad as the Pentagon's, other federal buildings have been neglected and also now need major repairs and modernization to raise them to acceptable quality and functional standards. Excluding the Pentagon, the backlog of identified building repair and modernization requirements totals at least \$3 billion.

Federal Pay Comparability

The Federal Employees Pay Comparability Act of 1990 specifies that federal pay rates be adjusted in each locality determined to have a greater than 5 percent disparity between federal and nonfederal pay. The adjustments will make federal rates in those localities at least 95 percent of nonfederal rates

by 2003. Under the law, 20 percent of the relevant gaps are to be eliminated in 1994, and 10 percent in each of the 8 subsequent years, although the President may restrict the adjustments under certain conditions. We estimate that unrestricted locality adjustments will total nearly \$2.8 billion in 1994 and an additional \$1.4 billion in 1995.

Recreation Area Maintenance

In 1988 we reported a \$1.9 billion cumulative shortfall in national park maintenance. Despite large increases in appropriations for park operations in fiscal year 1991, recent data show that unmet operational needs are still increasing. Similarly, funding increases over the past 5 years have been insufficient to bring Forest Service recreation sites and areas up to the established standards. We estimate that at least \$644 million is needed to eliminate the maintenance and reconstruction backlog.

Childhood Immunizations

The Centers for Disease Control award grants to state and community health agencies to help them establish and maintain immunization programs for the control of vaccine-preventable childhood diseases such as measles, rubella, and poliomyelitis. Immunizations are also available or can be reimbursed through

programs such as the Maternal and Child Health Services Block Grant and Medicaid.

The immunization rate for some children, especially infants and toddlers, is too low to prevent disease outbreaks. Only 45 to 55 percent of 2-year-olds in some urban neighborhoods are immunized appropriately against measles. As a result, large outbreaks of measles were reported in 1989. According to the National Vaccine Advisory Committee, an increase of \$40 million to \$50 million in annual funding would be needed to ensure that the nation's children are vaccinated at the appropriate age and prevent the health burden of measles and other preventable diseases.

WIC

The Special Supplemental Food Program for Women, Infants, and Children (WIC) serves pregnant and postpartum women, infants, and children through age 4 who are determined to be at nutritional risk because of inadequate nutrition and income. According to CBO, about 51 percent of those eligible for WIC are receiving services in 1991. Approximately \$1.6 billion in additional WIC funding would be required to ensure assistance to all those eligible and in need by fiscal year 1994.

Head Start

Head Start is a comprehensive child development program for low-income children aged 3 to 5 years. Currently, many eligible children are not served by Head Start.

To provide 1 year of Head Start to all eligible 4- and 5-year-olds who want to participate, and are not already served by other programs, would require approximately \$1 billion in additional annual expenditures.

Dislocated Defense Personnel

Expected reductions in U.S. defense spending over the next few years make it likely that employment of civilian workers in defense-related industries will decline substantially. Many unemployed workers with skills suited to defense-related work may find it difficult to get comparable jobs in other industries. Those workers who cannot easily relocate may receive financial or other assistance from existing programs. The expansion of worker training programs to smooth the transition of defense workers to other industries could cost several million dollars annually over the next several years.

User Fees

Any such spending increases for high-priority programs would increase the already severe pressure to cut spending for other

domestic discretionary programs. One way to relieve these pressures somewhat is through enactment of new or increased user fees. Under the BEA rules, user fees can be used to offset spending under the discretionary spending limits. This has led to an increased interest in these fees. The President's 1992 budget recommended a number of new or increased fees in 1992 that would partially offset spending for domestic discretionary programs. These included fees for FDA new product reviews, Medicare and Medicaid survey and certification, SEC registrations, and hard-rock mining claims.

The budget also proposed that in 1994 the Federal Communications Commission begin auctions of a portion of the radio spectrum. The collections from these proposed auctions would offset domestic discretionary spending by \$0.8 billion in 1994 and \$1.2 billion in 1995, according to the budget. The Congress is currently considering which of these, or any other, user fee increases should be included in appropriation bills.

