January 25, 1983

# *SAVING* $111 *BILLION: HOW TO DO IT*

## PART 2, TRANSPORTATION, REGIONAL DEVELOPMENT, THE NATIONAL DEBT

INTRODUCTION

Ronald Reagan can slash $89 billion in outlays and raise nearly $22 billion in revenues, thus chopping $111 billion from the projected $200 billion 1984 budget deficit. Some $15 billion of this deficit reduction can be made in the national security and natural resources sectors detailed in Part I of this series. Another $44 billion can be cut from the human services sectors described in Part III. And in the areas of transportation, economic development and the national debt, savings of $52 billion in fiscal year 1984 are possible.

The challenge for the Reagan Administration is to find the way for better services to be provided at lower cost to the taxpayer. This can be accomplished through the New Federalism--the transfer of services to states and local government and to the private sector. This places the responsibility of paying for services with the users of those services. State and local roads and mass transit systems, for instance, provide localized and definable benefits to the residents of a particular area. The federal government spends approximately $14 billion annually to fund these systems. But construction, maintenance, operation and supervision of highway and transit systems could be undertaken more efficiently if the responsibility for expenditures and revenue collection were localized. It is unlikely, for example, that the taxpayers of New York City would have allowed salaries of subway token booth attendants to escalate nearly 200 percent while productivity declined in the 1970s, if New Yorkers had to foot the bill directly. But those salaries soared in large part because the federal government subsidizes New York City subway operating expenses.

Most federal business development programs, such as the Small Business Administration and Urban Development Action Grants, similarly rob Peter to pay Paul. They siphon money from the general economy to subsidize enterprise in a local business sector or urban community. In effect, the government taxes farmers in Wisconsin and autoworkers in Michigan to fund community centers in California.

Managing the trillon dollar national debt also offers a chance for great savings. The 1984 deficit, in fact, could be cut $30 billion by restructuring the financing of the debt. By issuing price indexed bonds the Treasury can cut the effective risk premium it pays to investors from two or three hundred basis points to less than one hundred points. This would sharply reduce the interest payments on the national debt without imposing any cutbacks in federal services.

In the following budget analysis, each program is listed by subfunction number, the form in which the President and the Congressional Budget Committees submit their proposals to Congress. Under each program are three figures--estimated outlays for 1983, 1984, and the economists' recommendations for 1984. The first two figures are based, wherever possible, on the Congressional Budget Office's (CBO) July 1982 baseline outlays, so they represent the authorized expenditures if there were no policy changes. The difference between 1984 CBO baseline and our recommendation is shown as the budget saving based on the recommended change. At the conclusion of each paper, the programs are also grouped by appropriation committee, to permit cross-reference.

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(370) COMMERCE AND HOUSING CREDIT

(376) MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA)
(Outlays in millions of dollars)

| 1983 | 1984 | Heritage Foundation |
|---|---|---|
| 65 | 65 | 0 |

Possible Savings: $65 million

Program Description: The MBDA was formed to encourage the development of minority business.

Program Change: The MBDA has had negligible impact on the growth of minority business. It has tended to assist larger minority firms. Much of the aid has gone to consultants rather than directly to businesses and, as congressional hearings have discovered, to firms with "token" minority owners. Additionally, the government assistance to business often creates dependency on government contracts instead of private customers for their livelihood. The program is not an effective mechanism to help minority entrepreneurs and should be terminated.

(376) U.S. TRAVEL AND TOURISM ADMINISTRATION
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 6 | 7 | 0 |

Possible Savings: $7 million.

Program Description: The Travel Administration was created in 1981 to encourage tourists to visit the United States.

Program Change: There is no justification for the government to subsidize travel promotion; the enormous private travel sector is capable of this without federal assistance.

(376) SMALL BUSINESS ADMINISTRATION (SBA)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 697 | 713 | 488 |

Possible Savings: $225 million.

Program Description: The most costly function of the SBA is providing subsidized and guaranteed loans to small businesses.

