Cutting the Federal Budget

Analyzing How Fast Expenditure Growth Can Be Reduced

Federal outlays in fiscal year 1981 threaten to exceed $660 billion, well above the second budget resolution ceiling of $632.4 billion and the goal of $635 billion contained in the Stockman-Kemp memorandum to the then President-elect Reagan on "Avoiding a GOP Economic Dunkirk".[1] Federal spending as a percentage of gross national product (GNP) could exceed the postwar high of 23.1 percent, and the unified budget deficit could be $60 billion or greater. When combined with an off-budget deficit of about $23 billion, this would result in new Treasury marketable financing of over $80 billion. At this point, it is highly unlikely that projected unified budget outlays for 1981 can be reduced. Various changes, some of which are cosmetic[2] and do not affect the size of Government, may be proposed However, a major push during the next few months to cut spending for 1981 could very well end up a wasted effort and at the same time use up "political capital" necessary for meaningful cuts in 1982 and 1983 The outlook for Federal outlays in 1982 and 1983 under current policies is for continued high rates of spending. With the start of fiscal year 1982 only eight months away, a legislative calendar devoted primarily to the control of Federal spending could reduce projected outlays for fiscal year 1982 by about $10-15 billion. A significantly larger reduction would take an extraordinary effort on the part of the new administration and a degree of cooperation by the Congress that is rarely seen. Realistically, however, the earliest target date for a full offset (through spending cuts) to the $30-35 billion per year revenue loss from a 1981 individual income tax cut probably would be fiscal year 1983

The 1981 problem

There appears to be a consensus that Federal spending programs ought to be cut, or at least the rate of growth reduced. However, there is a misconception that this can be done rapidly—in 1981, for example. The two largest components of spending are national defense and benefit payments for individuals (Table 1). Defense clearly will not be reduced in the near future; rather there appears to be widespread support for increases. Almost all benefit payments programs are entitlements, which means that eligible beneficiaries have a legal claim on the Federal Government. Changes require substantive legislation that would take months to formulate, negotiate, and implement. For example, the recently enacted budget reconciliation bill—an omnibus bill that changed current law for many programs—was formulated in the spring of 1980, negotiated in part in the first budget resolution conference in the early summer and in part by conferences on various components of the bill during the remainder

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1 This memorandum was written by David Stockman and Jack Kemp in late November 1980 More recent policy statements indicate that the administration may ultimately set a target of $645-650 billion for 1981 Federal outlays

2 Among the cosmetic changes are asset sales from the Farmers Home Administration to the Federal Financing Bank (FFB)—an off-budget agency—and changes in the timing of offshore oil sales

of the summer and in the fall. Some of the new provisions of current law that are the result of this bill will take months to implement, making the total time from proposal to implementation almost a year.[3]

After defense and benefit programs, two smaller categories—grants and other Federal operations—remain for consideration. For grants, outlays during the remainder of fiscal year 1981 largely represent payments for obligations that have already been incurred or contracts already signed. Major programs in this category include aid for elementary and secondary education, grants for the construction of wastewater treatment plants, and the Federal-aid highways program. For the education programs, obligations for the 1981 school year were made in the summer of 1980 For the construction programs, 1981 outlays primarily represent the execution of contracts signed in 1980 and prior years. Breaking these contracts would be very difficult and very expensive. The final category—other Federal operations—is comprised of many different Federal programs, ranging from the strategic petroleum reserve to farm price supports and pay for the nondefense Federal work force. For the major programs, the problems with reducing 1981 outlays are similar to those for national defense, benefit payments, and grants. The strategic petroleum reserve is a high priority item. The new administration and a clear Congressional majority favor increases rather than a scaling-down of the program The farm price supports program is an entitlement and changes probably will not be forthcoming until a new farm bill is considered this spring Even major changes in the bill will probably not significantly affect 1981 outlays Federal pay, on the other hand, could be reduced by attrition or even by layoffs However, even a 10 percent reduction of Federal civilian agency employment would save less than $1 billion in fiscal year 1981