The federal government provides a large number of services to select, identifiable recipients. Many of these services are very valuable to the recipients, and a number are similar to services purchased in the private market. In addition, the costs of many government regulatory efforts may appropriately be considered a cost of doing business that should be passed along to the regulated industry and its customers. It certainly seems

appropriate for the government to charge for these services and regulatory efforts where it is feasible to do so, and where charging does not run counter to an important public policy goal. It especially makes sense to identify areas in which new or higher fees could be "reinvested" and used to increase spending and provide better services in those areas.

Potential Savings

It is very unlikely that user fees can be increased enough to avoid cuts in program funding if domestic discretionary spending is limited to the levels assumed in the budget resolution. In order to avoid the degradation of government services as much as possible, it is important to save as much as possible through efficient management of federal programs. The following are examples of the savings we have identified that can be achieved without abandoning policy goals:

Agency Aircraft

Federal civilian agencies own almost 1,400 aircraft that have an estimated accounting book value of \$2 billion and cost over \$750 million annually to operate and maintain. Also, civilian agencies lease or charter thousands more aircraft at a cost of over \$100 million annually. While some agency aircraft have specialized capabilities and equipment and are used at least

some of the time to satisfy special evaluation and training requirements, many of the government's aircraft only provide transportation services similar to those provided by commercial airlines and by rental, lease, or charter businesses.

The Congress may wish to consider eliminating from federal agencies' budgets any funds to acquire, operate, or repair executive type aircraft that are not used exclusively to satisfy special mission requirements.

Bureau of Prisons Construction

The Bureau of Prisons current plan calls for \$776 million over the next 3 fiscal years (1992-94), including \$174 million in 1994, to add prison, hospital and jail capacity. We have pointed out that the federal prison system capacity provided by funding through fiscal year 1991 may be adequate to house prisoners through 1995 if the Bureau's population projections are reasonable and if it makes greater use of double-bunking. Avoiding or deferring appropriating funds for construction of new capacity would also reduce operating costs. Operating costs often surpass construction costs in 2 to 4 years, and over the life of a facility can be 15 to 20 times the construction costs.

Management and Disposal of Assets

Consolidating the management and disposal of seized

properties of the Customs Service and the Department of Justice into one agency could save an estimated \$2.5 million annually in administrative costs. Additional savings should also accrue from lower vendor costs. For example, in six locations where we studied vendor prices for specific vehicle management services, we found no cases where the Department of Justice's U.S. Marshall's Service and Customs were paying the same rate for the same services. In most cases, rate differences were attributable to the economies of scale associated with managing a large number of vehicles.

We also believe that there is a potential for savings from a consolidation of the management and disposal of \$185 billion in assets currently being carried out by at least 20 different government agencies. However, we have not analyzed the costs involved in administering these programs or the possible savings.

Restructuring USDA Field Office Structure

The United States Department of Agriculture (USDA) currently administers its farm programs and services through a decentralized field structure that was established in the 1930s.

Since then, the number of farmers has declined sharply, and telephones, computers, and highways have increased farmers' access to information and assistance programs. We have determined that the USDA could save millions of dollars while

maintaining or improving operational effectiveness by consolidating field offices or locating field offices with other federal agencies, and by providing a more flexible, integrated field organization. For example, consolidation of Agricultural Stabilization and Conservation Service field offices for which administrative costs approached or exceeded the value of the benefits provided, would have saved \$90 million in administrative costs in fiscal year 1989.

CONCLUSION

It is clear that the discretionary spending limits in fiscal years 1994 and 1995 will not allow funding for all of the programs that will be considered by some to be high priority. While increases in user fees and savings from greater program efficiencies may help to offset the reduction in real dollars available for all discretionary spending, the President and the Congress will have to make difficult decisions about the allocation of funding among the Defense, International, and Domestic discretionary categories and among the programs within each category. It is theoretically possible to postpone these decisions until fiscal year 1994 appropriations legislation is considered, but that seems unwise in view of the severe constraints that will be faced at that time. Current funding decisions are affected by expectations of these future decisions. And decisions today will limit the range of options available in

the future. Far sighted decision-making and careful planning today are the best ways of dealing with the constraints imposed by the BEA limits in 1994 and 1995 and assuring future progress in reducing the deficit.

This concludes my statement. I will be happy to answer any questions.