Program Change: While small businesses are the primary job creators in the economy, subsidized government loans are not the way to help small firms. The SBA definition of "small" is now so inflated that it is meaningless. Moreover, the program has insulated inefficient firms from healthy competition for investment funds. The most effective way to stimulate small business firms would be to cut taxes and government regulation. The federal government should end its involvement in the loan business. This would save the business loan and investment fund $200 million in 1984, and more later, without seriously diminishing small business development. Using these savings to reduce the deficit or increase tax cuts, would be far more helpful to the small business community than subsidized loans. The SBA should concentrate its resources on data collection, research and information.

Commensurate with the reduced loan activity, salaried personnel and expenses can be cut 10 percent, saving another $24 million.

(376) FEDERAL COMMUNICATIONS COMMISSION
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 79 | 83 | 75 |

Possible Savings: $8 million.

The FCC regulates domestic, interstate and foreign communications by radio, television, wire, cable and telephone. Chairman Mark Fowler has begun a program of what he calls "unregulation." These efforts should continue. One way to do so is through budget cuts. In particular, savings could be realized if the Commission changed its allocation policy for granting licenses for spectrum use either to an auction system or a lottery.[1]

Through such a simplification of its activities, the FCC budget should be cut by 10 percent.

(376) FEDERAL TRADE COMMISSION
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 71 | 74 | 61 |

Possible Savings: $13 million.

Program Change: FTC Chairman James Miller has asked for the authority to close four of the FTC's ten regional offices. He believes that this will increase Commission efficiency and yield budget savings. Miller had asked for a $60.8 million budget for 1983 on the assumption that those offices could be closed. This request should be granted in 1984.

(400) TRANSPORTATION

(401) FEDERAL AID TO HIGHWAYS (TRUST FUND)
(Outlays in million of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 8,212 | 8,800 | 2,400 |

Possible Savings: $6,400.

Program Description: The Federal Highway Administration provides funding for building and maintaining interstate highways, primary state roads, secondary and urban roads, bridge replacement and miscellaneous projects.

Program Change: The federal government should provide highway aid only to finish and maintain the integral segments of the interstate highway system. Over the years, the federal government's role has been expanded to fund highways, roads, and bridges which benefit primarily localities and states.

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1 Douglas Webbink, "Communications Airwaves: The Private Sector Option," Heritage Foundation Backgrounder 224, November 2, 1982.

If the federal government concentrated only on highway needs of national importance, about $27 billion in budget authority could be shifted from the Federal Highway Administration back to state and local governments over four years. About $21 billion would come from returning full responsibility for urban and secondary roads back to states and redefining the interstate system to include only projects that serve interstate, commercial and passenger traffic. Another $6 billion would come from returning responsibilities for primary highways to the states.

In keeping with the President's New Federalism initiative, the revenues from the 5 cents gasoline tax should be returned to the states as a block grant during 1984. In subsequent years the responsibility for levying the tax should be given to the states.

The federal gas tax will be paid largely by users of local and state primary and secondary roads. The $5-$6 billion in new revenues per year should finance the new state responsibilities. If the programs were devolved to the states over a four-year period, the savings to the federal government in 1984 would amount to $6.4 billion.

(401) INTERSTATE TRANSFER GRANTS - HIGHWAYS
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 200 | 261 | 0 |

Possible Savings: $261 million.

Program Description: This program provides funding for new state and local highways. Under it, state and local governments may petition the federal government to cancel a proposed interstate highway segment considered not essential to the interstate system. When a petition is received, Congress may authorize funds, equal to the value of the cancelled highway segment, toward the construction of another new highway or mass transit project. As of December 31, 1981, nearly $10 billion in obligations had been incurred through this program.

Proposed Change: The federal government should not be funding highways that neither the state nor the federal government considers an integral part of the national highway system and that are of purely state or local importance. And Washington certainly should not be obligated to construct local highways at the bid and call of state and local governments.

(401) URBAN MASS TRANSPORTATION GRANTS
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 3,395 | 3,494 | 1,104 |

Possible Savings: $2,390 million.