The bleak prospects for changes that would reduce 1981 outlays need to be emphasized. If the primary focus of the upcoming debate over control of spending becomes fiscal year 1981, the prospects for meaningful reductions in 1982 and 1983 may be jeopardized, with near-term savings being achieved through delays or even exchanged for subsequent program expansions. The recently enacted reconciliation bill provides a good example of the potential problems, with overemphasis on near-term savings. In the House-passed bill, 1981 savings in medicare and medicaid were exchanged for program expansions in 1982-85. Another example is child nutrition where an immediate one-time cut was finally agreed to in exchange for no reductions in 1982-85 Some reductions of 1981 outlays

Table 1

Estimated Federal Outlays for Fiscal Year 1981

In billions of dollars

Spending category	Amount
National defense*	146 7
Benefit payments to individuals	331 4
Other grants to state and local governments†	58 3
Net interest	67 4
Other Federal operations	56 2
Total	660 0

* Includes Department of Defense military and defense-related activities of the Department of Energy but not military retired pay which is included under benefit payments

† Includes those grants that are *not* for benefit payments

Table 2

Possible Proposals for 1981 Outlay Cuts and Savings that Might be Claimed

In billions of dollars

Proposal	Amount	Type of cut
Small Business Administration disaster loans	1 2	(One time)
Medicare and medicaid	1 0	(Permanent)*
Strategic petroleum reserve	0 8	(Cosmetic)†
Solvent refined coal demonstration plants I and II	0 2	(Permanent)
Public service employment	0 4	(Permanent)
Unemployment insurance	0 8	(Permanent)
Trade adjustment assistance	0 7	(Permanent)
Economic support fund	0 4	(Delay)
Postpone July 1 social security increase	4 5	(One time)
Asset sales	1 5	(Cosmetic)
Outer continental shelf leases	1 8	(Cosmetic)
Travel, pay, and consulting	1 7	(Cosmetic)
Total	15 0	

* For the permanent items the savings to 1982 and 1983 outlays would be different from the 1981 savings

† This reduction is listed as cosmetic since the change probably would not reduce the long-run costs to the Federal Government and may ultimately result in an increase

3 Another example of problems with making cuts in benefit payments quickly is the food stamp program In each of the past two years reforms have been enacted, but it now appears that in both cases the changes will take more than one-year longer to implement than anticipated at the time of passage

are, of course, not impossible, but large cuts are highly unlikely.

Nevertheless, the new administration is likely to propose budget cuts for 1981. The following list represents some of the major components that have been discussed recently, together with the savings in the fiscal year ending September 1981 which might be claimed for them. The savings listed are highly dependent on early enactment.

- Change the newly enacted Small Business Administration (SBA) authorization to make farmers who were victims of the 1980 spring-summer drought ineligible for SBA disaster loans. This change could be assumed to result in a one-time saving of $1.2 billion in 1981. (The new authorization made victims of future droughts ineligible for SBA loans.)
- Make miscellaneous changes in the laws governing medicare and medicaid, including caps on certain fees for services. By assuming almost immediate enactment, about $1 billion in permanent savings could be claimed.
- Fund the strategic petroleum reserve by having the Federal Government sell shares in the stored oil or by issuing bonds to defray the cost of oil purchases If early enactment of this complex proposal were assumed, an increase of $0 8 billion in offsetting receipts and a decrease in net Federal outlays would be claimed The future-year effects are unclear, depending on whether the oil reserve is used and on the assumed rate of return to shareholders or bondholders In all likelihood, the proposal would increase the long-term costs to the Federal Government.
- Delay, or possibly terminate, construction of the two solvent refined coal demonstration plants (SRC I and II) at a savings of $0.2 billion.
- Terminate all funding for countercyclical public service employment, including a rescission of funds already appropriated Savings of $0.4-0.6 billion in fiscal year 1981 might be claimed, although action would have to take place quickly. A significant portion of 1981 funds have already been obligated As discussed later, this cut would have a larger effect on projected outlays for 1982 and 1983.
- Make miscellaneous changes in the unemployment insurance laws, which if enacted quickly would save $0.8 billion. Trade adjustment assistance changes, saving about $0.7 billion, also might be proposed.
- Change the method of disbursement of credits to Israel through the Economic Support Fund back to the pre-1979 approach. By assuming early enactment of this change, the new administration could claim the delay of $0.4 billion in outlays until 1982.
- Postpone the July 1, 1981 social security increase until October 1, 1981. This proposal, which would affect recipients of social security, railroad retirement, supplemental security income, and veterans' pensions, would be for a one-time postponement. Savings of $4.5 billion in 1981 could be claimed, but there would be no lasting effect on Government spending levels.[4]
- Increase asset sales of Federally held mortgages and insurance by the Farmers Home Administration to the FFB. These sales would shift about $1-2 billion in outlays off-budget. The change would be cosmetic since the FFB purchase would then become part of the off-budget deficit and would still be financed through the issuance of Treasury debt.
- Move a scheduled sale of outer continental shelf leases from September to August 1981 so that all the receipts would offset outlays in 1981 rather than in 1982. This could reduce the 1981 budget totals by $1.5-2.0 billion but would increase the 1982 totals unless the 1982 schedule is revised
- Finally, the new administration may propose miscellaneous rescissions of already enacted appropriations for travel, pay, and consulting services of about $1-2 billion. The size of the cut may be somewhat dependent on how much is needed to reach the announced goal for total outlay reductions. Outlay savings in 1981 would be difficult to achieve because, even if the Congress enacted a rescission of budget authority, agencies would probably absorb the cut in slow spending programs rather than in travel and pay where outlays flow quickly from budget authority Thus, the reduction would be to 1982 outlays.