Program Description: UMTA provides federal aid to assist the capital and operating expenses of urban mass transit systems, and provides finance for the development of new projects. The program was instituted in 1964 to purchase private mass transit systems that were going bankrupt as urban populations became decentralized with the rise of freeway systems. In 1974 the authorization was amended to allow UMTA to subsidize operating costs in addition to capital costs.

The history of federal involvement in mass transit is one of exploding deficits and plummeting productivity. In the early 1970s, before the federal government subsidized operating costs, transit revenues covered 90 percent of operating costs. By the late 1970s, that figure dropped below 50 percent. Deficits increased 800 percent as ridership declined by more than 4 percent and passenger miles per dollar fell 30 percent.

Program Change: Congress should eliminate all federal subsidies to mass transit. Taxpayers nationwide should not be paying the costs of operating local transit systems. They are not a national concern. Many local systems, in fact, are thriving without federal aid. The San Diego rail line, for example, was recently completed ahead of schedule at one-tenth the cost of a similar system funded by the federal government. It may be, of course, that mass transit aid reduces fares for lower income riders. But if this is deemed necessary, it should be directed only to those in need, not to all riders regardless of income.

Local areas should turn from supply subsidies to consumer-oriented subsidies. The city of Oak Ridge, Tennessee (pop. 28,000), for instance, provides transportation for its senior citizens for a total of $15,000 per year. Instead of spending an estimated $60,000 to develop a new public system, the city developed a plan with taxidrivers in which senior citizens pay 25 cents of a slightly reduced fare, and the city the rest. By letting the market--the senior citizens--determine the supply of transit through demand, and providing services through private profit-making carriers, the city offers a valuable public service at a fraction of the cost of typical public service. Other cities could follow this example, providing citizens with transit coupons to encourage private systems. Under such a system some mass transit systems might close and other means of transport would emerge. For most cities, however, including New York and Chicago, probably would respond to consumer shifted demand by moderating their excessive operating and discretionary expenses.

Congress should eliminate all operating subsidies ($1.22 billion) and funding for new systems ($1.17 billion) in 1984. All capital expenditures should be phased out by 1989.

(401) INTERSTATE COMMERCE COMMISSION (ICC)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 73 | 76 | 64 |

Possible Savings: $12 million.

Program Description: The ICC regulates interstate surface transportation carriers. It was established originally to regulate the railroads and later began active oversight of trucking. Recent deregulation efforts at the ICC should be pursued more rapidly.

Program Change: There are several ways in which less intervention would allow a more efficient system of trucking to develop, while reducing the cost of the Commission. For example, the ICC's role in issuing licenses to truckers should be entirely eliminated. While it may not be possible to complete this change in FY 1984, a significant scale-down should begin.

(401) WASHINGTON, D.C., METRO
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 295 | 295 | 0 |

Possible Savings: $295 million.

Program Description: The federal government provides the Washington, D.C., Metropolitan Area Transit Authority with funding for construction of the Metrorail system.

Program Change: The federal government should not subsidize local transit systems. The case for subsidizing the affluent Washington, D.C., commuter is especially weak. The federal government is expected to provide Metro with $50 million in capital subsidies. Additional budget authority of up to $45 million is available from interstate transfer grants. All federal funding should be discontinued.

(401) NATIONAL RAILROAD PASSENGER CORPORATION -- AMTRAK
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 755 | 808 | 0 |

Possible Savings $808 million.

Program Description: Amtrak is the controversial federally subsidized national railroad system. As reported in a recent Heritage Foundation Backgrounder,[2] the system "has cost the U.S. economy over $12 billion and more than 125,000 jobs in the last ten years." In 1981, Amtrak lost nearly $900 million while receiving subsidies of $38.30 per passenger, or more than 23¢ per passenger mile. This is more than 100 times the federal subsidy

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2 John Semmens, "End of the Line for Amtrak," Heritage Foundation Backgrounder No. 226, November 9, 1982.

for any other mode of transportation. Though the system has been justified on grounds of energy efficiency, it actually is less efficient than any other form of modern transportation. According to Amtrak's own projections, only revenues on the Northeast Corridor routes will cover 1983 operating costs.