These possible proposals which total as much as $15 billion are summarized in Table 2.

Each of the proposals for 1981 reductions would require a major effort on the part of the new administration. Even proposed delays and one-time reductions could encounter stiff resistance that might either ulti-

[4] In theory, this proposal would lead to savings of about $400-600 million in interest on the public debt in 1982 and later years if the temporary reduction of 1981 outlays were not used to fund a larger tax cut or a larger defense program

mately defeat the proposed changes or at least could stall enactment until the savings would be significantly reduced. In the long run, the Congress and the President can control virtually every dollar spent by the Federal Government by making changes in the numerous laws governing Federal expenditures However, forging a consensus on just which laws ought to be changed—and how they ought to be changed—takes time Also, after that consensus is reached and laws are changed, implementation is anything but immediate.

Only eight months will remain in fiscal year 1981 after the new administration takes office and probably only four months will remain by the time a third budget resolution for 1981 is passed by the Congress. The most realistic (and possibly the best) strategy may be to forget about large budget cuts for fiscal year 1981 and to work out proposals carefully that will affect 1982 and more importantly 1983. Unfortunately, it is already getting late to do as much as might be desired about 1982. As will be shown later, more than a 2 percent reduction of projected outlays for 1982 as a result of Congressional action over the next eight months is hard to visualize A reduction of even that size will not be possible if the 97th Congress and the administration spend the next several months on quick-fix options designed to reduce the 1981 budget totals.

Spending reductions for 1982 and 1983

At present, with no new program initiatives (except for defense), Federal outlays for 1982 and 1983 may be projected at $760 billion and $850 billion, respectively. The projection assumes 5 percent real growth of defense, 2 percent real growth of benefit payments, primarily due to demographic and case-load changes, and no real growth of grants and other Federal operations. The estimates in Table 3 provide a useful baseline from which spending cuts can be considered.

In evaluating potential budget reductions, the following factors are important. All cuts require joint action by the administration and the Congress. With the passage of the Congressional Budget Act, the President can no longer impound funds. The proposals that follow have been restricted to those that are considered to be politically and technically feasible in the sense that they have a reasonable chance of being proposed, adopted, and implemented in time to achieve the savings listed for 1982 and 1983 Finally, although outlay savings proposals for national defense exist, they are not likely to result in a smaller spending total. The entire national defense discussion is now being framed in terms of real growth, with 5 percent real growth being the minimum figure under active consideration. Cuts in low priority or unnecessary defense expenditures are likely to be offset by increases in order to sustain the real growth target that emerges from the debate over the next few months.

The remainder of this article will review in some detail the ways in which projected Federal spending for fiscal years 1982 and 1983 could be cut The reductions of benefit payments, grants, and other Federal operations that will be discussed and are summarized in Table 4 cut across many different Federal programs and represent an ambitious agenda for the first session of the 97th Congress that would require numerous changes in current law The options do not include all possible budget-cutting alternatives that have been or will be proposed, but in general they are the ones that have been most prominently discussed during the past year Some have been included in President Carter's budget proposal Additional budget-reduction alternatives may be put forward, and some that are not considered in this article could ultimately be enacted. However, since each change requires separate consideration and negotiation, it is doubtful that a program significantly larger than the one outlined in this article could be formulated, negotiated, and implemented within the next eight months.[5]

Benefit payments for individuals

The largest benefit payments program is social security with projected outlays in fiscal year 1982 of over $160 billion. The upcoming July 1981 benefit-level increase, estimated at over 12 percent, will raise the annualized cost of social security by over $17 billion. Proposals to make major changes in social security indexing stand little chance of being enacted and probably will not even be proposed since they affect over 35 million recipients, most of whom are eligible voters. As a general rule, to stand any significant chance of passage, proposed cuts in social security should be designed to affect either subsets of existing recipients or future recipients.[6] For example, the following cuts could be proposed (Table 5)

- Under current law, dependent benefits are paid to unmarried students between the ages of 18 and 21. This benefit, which is not based upon need and costs about $2 billion annually, could

[5] A longer list of budget-reduction options can be found in *Reducing the Federal Budget Strategies and Examples* (Congressional Budget Office, February 1980) The Congressional Budget Office plans to update this report in March 1981

[6] This assumption may turn out to be wrong However, the chances of large near-term social security reductions that affect all current beneficiaries appear to be so remote that it would be unproductive to formulate a budget policy that depends to a significant degree on their enactment

Table 3

Projected Outlays Assuming 5 Percent Real Growth for Defense and No New Nondefense Initiatives*

By fiscal year; in billions of dollars

Spending category	1982	1983
National defense	172	203
Benefit payments	375	418
Other grants	64	69
Net interest	86	93
Other Federal operations	63	67
Total	760	850

* Also assumed is $16 billion in off-budget spending for 1982 and 1983

Table 5

Social Security Savings

By fiscal year, in millions of dollars

Item	1982	1983
Phase out student benefits	200	800
Eliminate minimum benefit	65	135
Eliminate lump sum death benefit	165	190
Phase out survivor benefits for high school children, age 16, 17, and 18	300	2,000
Total	730	3,125

Table 4

Reductions of Federal Spending for Fiscal Year 1982 and the Effects on 1983

By fiscal year

Spending category	1982 Billions of dollars	1982 Percent*	1983 Billions of dollars	1983 Percent
Benefit payments	— 5 9	1 6	— 8 5	2 0
Other grants	— 3 0	4 6	— 4 4	6 3
Other Federal operations	— 2 9	4 6	— 6 5	9.7
Total	—11 8	1 6	—19 4	2 3

* For each spending category, the percentage represents the cut as a fraction of projected spending for the category For the total, the percentage represents the sum of the reductions expressed as a fraction of projected total Federal outlays.

Table 6

Unemployment Compensation Savings

By fiscal year; in millions of dollars

Item	1982	1983
Eliminate the national trigger for extended benefits	1,000	1,000
Reduce trade adjustment assistance benefits	1,400	300
Total	2,400	1,300

Table 7

Income Support Savings

By fiscal year; in millions of dollars

Item	1982	1983
Monthly income reporting	400	500
Child nutrition	200	200
Food stamps	700	1,000
Total	1,300	1,700

be phased out starting in 1982 by stipulating that payments would not be made to students who reach their eighteenth birthday after October 1, 1981.