Some routes do not meet federally legislated standards. This includes the Cardinal Route, which runs from Washington, D.C., to Chicago--via West Virginia. According to Administration officials, this route continues to be subsidized only because of the political power of West Virginia's Robert Byrd, the Senate's Democratic leader. Funds also subsidize intrastate and community systems. Legislation should be introduced in the next Congress to eliminate Amtrak funding and to sell the system to the private sector.

(401) FEDERAL RAILROAD ADMINISTRATION
(Outlays in millions of dollars)

| | 1983 | 1984 | HF |
|---|---|---|---|
| Office of the Administrator | 7 | 8 | 0 |
| Railroad safety | 26 | 27 | 0 |
| Railroad research and development | 32 | 34 | 0 |
| Rail service assistance | 54 | 57 | 0 |
| Northeast corridor improvement | 185 | 201 | 0 |
| Railroad rehabilitation and improvement | 66 | 71 | 0 |
| Total | 422 | 445 | 0 |

Possible Savings: $445 million.

Program Description: The Office of the Administrator, railroad safety program, and railroad research and development program provide money for federal enforcement of safety regulations and standards, automated track inspection, development of new safety regulations, and a grants-in-aid program for railroad safety. The rail service assistance program finances track rehabilitation, assists reorganization of bankrupt railroads, guarantees loans for rail improvement, and provides formula grant assistance to states for rehabilitation and rail planning projects. The Northeast Corridor improvement program aims to improve Amtrak service between Boston, Massachusetts, and Washington, D.C. The railroad rehabilitation and improvement program provides loan guarantees and grants to rehabilitate sub-standard train tracks.

Program Change: The Federal Railroad Administration should be abolished along with its counterproductive programs. Railroads should compete without government subsidies against all other forms of transportation. Federal regulation and safety standards have been superseded by state safety rules, while the courts enforce personal and business liability laws. Railroad maintenance and repair costs should be paid by the beneficiaries of rail services, not the general taxpayers. Federally subsidized and owned railroads should be returned speedily to the private sector, where profitable services will undoubtedly be improved, unprofitable lines abandoned, and high labor costs brought into line with similarly skilled workers in unsubsidized industries.

(401) ALASKA RAILROAD REVOLVING FUND
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 13 | 11 | 0 |

Possible Savings: $11 million.

Program Description: In the early 1900s, the federal government constructed a 470-mile railroad in Alaska to transport coal. Today, the railway is used mainly for private purposes and for the transport of jet fuel. The Administration has recommended turning over the railroad to the state of Alaska.

Proposed Change: The railroad is profitable and is a local concern which should not be funded by the federal government. Congress should simply give the railroad to the state of Alaska.

(401) FEDERAL HIGHWAY ADMINISTRATION
(Fees in millions of dollars)

| | 1983 | 1984 | HF |
|---|---|---|---|
| user fees | -0- | -0- | 2,000 |

Possible Savings: $2,000 million.

Program Description: Federal highway spending for building, repaving, and repairing interstate, primary, urban, and rural highways will top $9 billion in 1984.

Program Change: The federal government should begin charging tolls on segments of existing interstate highways and, where feasible, plan toll financing to complete the unfinished segments of the interstate highway system. France, Spain, Italy, and Japan rely heavily on toll roads for their intercity links. While the fraction of the current interstate system that can be converted easily to toll management cannot be calculated precisely, transportation economist Fred A. Smith, estimates that about half the interstate system could be self-financed, generating perhaps as much as $10 billion in toll revenues per year.

Toll revenues would provide additional revenue for the much-needed repair of the interstate system. Unlike a gas tax, which is a very inefficient form of user fee, tolls can be adjusted to approximate the damage imposed by highway users, and can be raised to reduce traffic flow during peak hours or lowered when traffic is light. Toll roads assure greater efficiency in road building. If highways do not generate sufficient toll revenues to justify the investment, they probably should not be built or retained. The federal government should begin charging tolls to finance highway maintenance and to cover construction costs.

(402) <u>CIVIL AERONAUTICS BOARD</u> (CAB)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 27 | 27 | 0 |

<u>Possible Savings: $27 million</u>.

The CAB was created in 1938 to regulate the commercial airline industry. With the Airline Deregulation Act of October 1978, however, the phase-out of airline regulation and, hence, the CAB was begun. The Board should be abolished in 1984.

(402) <u>FEDERAL AVIATION ADMINISTRATION (FAA): AIRPORT AND AIRWAY TRUST FUND</u>
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 268 | 275 | 0 |

<u>Possible Savings: $275 million</u>.

<u>Program Description</u>: This FAA program provides airports with grants for construction and modernization of new equipment, runways, and other airport related facilities.

<u>Program Change</u>: These facilities are properly a cost that should be borne by local airport authorities and their users. The federal government should not be subsidizing these facilities.

(402) <u>AIR TRAFFIC CONTROL (ATC) OPERATING</u>
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 2,385 | 2,369 | 169 |

<u>Possible Savings: $2,200 million</u>.

<u>Program Description</u>: This activity covers the operation of the national system of air traffic management. The program includes equipment, salaries, maintenance, development, and the administration of the air traffic control system.

Program Change: Most traffic control functions should be turned over the the private sector. In a recent Heritage Foundation study[3] Robert Poole outlines how this could be accomplished. Not only would a private system be more efficient and safer, it would ensure that those using the system bear the costs. The federal government should only continue to monitor standards.

(403) COAST GUARD
(Outlays in millions of dollars)

| | 1983 | 1984 | HF |
|---|---|---|---|
| offsetting user fees | 2,621 | 2,759 | 2,759 |

Possible Savings: $1,500 million.

Program Description: The Coast Guard's operating expenses will be approximately $1.5 billion in 1984. The Coast Guard charges nothing for virtually all of its services: navigational aids, search-and-rescue operations, and marine safety.

Program Change: The Coast Guard should charge a direct fee for boat licenses and inspections, and set an annual fee for other services including navigation aids and search-and-rescue services.

(403) FEDERAL MARITIME COMMISSION
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 12 | 12 | 0 |

Possible Savings: $12 million.

Program Description: In the Reorganization Act of 1961, Congress separated responsibility for administration of the regulatory aspects of shipping (i.e., tariffs and conferences) from the promotional aspects (i.e., government subsidies and loan guarantees for ship construction). The FMC was created as an independent agency to handle the regulatory aspects, with the latter functions placed under the Maritime Administration within the Department of Commerce.

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3 Robert Poole, "Air Traffic Control: The Private Sector Option," Heritage Foundation Backgrounder No. 216, October 5, 1982.

Program Change: There is considerable confusion in the industry and in the Congress over where federal maritime policy is made and administered. A transfer of the regulatory functions of the FMC to the Maritime Administration within the Department of Commerce would be a welcome means of providing more effective and coherent Merchant Marine policy. The FMS should be abolished.

(403) OCEAN SHIPPING SUBSIDIES
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 454 | 431 | 0 |

Possible Savings: $431 million.

Program Description: The Maritime Administration provides subsidies of about $150 million annually for the construction of U.S. flagships in U.S. shipyards. It also provides subsidies of about $300 million for the operation of U.S. flagships.

Program Change: It costs half as much or less to construct a ship in some foreign shipyards as it does in an American yard. It also costs half as much or less to operate a ship with a foreign crew. If the argument for continuing these subsidies is truly one of national defense, it would cost less to buy ships built in foreign yards and mothball them here. These subsidies should be discontinued.

(450) COMMUNITY AND REGIONAL DEVELOPMENT

(451) URBAN DEVELOPMENT ACTION GRANTS (UDAG)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 522 | 537 | 0 |

Possible Savings: $537 million.

Program Description: UDAG provides financial assistance to units of local government to be used in conjunction with private and other funds in promoting locally designed and managed economic development projects. It is intended to help revitalize cities and urban counties by stimulating new investment, jobs, and revenues.

Program Change: A January 1982 HUD report indicates that between 16 and 25 percent of UDAG funds were spent unnecessarily, since the projects would have been done in the private sector. Some internal analysts suggest the figures are actually between 25 and 50 percent. There are, moreover, significant amounts of fourth quarter spending in the program, suggesting that money is being "dumped" to preserve future funding.