- A minimum social security benefit of $122 is currently provided to insured workers who retire at age 65, regardless of the level of their past earnings. Many of those who receive the benefit have earned pensions under other programs, typically civil service retirement. Elimination of this benefit and coverage of those actually in need through supplemental security income (SSI) would save about $100 million per year.
- All surviving families receive a lump sum death benefit of $255. The benefit is out of date, not having increased significantly since 1954. Coverage of those families in need could be provided through SSI
- Currently, families with children under 18 are entitled to survivor benefits for each child and for the spouse under the assumption that the parent cannot work away from home while a child is in his or her care. A phasing-out of benefits for high school children age 16, 17, and 18—where the rationale for the benefit is probably not applicable—would save up to $2 billion by 1983.

In the area of health, there are numerous proposals to restrict the growth of medicare and medicaid. Projected costs in 1982 for hospital insurance, supplementary medical insurance, and medicaid total more than $67 billion. Like social security, however, medicare and medicaid benefits are paid to millions of recipients (more than 45 million). Proposals with a reasonable chance of enactment would save about $1 billion in 1982 and $1.8 billion in 1983. Mandatory hospital cost containment might save more. However, the new administration and the Congress may wait another year or two to evaluate whether hospitals have voluntarily moderated their price increases. The earliest consideration of a new cost containment proposal probably will be in connection with the 1983 budget.

Unemployment compensation, with an estimated fiscal year 1982 cost of over $20 billion, is another area where reductions might be feasible. One of the largest cuts would be achieved by eliminating the national trigger for extended benefits (Table 6). Currently, an extra thirteen weeks of benefits are paid to all recipients when the national insured unemployment rate exceeds 4 5 percent even though a state's rate may be below 4.5 percent. This proposal was included in the Senate's version of the reconciliation bill but was removed in the House-Senate conference agreement on the bill. Other reductions of unemployment benefits could be achieved by implementing the Government Accounting Office recommendations that trade adjustment assistance benefits be paid only to those who have exhausted their unemployment insurance benefits and be payable at the same level as unemployment insurance benefits. The rationale for this reduction is that under current law it is possible for trade adjustment assistance recipients to receive benefits (when combined with other income transfer payments) which exceed their take home pay prior to becoming unemployed Clearly, this is likely to create a disincentive for trade adjustment assistance recipients to start looking for work

Miscellaneous income support or welfare programs such as aid to families with dependent children ($9 billion), food stamps ($12 billion), supplemental security income ($8 billion), and child nutrition ($4 billion) are potential targets for reductions (Table 7) A nationwide monthly income-reporting system, together with one-month retrospective accounting (that is, basing each month's benefits on the previous month's income), would eliminate some of the current welfare abuses. Other reductions include making permanent the change from a semiannual to an annual cost-of-living adjustment for child nutrition and certain miscellaneous food stamp cuts.

Finally, veterans programs are a potential target for reductions, although it has been extremely difficult to obtain passage of legislation that would cut the $20 billion of benefits and administrative expenses. The largest cut that has been discussed recently would require private insurance companies to reimburse the Veterans Administration for insured persons treated in veterans hospitals, so-called "third party reimbursement" (Table 8). The House and Senate Veterans Committees have been very reluctant, however, to report this legislation. Other changes for veterans, such as reducing burial benefits by the amount of the other Federal burial benefits received by veterans, would have a smaller effect on outlays.

Grants to state and local governments

Over the last thirty years the largest growth of Federal spending, on a percentage basis, has occurred in grants to state and local governments for other than benefit payments. The following are some possible cuts (Table 9)

- Federal spending on highways is growing very rapidly. It is not clear that this growth is desirable in light of the need to cut back on energy consumption. Reimposition of a tight obligation

Table 8

Veterans Savings

By fiscal year, in millions of dollars

Item	1982	1983
Third party reimbursement	350	400
Veterans' compensation, pensions, and burial benefits	100	100
GI bill changes	60	80
Total	510	580

Table 9

Cuts in Grants to State and Local Governments

By fiscal year, in millions of dollars

Grants	1982	1983
Highways	700	1,500
Environmental Protection Agency low priority construction	50	350
Public service jobs	1,000	1,100
Other Comprehensive Employment and Training Act programs	700	750
Impact aid for school districts	250	350
Discretionary health programs	300	300
Total	3,000	4,350