Federal funding of local projects is inappropriate. If states feel that the UDAG mechanism is useful, they could design state UDAG programs financed out of block grant or state funds. The federal program should be abolished.

(452) APPALACHIAN REGIONAL DEVELOPMENT (ARD)
(Authority level in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 270 | 233 | 0 |

Possible Savings: $233 million.

Program Description: The ARD Commission provides grants to thirteen Appalachian states, either directly to the states or through other federal agencies for community infrastructure, housing, economic development, and job creation. The highway program provides funds for the construction of regional highways and access roads to places of "potential" economic development.

Proposed Change: A substantial amount of federal funds has already been pumped into this program. Consistent with the objective of consolidating programs and reassigning responsibility for economic development to state and local agencies, the program should be phased out. Morever, it seems speculative and inappropriate for the federal government to be providing local access roads to potential development areas. The program should receive no further authority.

(452) ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 267 | 268 | 0 |

Possible Savings: $268 million.

Program Description: EDA offers loans, loan guarantees, interest rate subsidies, grants, and other forms of assistance to local governments and businesses. Its original purpose was to aid "distressed areas." But by the late 1970s, the program was broadened so much that 84.5 percent of the nation's population was deemed eligible for EDA aid.

Program Change: The EDA duplicates other development grants and private investments. The program warrants no further federal funding.

(452) BUREAU OF INDIAN AFFAIRS (BIA)
(Operation of Indian Programs)
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 501 | 524 | 454 |

Possible Savings: $70 million.

Program Description: The federal government provides grants, training, technical assistance, loans, and subsidies in an attempt to strengthen the management and economic development of tribes.

Program Change: According internal budget analyses at the Department of Interior, Regional BIA Offices are overstaffed by about 23 percent and could easily manage a decrease in budget authority.

(850) GENERAL PURPOSE FISCAL ASSISTANCE

(851) OFFICE OF REVENUE SHARING
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 4,573 | 4,894 | 0 |

Possible Savings: $4,894 million

Program Description: The Office of Revenue Sharing was established in 1972 because it was believed that the federal government was more capable than the states of raising taxes. Since then the revenue generating ability of state and local tax systems has grown considerably. The program currently provides funds to approximately 39,000 local jurisdictions with little federal control.

Program Change: Revenue sharing does not "create" money for states. The federal government merely collects it and then gives it back, less $7 million in federal salaries and expenses. Revenue sharing should be eliminated along with the federal taxes which finance it, and the states should take over the responsibility for assisting local government.

(900) INTEREST

(901) INTEREST ON THE PUBLIC DEBT
(Outlays in millions of dollars)

| 1983 | 1984 | HF |
|---|---|---|
| 149,000 | 181,000 | 157,000 |

Possible Savings: $32,000 million

Program Description: The U.S. Treasury issues bonds, notes, and bills to finance over $1.3 trillion in national debt. The Treasury will also have to raise funds to finance the projected $175 billion deficit and $20 billion off-budget defict in 1983.

Program Change: The federal government could be more creative in financing the national debt. Milton Friedman has suggested that the Treasury could issue inflation-indexed bonds to finance at least part of the national debt. These notes would pay a negligible coupon (to be determined by the market,) because the bond principal would be indexed to the rate of inflation measured by a price index. Historically the "real" rate of return on Treasury bills has been close to zero--evidence that Treasury notes are purchased as hedges against inflation. Interest rates (7.5 percent) are greater than current inflation (4.5 percent) because investors fear renewed inflation. Price indexed bonds would elminate this "inflationary expectations" premium thus saving the Treasury 3 percent per dollar of debt per year, given today's rates. Under the current maturing structure this would save approximately $24 billion in 1984.

The Treasury would also be sending a clear signal to the financial markets that the Administration is determined to end inflation. If the Administration allowed inflation to reignite, Treasury costs would balloon. The purchasing power security offered by the bonds would also be welcome news to small and large savers alike.

(901) INTEREST SAVINGS FROM REDUCED EXPENDITURES

Possible Savings: $1,650 million.

Cutting the deficit $111 billion would save the Treasury approximately $1.65 billion in interest expenditures in 1984. This is based on the CBO estimate of 55 days average debt outstanding and a "baseline" interest rate of 7.5 percent, saving $1.3 billion. Further cutting government outlays should reduce interest rates at least another 3 percent, leading to additional savings of $350 million.

(999) REPEAL OF DAVIS-BACON

Possible Savings: $2,800 million.

Program Description: The Davis-Bacon Act, passed by Congress in 1931, requires contractors on federally funded construction projects to pay the "prevailing" wage, meaning generally the wage paid to at least 30 percent of similarly employed workers in a locality. Since union members are more likely to be paid an identical wage rate, the so-called 30 percent rule often leads to the use of the higher union wage scales in federal projects, rather than the average construction wage. By artificially inflating wage levels, Davis-Bacon distorts the labor market and leads to higher levels of unemployment in the construction industry and drives up construction costs for the federal government.

Proposed Change: Davis-Bacon and other prevailing wage laws should be repealed.

## SUMMARY

In this second part of the analysis by Heritage Foundation economists, $52 billion in possible program savings have been identified in the areas of transportation, economic development, and interest on the national debt. This is not intended to be a complete account of possible cuts--additional savings can be accomplished. It is clear that the new Congress, in cooperation with the White House, must take decisive action now to reduce the size of federal budget, if deficits are to be cut and the economic health of the country restored.

Part I of this analysis proposed savings of $15 billion from defense, international aid, energy, natural resources and agricultural supports. Part III targets $44 billion in savings from human services programs.

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With the Assistance of
The Heritage Foundation's
Domestic Studies Staff

## SUMMARY OF PROGRAM CHANGES

| | Outlay Reductions ($ millions) | Revenue Increases ($ millions) |
|---|---|---|
| **FOREIGN OPERATIONS** | | |
| United Nations (151) | 507 | |
| Agency for International Development (151) | 60 | |
| Export-Import Bank (155) | 3,950 | |
| | 4,517 | |
| **DEPARTMENT OF AGRICULTURE** | | |
| P.L. 480 (151) | 835 | |
| Commodity Credit Corporation: Wool and Mohair Subsidy (351) | 48 | |
| Special Milk Program (605) | 32 | |
| Nutrition Assistance to Women, Children, and Infants | 297 | |
| Food Stamps (605) | 3,065 | |
| Child Nutrition (605) | 900 | |
| | 5,177 | |
| **DEPARTMENT OF THE TREASURY** | | |
| Federal Election Commission (806) | 10 | |
| Federal Retirement System (602) | 4,600 | |
| | 4,610 | |
| **DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION** | | |
| NLRB (505) | 156 | |
| State Education Block Grants (501) | 548 | |
| Impact Aid (501) | 222 | |
| Compensatory Education for the Disadvantaged (501) | 1,240 | |
| Adult and Vocational Education (501) | 467 | |
| Bilingual Education (501) | 140 | |
| Education for the Handicapped (501) | 333 | |
| Howard University (501) | 45 | |
| Higher and Continuing Education (502) | 150 | |
| Student Financial Assistance (502) | 3,434 | |
| Guaranteed Student Loans (502) | 1,000 | |
| Student Loan Debts (502) | | 1,000 |
| Women's Education Equity Program (502) | 48 | |
| Corporation for Public Broadcasting (503) | | |
| Work Incentives (504) | 289 | |
| Employment Services Administration (505) | 162 | |
| Human Development Services (506) | 289 | |
| Community Service Block Grants (506) | 361 | |
| Tax Medical Insurance (550) | | 4,800 |
| Medicare (551) | 1,700 | |
| National Institutes of Health (552) | 400 | |
| Alcohol, Drug Abuse, and Mental Health (552) | 48 | |

| | Outlay Reductions ($ millions) | Revenue Increases ($ millions) |
|---|---|---|
| Social Security (601) | 1,000 | 9,100 |
| Low Income Energy Assistance (609) | 575 | |
| AFDC (609) | 30 | |
| | 12,641 | 14,900 |