Table 10

Cuts in Other Federal Operations

By fiscal year; in millions of dollars

Item	1982	1983
Strategic petroleum reserve oil purchases	1,000	3,000
Termination of solvent refined coal demonstration plants I and II construction	500	1,000
Commodity Credit Corporation price support reductions	100	1,000
Railroad cuts in low priority routes	300	350
Federal payment to postal service	250	250
Wage board pay raises (nondefense)	60	60
Reduction of outmoded soil and water conservation projects	100	100
Reduction of civilian agency employment	440	480
Limit nondefense travel and transportation	100	200
Total	2,850	6,440

ceiling on the Federal-aid highways program could hold 1982 and 1983 outlays to about $8 billion per year.

- The Environmental Protection Agency (EPA) makes grants for the construction of wastewater treatment plants. Because of various requirements specified in the law that emphasize "ready to go" rather than high priority projects, approximately 25 percent of the funds have been used for low priority projects. Unfortunately, the savings from a change to eliminate these projects build slowly. Nevertheless, the 1985 savings would be about $1 billion, out of a projected cost of $4 billion.
- Expenditures for countercyclical public service jobs will total about $1 billion in 1981. This program has demonstrated a marked procyclical pattern It probably should (and in all likelihood will) be terminated in 1982.
- Many other Comprehensive Employment and Training Act (CETA) programs do not appear to be effective or duplicate private-sector programs. A 10 percent cut in the $7 billion in projected outlays probably could be achieved without impairing the effectiveness of the programs The cuts could be across the board or targeted toward specific programs like summer youth or the public service jobs program for the structurally unemployed (Title II of CETA).
- The impact aid program compensates school districts for children whose parents live or work on Federal property. Annual funding is about $800 million. The purpose is to compensate school districts partially for educating pupils where the local tax base is reduced because of Federal property ownership or where enrollments are raised because of a Federal employer. Parts of this program clearly do not meet the intended needs Past administrations have unsuccessfully proposed cuts, but last year the Congress came closer to approving reductions.
- During the past year, several proposals were made to reduce discretionary health grants which overlap with other programs. These include drug and alcohol abuse, mental health, family planning, and health planning. A proposal submitted in 1980 by Republican members of the House and Senate would save about $300 million (or slightly over 10 percent of the $2.5-3 billion spent on these programs).

The reductions to state and local government grants summarized in Table 9 are for categorical grant programs, that is, grants where the Federal Government specifies the precise purpose or use of the funding. There appears to be little, if any, support in the Congress or in the new administration for cuts in community development block grants or in general revenue sharing.[7] In fact, most Republicans advocate the restoration of the $2.3 billion state share of general revenue sharing in 1982. One way to offset such an increase, however, might be to require states to forfeit funds for categorical grants on a dollar-for-dollar basis in exchange for revenue-sharing funds. This provision was written into the recently enacted general revenue-sharing reauthorization, however, a plan for implementing what could become a complex system of credits and debits does not yet exist.

Other Federal operations

This category contains numerous Federal programs. Some are not particularly effective, but few are large when compared with defense and the major benefit payments programs.

- Federal outlays for the purchase of oil for the strategic petroleum reserve are projected at about $3 5 for 1982 and $4 5 billion for 1983.[8] All these outlays would not necessarily be offset by the proposals for public capitalization or debt financing of the reserve discussed earlier. Various factors, ranging from the marketability of the certificates of ownership to the coupon rate (if any), would affect the size of the offset. The savings for 1982 would also be affected by the timing of a change in the law and lags associated with implementation For the purposes of this analysis, savings (offsets) of $1 billion in 1982 and $3 billion in 1983 are assumed. The estimates reflect gradual implementation of a change enacted late in fiscal year 1981 or early 1982 and a program that includes an annual interest payment on the debt outstanding[9]

[7] Over the next few months proposals may be made to cut Urban Development Action Grants, a program to help cities revitalize their economic bases and reclaim deteriorated neighborhoods Reductions of appropriations, however, will not significantly affect outlays until after 1983

[8] This projection assumes a fill rate in excess of 100,000 barrels per day and further increases of world oil prices