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

| | | |
|---|---|---|
| Urban Development Action Grants (451) | 537 | |
| Housing Assistance - Section 8 (604) | 5,000 | |
| Consumer Product Safety Commission (554) | 35 | |
| EPA: Salaries and Expenses (304) | 108 | |
| EPA: Research and Development (304) | 61 | |
| EPA: Abatement and Compliance (304) | 155 | |
| EPA: Construction Grants (304) | 560 | |
| General Revenue Sharing (801) | 4,894 | |
| Appalachian Regional Development (452) | 233 | |
| | 11,583 | |

DEPARTMENT OF DEFENSE

| | | |
|---|---|---|
| Military Retirement (051) | 163 | |
| Military Procurement (051) | 3,250 | |
| Military Operation and Maintenance (051) | 10 | |
| Military Personnel (051) | 1,033 | |
| | 4,456 | |

DEPARTMENT OF ENERGY

| | | |
|---|---|---|
| Gas Centrifuge Enrichment Plant (GCEP) (271) | 613 | |
| Clinch River Breeder Reactor (271) | 370 | |
| Fossil Energy Research and Development (271) | 428 | |
| Synfuel (271) | 38 | |
| Solar Energy Conservation (272) | 38 | |
| Energy Conservation (272) | 500 | |
| Energy Information Assistance (276) | 63 | |
| Economic Regulatory Administration (276) | 55 | |
| Energy Department Administration (276) | 60 | |
| Bureau of Reclamation Construction (302) | 99 | |
| Civil Corps of Engineers (301) | | 1,300 |
| | 2,264 | 1,300 |

DEPARTMENT OF THE INTERIOR

| | | |
|---|---|---|
| Soil Conservation Service: Watershed and Flood Prevention (301) | 27 | |
| National Forest Service: Timber Sales (302) | 205 | |
| Abandoned Mine Reclamation (302) | 77 | |

| | Outlay Reductions ($ millions) | Revenue Increases ($ millions) |
|---|---|---|
| Urban Parks Recovery Program (303) | 31 | |
| Indian Education (501) | 91 | |
| Indian Affairs (452) | 70 | |
| National Foundation on the Arts and Humanities (503) | 57 | |
| Strategic Petroleum Reserve (274) | 365 | |
| | 923 | |
| DEPARTMENT OF TRANSPORTATION | | |
| Federal Aid to Highways (401) | 6,400 | |
| Interstate Transfer Grants (401) | 261 | |
| Urban Mass Transit (401) | 2,390 | |
| Interstate Commerce Commission (401) | 12 | |
| Washington Metro (401) | 295 | |
| AMTRAK (401) | 808 | |
| Aid to Alaska Railroad (401) | 11 | |
| Federal Highway Administration (401) | | 2,000 |
| Federal Railroad Administration (401) | 445 | |
| Civil Aeronautics Board (402) | 27 | |
| Federal Aviation Administration (402) | 275 | |
| Air Traffic Control (402) | 2,200 | |
| Coast Guard (403) | | 1,500 |
| | 13,124 | 3,500 |
| DEPARTMENTS OF JUSTICE, COMMERCE, AND STATE | | |
| Minority Business Development Administration (376) | 65 | |
| U.S. Travel Service Administration (376) | 7 | |
| Small Business Administration (376) | 225 | |
| Federal Communications Commission (376) | 8 | |
| Federal Trade Commission (376) | 13 | |
| Federal Maritime Commission (403) | 12 | |
| Ocean Subsidies (403) | 431 | |
| Economic Development Administration (452) | 268 | |
| Legal Services Corporation (752) | 269 | |
| Criminal Justice Assistance (754) | 74 | |
| National Telecommunications Information Administration (503) | 17 | |
| National Oceanic and Atmospheric Administration (306) | 20 | 200 |
| | 1,409 | 200 |
| INTEREST | | |
| Interest on the National Debt (901) | 24,000 | |
| Interest Savings from Reduced Deficit (901) | 1,650 | |
| Repeal of Davis-Bacon (999) | 2,800 | |
| Elderly Exemption (999) | | 2,375 |
| | 28,450 | 2,375 |