[9] It should be noted that, in the long run, this proposal may cost more than current policies, depending on whether the oil purchases are debt financed or equity financed and on the relationship between oil price increases and interest rates

- As discussed earlier, the termination of construction at the two solvent refined coal demonstration plants (SRC I and II) might be a potential budget reduction option since the current program has already shown the feasibility of the technology.
- Several changes could be made in the farm price support program administered by the Commodity Credit Corporation (CCC). The CCC spent about $3 billion in fiscal year 1980. Although several aspects of the various CCC programs could be changed so that outlays would be reduced, the Congress will be under considerable pressure for program expansions. The disaster payments program probably can be eliminated since it largely duplicates the newly enacted Federal crop insurance program. Also, cuts in dairy price supports, such as indexing support levels to annual rather than semiannual changes in prices, appear to be justified.
- Federal support of railroads totals $1.9 billion, including funds for construction and operating subsidies. Subsidies for low priority routes could be reduced, saving about $300 million per year.
- The $1.2 billion annual Federal payment to the Postal Service could be reduced. The cut need not specify elimination of Saturday mail delivery, as was proposed in March 1980. The Postal Service probably should be allowed to decide how to absorb the cut—either by raising rates or by new efficiency initiatives.
- The current procedure for computing pay raises for Federal blue-collar workers (wage board employees) overstates the percentage increase needed to maintain comparability with the private sector. The savings from reform would be over $500 million by 1983. However, three fourths of the $10 billion in pay is an expense of the Department of Defense. Most of the cut probably would be offset by other defense increases in order to maintain a 5 percent (or greater) real growth target for defense outlays.
- Miscellaneous soil and water conservation projects that have outlived their usefulness and actually are in direct opposition to wildlife conservation projects could be reduced. The budget for the Soil and Water Conservation Service is about $400 million.
- The Army Corps of Engineers currently spends about $1 billion per year for construction and operating costs on the nation's network of

inland waterways and to help maintain deep-draft ports An increase in the per gallon fuel tax paid by inland waterway users could defray some of these expenses. (The receipts are treated as offsets to Federal outlays.) An increase of over 5 cents per gallon would be required for each $100 million in offsets. It is likely that such a proposal would encounter stiff opposition. The most recent increase in the tax was debated several years prior to enactment.

- A reduction of Federal civilian agency employment through attrition (for example, a two for one attrition-replacement policy) would reduce employment by 2 percent. Assuming a 1982 payroll of $24 billion, savings would be $400-500 million. However, it is not clear that such a policy is desirable, compared with more targeted cutbacks. The savings of $400-500 million could be achieved through attrition, major cutbacks in certain departments like the Department of Energy, or by a 10 percent cutback in the $5 billion spent by Federal agencies to formulate and enforce Federal regulations
- Federal travel and transportation cost about $9 billion annually, with over 75 percent attributable to the Department of Defense. The $1.7 billion for civilian agencies is embedded within programs presented throughout the budget. Although data are maintained on travel and transportation expenses, budget and appropriations review is generally done on a programmatic basis rather than on an object class or input basis. Pending detailed review of travel and transportation policies, a general provision limiting 1982 expenses to 1981 levels could be attached to each nondefense appropriation bill, saving between $100-200 million. (It is not clear that such a policy is appropriate for the Department of Defense since most funds are used to transfer military personnel and move equipment.)

The reductions summarized in Table 10 do not include some across-the-board cuts that are expected to be proposed by the new administration. In particular, reductions of expenditures for consulting services may be proposed However, unlike travel, little data is available on where or how money is spent or on how to make the reductions. The new administration may include a cut of about $700 million for such services in its budget, but it would be extremely difficult to implement the reductions.

Net interest

No reductions of interest on the public debt have been included since it is unclear whether the spending cuts will lower the deficit or be used for larger defense increases or for larger tax cuts. If spending cuts were used to lower the deficit, interest costs in 1982 would drop by about $0.6 billion for each $10 billion reduction of the deficit because of a lower level of outstanding interest-bearing debt; by 1983 the savings would be $1.8 billion, if the $10 billion deficit reduction were continued.

Summary

If all the reductions outlined in this article were enacted, the savings would be $12 billion in 1982 and about $20 billion in 1983 These savings would represent about 2.0 percent of nondefense spending in 1982, 3 0 percent in 1983, and approximately 2 percent of total Federal spending in each year. Between 80 and 90 percent of the reductions could be accomplished only by rewriting existing laws rather than through regular appropriations action The process of changing laws generally requires extended and drawn-out negotiations and is subject to greater delays than appropriations. Because of the time required to negotiate and implement the various changes in current laws, the savings totals in this article are probably an upper limit on what can be achieved through action during the remainder of this year. By comparison, the push for reductions in the fiscal year 1981 budget that started last March probably resulted in nondefense legislated savings of only $4-6 billion, despite the fact that the effort had administration and bipartisan Congressional support for achieving a balanced budget to resist inflationary pressures. However, many of the reductions discussed in this article may be opposed by the Democratic leadership in the House. Also, the target date for a balanced budget appears to be slipping further into the future. Consequently, advocates of spending cuts cannot use the balanced budget argument to defeat amendments that exempt various programs from budget cuts.

An alternative to the goal of a balanced budget is expenditure cuts that offset the revenue loss from a tax cut similar to the first instalment of the Roth-Kemp proposal and from a business tax cut. However, the revenue loss in 1982 from a 10 percent across-the-board cut in individual income tax rates—about $30-35 billion[10]—is by itself in excess of what reasonably can be expected in the way of outlay cuts. A package of

[10] This estimate assumes enactment of a bill by about July 1, 1981 and changes in withholding tables by September 1, 1981 The cut would not be retroactive to January 1, 1981

cuts that yields significantly more than $10-15 billion for 1982 may not be possible. In general, a larger reduction of total outlays probably would require making additional separate program changes rather than making each of the changes listed in this article more drastic. The program of changes that has already been outlined could occupy most of the time of the first session of the 97th Congress with debate and decisions on Federal spending and consequently could leave little time for consideration of major changes in taxes, Federal regulatory policies, or energy policy. (The tax-writing committees of the Congress are also the committees responsible for social security, medicare, unemployment compensation, and welfare.) Active consideration of more proposals in all likelihood would either be postponed or add to the overall confusion, making it more difficult to achieve any reductions.

The Congress and the administration may have to settle for a longer range goal of offsetting the revenue losses from a tax cut by 1983. For 1983, the revenue loss from a one-time 10 percent cut in rates enacted in 1981 would be about $35 billion. The expenditure savings of $20 billion for 1983 in Table 4 represent estimates of the second-year effects of making permanent the program changes that reduce 1982 outlays. Additional changes that either start in 1983 or begin in 1982 but have no outlay effect in 1982 could probably reduce 1983 outlays by another $10-15 billion, yielding total reductions in 1983 of $30-35 billion. These could include cuts in contributions to international financial institutions, reductions of (or elimination of) future funding for the space shuttle, additional cuts in entitlements, and further reductions of Federal employment. These changes, together with those outlined in this article, could come close to offsetting the income tax cut by 1983 but would probably still fall short of offsetting the $50-55 billion revenue loss from both a 1981 business tax cut and an individual income tax cut.

The possibilities for offsetting the revenue loss from an individual income tax cut earlier than 1983 appear to be limited. A reduction of the defense real growth target might make a difference, but it would entail a major shift in policy. Swift enactment of comprehensive social security and medicare changes that affect all beneficiaries could contribute to an earlier income tax cut, but such changes do not appear likely because of various political considerations and also would be at variance with earlier policy pronouncements. A flood of changes in existing laws well beyond that envisioned in this article could possibly offset an income tax cut by 1982, although both political and time constraints make this extremely difficult What seems to be clear, however, is that the process of reconsidering basic legislation would need to begin right away, regardless of whether enough changes can be enacted to affect total Federal outlays significantly in the immediate term Otherwise, unless the Congress begins immediately to consider and to act on numerous changes in current laws, the chances for any spending cuts for 1982 may slip away and the opportunities for reducing spending growth in 1983 and beyond could be severely circumscribed.

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